

File No.: 04-1000-20-2020-005

February 25, 2020

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 January 3, 2020 for:

1. **Full texts of all audits from the City of Vancouver's internal audit branch from April 8, 2019 to January 3, 2020; and**
2. **A list or plan of all areas and topics due to be audited.**

For part one of your request, all responsive records are attached. Some information in the records has been severed, (blacked out), under s.15(1)(l) of the Act. You can read or download this section here:

http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/96165_00

For part two of your request, the 2020 Audit Plan is as follows:

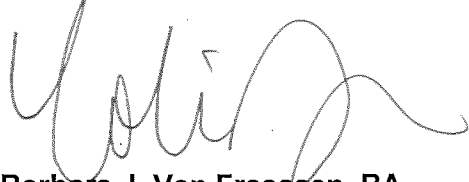
1. VPL 2019 YE Financial Audit
2. VPD 2019 YE Financial Audit
3. PCI Compliance
4. Safety Compliance Audit
5. Surprise Audit of Cash Handling and Management Oversight
6. Cyber Security Audit
7. Animal Services Operational Review
8. Employee Extended Health Care Benefits Audit
9. Fleet Services
10. Coordination of City-wide Emergency Management Plan / Business Continuity
11. Grants Program
12. Property & Building Inspection 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 or by phoning 250-387-5629.

If you request a review, please provide the Commissioner's office with: 1) the request number (#04-1000-20-2020-005); 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,

Cobi Falconer, Acting Director, for

A handwritten signature in dark ink, appearing to read 'Cobi', is written over the printed name of Barbara J. Van Fraassen.

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

Barbara.vanfraassen@vancouver.ca
453 W. 12th Avenue Vancouver BC V5Y 1V4

*If you have any questions, please email us at 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

April 9, 2019

To the General Manager of the Vancouver Board of Parks and Recreation:

We have reviewed the 2018 operating and capital budget results memo prepared by Parks management for the year ended December 31, 2018. Management is responsible for the preparation and fair presentation of financial information and for such internal controls as management deemed necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

The engagement is performed based on the following specified procedures:

- Agreed the financial information to the records and accounts in the general ledger of the City of Vancouver;
- Discussed with management and analyzed financial information for reasonableness and consistency with City accounting policies;
- Performed variance analysis based on Council and Park Board approved budgets and obtained explanations where appropriate;
- Reviewed the working papers prepared by management of the Vancouver Park Board for any reclassifications; and
- Inquired as to the accounting, budget and other internal controls to obtain reasonable assurance that transactions are properly authorized and accurately recorded, and that assets are properly safeguarded and accounted for to maintain the integrity of financial records.

To coincide with a City-wide employee expense audit, we also reviewed Parks employee expenses including travel & training claims and purchase card expenses. The objectives were to assess for appropriate authorization, reasonable business purpose and compliance 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 2018 year end operating and capital budget results memo (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. The financial information is fairly presented and in compliance with Vancouver Park Board and City's policies; and
2. Travel/training claims and purchase card expenses incurred by Parks were properly authorized, approved and in compliance with City guidelines and Parks policies.

Observations and Recommendations

1. Review and update Parks financial policies

The Parks Procurement Policy outlines requirements for procuring goods & services at the Vancouver Park Board. The policy was last updated in 2010 to align with the City of Vancouver's (CoV) procurement processes. As the CoV Procurement Policy was updated in 2018, there are minor discrepancies between the current Parks policy and the CoV policy, primarily relating to commitment authority and change order thresholds.

The CoV Business Meeting and Discretionary Expenses policy was issued in Q4 2018 to outline requirements for staff expenses. There is currently no similar business meeting expense policy at Parks.

Recommendation

Parks management should review and update Parks financial policies to align with the City's Procurement Policy and Business Meeting and Discretionary Expense Policy. Updates to policies should be communicated to Parks staff in a timely manner.

2. Restrict use of ActiveNet from staff events

Through a review of employee expenses, there was one instance identified where the ActiveNet system was used for event registration of a staff retirement party. The utilization of ActiveNet for the event was approved by business unit management. The full cost of \$3.5K for the event was paid by the organizing Parks staff members. Parks management is aware of this one time occurrence and agrees that ActiveNet should be reserved for public event registration and not staff events.

Recommendation

Parks management should communicate to staff that the ActiveNet registration system is reserved for public event registration and not staff events going forward.

Conclusion

The above observations have been reviewed and discussed with management. Parks management indicated that a review of Parks financial policies is on the workplan for this year and has agreed to address the recommendations outlined.

Submitted by:



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

March 5, 2019

Dear Commissioners,

The purpose of this memo is to provide the Park Board with a review of the financial results for the fiscal year ending December 31, 2018. A review of both operating and capital budgets is provided.

City of Vancouver Financial Results

The Park Board's operating budget forms part of the City's operating budget for which consolidated audited financial statements are prepared annually. These statements can be found online on the City's [website](#).

The City's consolidated statements are prepared in accordance with Canadian public sector accounting standards, which include additional entries (for example, amortization of capital assets) which are not included as part of departmental operating statements.

Park Board Operating Budget Results

The operating budget is approved prior to the start of each year by the Park Board and is composed of an estimate of the annual revenues and expenditures required to deliver the Park Board's programming and services.

The Park Board ended the 12-month fiscal period in a balanced budget position with a variance to budget of \$474K (or 1% variance to budget). The Park Board's budget deficit is supported through property tax revenues collected by the City. A positive deficit variance means \$474K of tax-supported funding was not required to balance the operating budget, and could be made available for other purposes.

Table 1 - Full Year 2018 Operating Budget Results

	Full Year 2018			
	Actual	Budget	Variance	
Revenues			\$	%
Program Fees	45,224	42,429	2,795	7%
Parking	9,784	7,731	2,053	27%
Rental, Lease & Other	4,365	4,019	346	9%
Cost Recoveries & Donations	5,391	4,993	398	8%
Total Revenues	64,764	59,172	5,592	9%
Expenditures				
Salaries & Benefits	78,094	79,083	989	1%
Utilities, Building & Equipment	16,658	15,263	(1,394)	-9%
Other Direct & Indirect Costs	28,467	24,906	(3,561)	-14%
Total Expenditures	123,218	119,253	(3,966)	-3%
Debt & Transfers	4,780	3,628	(1,152)	-32%
NET SURPLUS / (DEFICIT)	(63,235)	(63,709)	474	1%

Highlights of the year-end operating budget variances are provided below:

Revenues are higher than budgeted by \$5.6 million for the year due to:

- Program Fees Revenues +\$2.8 million
 - + \$1.1 million in Recreation Programming and Services primarily from sales of Flexipasses, usage passes and single admissions exceeding budget expectations.
 - +\$1.7 million in Business Services from focussed marketing investments to increase visitors to VanDusen Botanical Garden and the Bloedel Conservatory, as well as increased concession and golf sales resulting from above average weather during the spring, summer, and fall.
- Parking Revenues +\$2.1 million
 - +\$1.2 million relates to administration of parking violation services; these amounts were previously budgeted and included in the financial results of the Park Boards parking administrator EasyPark and are offset by direct costs of \$1.0 million.
 - A further +\$0.9 million of incremental parking revenues were generated through increased parking volumes due to favorable weather resulting in more visitors as well as through special events and filming.
- Rental, Lease & Other Revenues +\$0.3 million
 - +\$0.3 million is due primarily to successful tenant operations impacting lease contracts with percentage of sale components.
- Cost Recoveries & Donations +\$0.4 million
 - +\$0.2 million related to above budget donations made to the Park Board primarily through the park bench program
 - +\$0.1 million relates to recoveries of salary and costs incurred by the urban forestry team for non-Park Board related services (such as city-wide responses during windstorms) performed beyond what was expected in the budget.

Expenditures are higher than budgeted by \$4.0 million for the year due to:

- +\$3.2 million related to increased expenditures in Business Services. The majority of this related to increased direct costs associated with incremental revenues generated in the year (including \$1.0 million directly attributable to parking enforcement mentioned previously)
- \$0.8 million related mainly to unanticipated expenditures in Recreation Services and Programming resulting from changes to safety related staffing requirements at Park Board operated ice rinks based on new ammonia regulations, as well as costs incurred as a result of an iceplant failure at Sunset Rink.

Debt & Transfers exceeded budget by \$1.2 million for the year due to:

- \$0.5 million transferred into reserves for equipment purchases planned for in 2019
- \$0.3 million transfer to the Park Board revenue stabilization reserve. This reserve helps offset budget deficits caused by external factors such as poor weather.
- \$0.3 million transfer related to donations transferred to the donation program's reserve.

Capital Budget Results

The City's Capital Budget is organized by Service Categories, with the majority of the Park Board's projects falling into the Parks, Open Spaces, and Recreation Category.

Actual Capital expenditures for 2018 totalled \$27.1 million, representing 70% of the 2018 Annual Capital Expenditure Budget of \$38.5 million. Expenditure highlights include the \$1M Stanley Park Seawall renovation, renewals of Sunset (\$2M) and Renfrew Ravine and Community Parks (\$1M) and the replacement of playgrounds including the Douglas Park playground replacement that was co-funded by the Douglas Park Community Association, amongst other achievements.

This resulted in \$11.4 million of underspend in the year against budget. The noted underspend in 2018 was primarily the result of planned project delays; these projects are expected to occur in 2019 and formed part of the 2019 capital carry-forward, which forms part of the 2019 annual capital budget.

Table 2 – 2018 Capital Expenditures Budget Results by Sub-Category

(Expressed in 000's)	2018 Capital Expenditures		
<u>Parks, Open Spaces, and Recreation</u>	Actual	Budget	Over/(Under)
1. Urban Forest and Natural Features	2,799	4,424	(1,624)
2. Activity Features	3,380	11,787	(8,407)
3. New Parks and Renewals	17,556	15,663	1,893
4. Seawall and Waterfront	1,763	4,129	(2,365)
5. Park Infrastructure	1,582	2,248	(667)
6. Public Art	-	-	-
7. Recreation Facilities	19	270	(251)
Total	27,099	38,520	(11,421)

The following provides further discussion of the capital expenditure over/underspend by sub-category for 2018.

1. Urban Forest and Natural Features

The Tatlow/Volunteer Park restoration project is being revisited in consultation with First Nations; timing for the restoration is unknown at this time. Unspent funding in 2018 has been carried forward to 2019 and will be reallocated to help further work on Beaver Lake in Stanley Park.

In 2018, the Urban Forestry team planted a total of 20,021 new trees meeting its target of 20,000 for the year. Of this total, 16,360 were funded through the capital program. Unspent budget from 2018 for tree planting has been carried forward to 2019.

2. Activity Features

The planned drainage remediation project for Langara was delayed in 2018 in order to reassess the overall plans and use of this space as directed by Council. Following a report back, Staff were given direction from the Park Board to continue with improvement plans, which are anticipated to begin in 2019.

A number of playground, field, court and turf renewals were not completed in 2018 in order to bundle projects for cost efficiencies. Many of these projects will begin and complete in 2019.

3. New Parks and Renewals

Actual spend in this subcategory exceeded budget. This overspend was driven primarily by land acquisitions; a total of \$11.7 million was spent on land acquisitions resulting in overspend of roughly \$8.5M. The Park Board was able to absorb this in-year expenditure overspend through other project delays.

The construction of the new Smithe and Richards Park was budgeted to begin in 2018, and continue into 2019. Due to increasing demand for construction projects in Vancouver, combined with a shortage in supply, the bids received for this project were above the proposed project budget. Staff are in the process of reassessing this project in an effort to reduce the overall cost while still maintaining key design features, with the intent to begin construction in 2019.

4. Seawall and Waterfront

Restoration of the Seawall was split into two phases in 2018, with the first phase successfully completing in the summer. Phase 2 is scheduled to start and complete in 2019.

5. Park Infrastructure

Planned paving projects were put on hold due to wet weather late in 2018 after completing a large portion of repaving of Stanley Park Drive. This underspent budget has been carried forward to 2019.

6. Public Art

No work in this subcategory was planned for 2018.

7. Recreation Facilities

Funding in place for community centre facility upgrades was unspent while staff and CCA partners focussed on the signing of the JOA. These funds have been carried forward to 2019.

April 11th, 2019

Members of the Vancouver Public Library Board,

At the request of the Board of the Vancouver Public Library (VPL), we have reviewed the statement of financial position as at December 31, 2018, the statement of operations, change in net financial assets, cash flows and notes to the financial statements for the period then ended. This review does not constitute an independent audit or review engagement, and is not designed to detect fraud. Accordingly, there should be no such reliance.

Management is responsible for the preparation and fair representation 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.

We have performed the following procedures with respect to the financial information presented:

- Agreed the financial information to the general ledger of the City of Vancouver (the City);
- Reviewed the financial statements for any discrepancies and communicated to VPL management for revision;
- Discussed and analyzed the financial information for reasonableness and consistency with Corporate accounting policies;
- Reviewed the working papers prepared by the Acting Director, VPL Corporate Services & Facilities for any reclassifications;
- Performed variance analysis based on the Council approved budgets and obtained explanations from VPL management where appropriate;
- Inquired as to the accounting, budget and other internal controls that provide reasonable assurance that transactions are properly authorized and accurately recorded, and that the assets of VPL are properly safeguarded and accounted for thereby maintaining the integrity of financial records;
- Made inquiries and received written representation from the Chief Librarian and Acting Director, VPL Corporate Services & Facilities to identify any deviations from accounting policies and procedures that would affect the integrity of the financial statements.

Based on the results of the above procedures, we found the financial statements were prepared, in all material respects in accordance with Public Sector Accounting Standards and consistently with the City's corporate accounting policies and general ledger.

To coincide with a City-wide employee expense audit, we also reviewed related VPL 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.

We found that travel/training claims and purchase card expenses incurred by VPL were properly authorized, approved and in compliance with City guidelines and VPL policies. Non-routine expenditures were scrutinized; explanations obtained and reviewed to determine the transactions were reasonable, properly processed and recorded in accordance with established procedures.

Submitted by:

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

Attachment 1: 2018 Statement of Financial Information - VPL (20 pages)



Vancouver Public Library

2018 STATEMENT OF FINANCIAL INFORMATION

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VANCOUVER PUBLIC LIBRARY BOARD STATEMENT OF FINANCIAL INFORMATION APPROVAL

The undersigned represents the Board of the Vancouver Public Library and confirms that the Board of the Vancouver Public Library has received and approved, at its meeting of April 24, 2019, all the unaudited statements and schedules included in this Statement of Financial Information, as required under section 2 of the Financial Information Act.

John Schaub, Chair
Vancouver Public Library Board

April 24, 2019

VANCOUVER PUBLIC LIBRARY BOARD MANAGEMENT REPORT

The unaudited Financial Statements contained in this Statement of Financial Information under the Financial Information Act have been prepared by management in accordance with the accounting principles in Note 1, and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all the statements and schedules, and for ensuring that this information is consistent, where appropriate, with information contained in the financial statements. The unaudited financial statements necessarily include some amounts, which are based on the best estimates and judgments of management.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Library Board is a policy setting Board and assigns to management the responsibility for day-to-day operations. The Library Board is responsible for assessing the management, systems and practices.

The Internal Audit Division of the City of Vancouver assists the Vancouver Public Library Board and management in assessing the internal control environment and making observations and recommendations on the effectiveness of management systems and processes.

The unaudited financial statements have been reviewed by the Internal Audit Division of the City of Vancouver. Internal Audit has reported to the Vancouver Public Library Board on the scope and results of the review.

Christina de Castell, Chief Librarian
Vancouver Public Library

Julia Morrison, CA, Director of Corporate Services and Facilities
Vancouver Public Library
April 24, 2019

2019 Vancouver Public Library Board

C. Boyle – Council Liaison
J. Chan – Vice Chair
K. Heinrich
Z. Hussein
R. Jules
K. Lowe
S. Mackinnon – Board of Parks and Recreation Representative
R. Mangat – Vice Chair
B. Parrott – Vancouver School Board
H. Pruden
J. Schaub – Chair
R. Sherwood
Secretary and Chief Librarian – C. de Castell

VANCOUVER PUBLIC LIBRARY BOARD
Statement of Financial Position
(unaudited)
As at December 31

	<u>2018</u>	<u>2017</u>
FINANCIAL ASSETS		
Accounts receivable and accrued interest	\$ 209,921	\$ 500,990
Due from the City of Vancouver	5,604,094	5,234,529
	<u>5,814,015</u>	<u>5,735,519</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 3,897,302	\$ 3,290,448
Deferred income (Note 2)	171,747	164,463
	<u>4,069,049</u>	<u>3,454,911</u>
NET FINANCIAL ASSETS	<u>1,744,966</u>	<u>2,280,608</u>
NON-FINANCIAL ASSETS		
Inventory	127,851	133,877
Prepaid expenses	166,267	191,358
Tangible capital assets (Note 6)	18,471,600	17,880,500
	<u>18,765,718</u>	<u>18,205,735</u>
NET ASSETS	<u>\$ 20,510,684</u>	<u>\$ 20,486,343</u>
ACCUMULATED SURPLUS		
Reserves (Note 3)	\$ 5,717,084	5,755,843
Investments in tangible capital assets	18,471,600	17,880,500
Deferred liabilities (Note 4)	(3,678,000)	(3,150,000)
	<u>\$ 20,510,684</u>	<u>\$ 20,486,343</u>

See accompanying Notes to Financial Statements
Long term debt (Note 1e)
Contingencies and commitments (Note 5)

VANCOUVER PUBLIC LIBRARY BOARD
Statement of Operations
(unaudited)
Years Ended December 31

	<u>2018 Budget*</u>	<u>2018</u>	<u>2017</u>
REVENUES			
City of Vancouver	\$ 47,674,540	\$ 47,740,788	\$ 46,489,933
Other fees and recoveries	2,743,200	3,012,587	2,653,656
Other grants	-	1,176	2,537
Provincial Government	1,304,100	1,329,762	1,354,982
Investment income	-	88,400	63,505
Interlink reciprocal services	152,200	151,640	140,795
Charitable donations and bequests	220,400	3,511,888	2,967,242
	<u>52,094,440</u>	<u>55,836,241</u>	<u>53,672,650</u>
EXPENDITURES			
Amortization	3,178,400	3,178,400	3,184,300
Books and materials	1,618,900	1,663,509	1,596,264
Building occupancy and maintenance	5,742,040	5,669,089	5,036,360
Equipment and fleet	619,000	676,219	622,539
Loss on disposal of tangible capital assets	-	1,186,200	1,060,500
Other	899,900	1,230,619	1,326,756
Supplies and materials	1,000,400	987,265	924,615
Salaries and benefits	38,997,200	39,398,295	39,764,041
	<u>52,055,840</u>	<u>53,989,596</u>	<u>53,515,375</u>
ANNUAL SURPLUS (DEFICIT)	38,600	1,846,645	157,275
OPENING ACCUMULATED SURPLUS		20,486,343	21,277,688
Transfer to City Insurance Reserve	(55,500)	(55,548)	(55,548)
Transfer from (to) City capital and reserve	16,900	(1,766,756)	(893,072)
ENDING ACCUMULATED SURPLUS	<u>\$ -</u>	<u>\$ 20,510,684</u>	<u>\$ 20,486,343</u>

See accompanying Notes to Financial Statements

* As approved by Vancouver City Council

VANCOUVER PUBLIC LIBRARY BOARD
Statement of Changes in Net Financial Assets
(unaudited)
Years Ended December 31

	<u>2018</u>	<u>2017</u>
Annual surplus (deficit)	\$ 1,846,645	\$ 157,275
Acquisition of tangible capital assets	(4,963,800)	(5,166,800)
Amortization of tangible capital assets	3,178,400	3,184,300
Loss on disposal of tangible capital assets	1,186,200	1,060,500
Proceeds on disposal of tangible capital assets	8,100	29,300
	<u>(591,100)</u>	<u>(892,700)</u>
Change in inventory and prepaids	31,117	97,335
Transfer to City insurance reserve	(55,548)	(55,548)
Transfer from Capital for tangible capital assets	1,387,200	1,754,500
Transfer to Capital	(3,153,956)	(2,647,572)
	<u>(1,791,187)</u>	<u>(851,285)</u>
Change in net financial assets	(535,642)	(1,586,710)
Net financial assets at beginning of year	2,280,608	3,867,318
NET INCREASE (DECREASE) IN CASH	<u><u>\$ 1,744,966</u></u>	<u><u>\$ 2,280,608</u></u>

See accompanying Notes to Financial Statements

VANCOUVER PUBLIC LIBRARY BOARD
Statement of Cash Flows
(unaudited)
Years Ended December 31

	<u>2018</u>	<u>2017</u>
CASH PROVIDED BY (USED IN):		
Operating Transactions		
Annual Surplus (deficit)	\$ 1,846,645	\$ 157,275
Items not involving cash		
Amortization	3,178,400	3,184,300
Loss on disposal of tangible capital assets	1,186,200	1,060,500
Net transfer from (to) capital	(1,766,756)	(893,072)
Transfer to City insurance reserve	(55,548)	(55,548)
Proceeds on disposal of tangible capital assets	8,100	29,300
Change in non-cash items		
Decrease (increase) in inventory	6,026	(38,955)
Decrease (increase) in prepaids	25,091	136,290
Decrease (increase) in accounts receivable	291,069	(48,947)
Decrease (increase) in due from City of Vancouver	(369,565)	437,954
Decrease (increase) in accounts payable	606,854	1,162,514
	<u>4,956,516</u>	<u>5,131,611</u>
Financing Transactions		
Increase (decrease) in deferred income	7,283	35,189
Capital Transactions		
Increase (decrease) in capital assets	(4,963,800)	(5,166,800)
Investing		
Sale (purchase) of investments	-	-
NET INCREASE (DECREASE) IN CASH	<u>-</u>	<u>-</u>
Cash at beginning of year	-	-
CASH AT END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying Notes to Financial Statements

VANCOUVER PUBLIC LIBRARY BOARD
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2018

The Vancouver Public Library Board (Library) is established under the *Library Act of British Columbia* and is a registered charity under the *Income Tax Act*. Its principal activity is the operation of public libraries in the City of Vancouver (City).

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The financial statements of the Library have been prepared, in all material respects, in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board (PSAB).

(b) Basis of Accounting

- (i) Revenues, with the exception of overdue book fines and lost book charges, are recorded in the period in which the transactions or events that give rise to the revenues occur. Amounts received in advance of services rendered are considered deferred income until the Library discharges the obligations that led to the collection of funds.
- (ii) Overdue book fine revenues and lost book charges are recorded on a cash basis.
- (iii) Expenditures are recorded in the period in which the goods or services are acquired and a liability is incurred or transfers are due.
- (iv) Inventory of supplies and materials are valued at cost with allowances made for obsolete stock. Cost is determined on a first in, first out basis.
- (v) The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenditures during the reporting period. Actual results will depend on future economic events and could differ from the estimates. Adjustments, if any, will be reflected in the period of settlement or upon a change in the estimate.

(c) Tangible Capital Assets

The City owns the land, buildings, leasehold improvements, and vehicles used by the Library. These assets are reported in the City's Consolidated Statement of Financial Position. Books and materials and furniture and equipment are owned by the Library and are recorded in these statements. These capital assets are recorded at cost. Amortization is recorded on a straight line basis over the useful lives of the assets as follows:

Collections	10 years
Furniture and equipment	15 years
Technology	5 years

(d) Reserves

Reserves are established at the discretion of the Library Board with the approval of City Council for future operating and capital expenditures. The reserves are held by the City.

VANCOUVER PUBLIC LIBRARY BOARD
NOTES TO FINANCIAL STATEMENTS continued
Year Ended December 31, 2018

Note 1 (continued)

(e) Long term debt

The City is responsible for all debt associated with the Library. The debt is reported in the City's Consolidated Statement of Financial Position and principal and interest payments are reported in the City's Consolidated Statement of Financial Activities.

(f) Pension Plan and Deferred Payroll Liabilities

The Library and its employees participate in a Municipal Pension Plan. The Municipal Pension is a multi-employer contributory defined benefit pension plan. Payments in the year are expensed.

Employees are entitled to earned benefits related to non-vested accumulating sick leave, sick leave gratuity and vacation entitlements at retirement. Employees may also defer current vacation entitlements. The cost of post-employment benefits is actuarially determined based on service provided, a best estimate of retirement ages, and expected future salary and wage increases. The liability under these benefit plans is accrued based on projected benefits as the employees render service necessary to earn the future benefits.

As well, certain employees are entitled to income continuation benefits under long term disability plans. The Library recognizes a liability and expense for these post-employment benefits in the period when the event occurs that obligates the Library to provide the benefit.

2. DEFERRED INCOME

Amounts will be recognized as income in the year the related service is provided.

	2018	2017
Advanced receipts at the beginning of year	\$164,464	\$129,274
Contributions received in the year	202,165	178,604
Recognized as revenue in the year	(194,882)	(143,415)
Advanced receipts at the end of year	<u>\$171,747</u>	<u>\$164,464</u>

3. RESERVES

These amounts are set aside by the Library Board with the approval of City Council for specific purposes.

	2017	Transfers to	Transfers from	2018
Grants and Donation	\$ 3,388,046	\$282,964	\$ (404,028)	\$ 3,266,982
Other	1,411,194	176,333	(105,028)	1,482,499
Equipment Replacement	<u>956,603</u>	<u>11,000</u>	<u>0</u>	<u>967,603</u>
	<u>\$ 5,755,843</u>	<u>\$470,297</u>	<u>\$ (509,056)</u>	<u>\$ 5,717,084</u>

4. DEFERRED LIABILITIES

The liabilities reported in the 2018 financial statements are based on an actuarial valuation as at December 31, 2018 using the following valuation assumptions:

	<u>2018</u>	<u>2017</u>
Discount rate	3.58%	3.62%
Inflation rate	2.50%	2.00%
Rate of compensation increase	2.58% to 4.63%	2.59% to 4.63%

Employee benefit liabilities as at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Sick leave gratuity	\$ 287,000	\$ 300,000
Deferred Vacation	998,000	989,000
Non-vested accumulating sick leave	578,000	577,000
Other post-employment benefits	<u>1,284,000</u>	<u>2,147,000</u>
	3,147,000	4,013,000
Unamortized actuarial gain (loss)	<u>531,000</u>	<u>(863,000)</u>
Liabilities to be funded from future revenues	<u>\$3,678,000</u>	<u>\$3,150,000</u>

The continuity of the Library's employee benefit liabilities are as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$3,150,000	\$1,530,000
Current service cost	697,000	1,872,000
Interest cost	146,000	94,000
Amortization of Actuarial gain (loss)	(24,000)	(16,000)
Actual benefits paid	<u>(291,000)</u>	<u>(330,000)</u>
Balance, end of year	<u>\$3,678,000</u>	<u>\$3,150,000</u>

5. CONTINGENCIES AND COMMITMENTS

(a) Municipal Pension Plan

The Vancouver Public Library and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trustee pension plan. The Board of Trustees, representing plan members and employers, is responsible for administering the Plan, including investment of assets and administration of benefits. The Plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2016, the Plan had about 193,000 active members and approximately 90,000 retired members. Active members include approximately 38,000 contributors from local governments.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and adequacy of Plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the Plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the Plan. This rate may be adjusted for amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent actuarial valuation for the Plan, as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged. The next valuation will be at December 31, 2018, with results available in 2019.

Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plan records accrued liabilities and accrued assets for the Plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and costs to individual employers participating in the Plan.

The Library paid \$2,814,800 (2017 - \$2,810,600) for employer contributions to the Plan in 2018. Employees contributed \$2,476,100 (2017 - \$2,466,200) in 2018.

(b) Contingent Legal Liabilities

As at December 31, 2018, there were no legal claims pending against the Library.

(c) Operating Leases

The Library is committed to operating leases for buildings and equipment. Minimum future lease payments are as follows:

2019	\$1,169,100
2020	640,500
2021	649,300
2022	680,600
2023	692,500

6. TANGIBLE CAPITAL ASSETS

Cost	<u>2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>2018</u>
Furniture and Equipment	\$12,900,300	\$966,400	\$(116,100)	\$13,750,600
Technology	6,345,900	570,500	(792,600)	6,123,800
Collections	<u>38,012,000</u>	<u>3,426,900</u>	<u>(3,158,800)</u>	<u>38,280,100</u>
	<u>\$57,258,200</u>	<u>\$4,963,800</u>	<u>\$(4,067,500)</u>	<u>\$58,154,500</u>
Accumulated Amortization	<u>2017</u>	<u>Amortization</u>	<u>Disposals</u>	<u>2018</u>
Furniture and Equipment	\$9,277,100	\$400,400	\$(104,800)	\$9,572,700
Technology	4,464,700	598,200	(791,400)	4,271,500
Collections	<u>25,635,900</u>	<u>2,179,800</u>	<u>(1,977,000)</u>	<u>25,838,700</u>
	<u>\$39,377,700</u>	<u>\$3,178,400</u>	<u>\$(2,873,200)</u>	<u>\$39,682,900</u>
Net Book value	<u>2017</u>			<u>2018</u>
Furniture and Equipment	\$3,623,200			\$4,177,900
Technology	1,881,200			1,852,300
Collections	<u>12,376,100</u>			<u>12,441,400</u>
	<u>\$17,880,500</u>			<u>\$18,471,600</u>

VANCOUVER PUBLIC LIBRARY BOARD
SCHEDULE OF DEBTS and SCHEDULE OF GUARANTEES AND INDEMNITY AGREEMENTS

Schedule of Debts

A Schedule of Debts has not been prepared because the information required is disclosed in the Statement of Financial Position and no additional information would be provided in the schedule.

Schedule of Guarantees and Indemnity Agreements

The Vancouver Public Library has not given any guarantees or indemnities under the Guarantees and Indemnities Regulation.

VANCOUVER PUBLIC LIBRARY BOARD
SCHEDULE OF REMUNERATION AND EXPENSES (A)

2018 Library Board

Expenses

Card, A.		\$492
Chan, J.	Vice Chair	0
Epstein, K.	Chair	915
Grewal, S.		0
Heinrich, K.		395
Kirby-Yung, S		0
Lin, J		940
Mangat, R.		389
Pruden, H		464
Schaub, J.	Vice Chair	150
Sherwood, R.		150
Stevenson, T		0
Zaichkowsky, J		0
Total		<u>\$3,895</u>

VANCOUVER PUBLIC LIBRARY BOARD
SCHEDULE OF REMUNERATION AND EXPENSES (B)

Employees' remuneration greater than \$75,000 and expenses

	<u>Expenses</u>	<u>Remuneration</u>
Baron, D	\$ 606	\$ 97,093
Barrington, S	0	80,491
Bordignon, D A.	0	85,483
Brown, A	96	89,592
Cahill, K	2,555	119,861
Campbell, I	216	103,829
Chan, K	998	108,029
Cheng, A	559	85,726
Chong, P	491	105,752
Contois, R	25	75,849
Cribdon, G L.	0	87,496
Curry, L	439	89,175
De Castell, C	7,287	191,403
Dickson, E	271	89,166
Douglas, J	108	81,681
Downey, M	0	84,930
Dreicer, G	1,576	112,837
Elmslie, K	375	118,972
Esparo, D	0	118,429
Fortin, A	0	92,603
Fralic, J	0	78,062
Freeman, A	275	97,887
Fu, H	662	96,845
Gatley, R	94	78,775
Gaudet, G	382	76,084
Green, A	372	112,415
Greenwood, A	39	82,586
Guilmant-Smith, G	1,282	92,695
Guinn, D	408	124,872
Hall, P	67	88,754
Hama, G	0	78,961
Hmaidan, M	0	75,795
Horne, J	2,146	122,706
Iannacone, J	3,829	137,752
Ibey, M	3,356	150,451
Johal, S	111	89,041
Kevlahan, C	0	93,519
Koep, M	342	98,090
Kripps, S	0	75,678
Langley, M	739	116,995
Lee, J	37	78,608

	<u>Expenses</u>	<u>Remuneration</u>
Liebel, K	0	82,845
Ma, N	577	89,760
MacCutchan, A	642	94,465
Maestro, M	0	89,136
Masoumi, A	0	82,028
Massine, W	1,384	99,248
McGee, M	0	231,110
McMillan, T	0	79,981
Menzo, C	1,227	80,910
Middleton, S	1,345	101,623
Mildenberger, N	456	96,858
Morrison, J	733	88,396
Nelson, C	743	111,451
O'Coffey, T	792	86,132
O'Shea, A	888	77,001
Owsianski, R	0	75,483
Pater, C	0	75,582
Payne, K	2,898	106,262
Preston, P	0	89,041
Rai, B	1,497	136,040
Richmond, S	171	96,508
Ritchie, A	0	76,095
Schick, J	0	77,563
Schiller, H	835	84,194
Scudder, N	485	84,492
Smith, E	1,107	157,709
Tolentino, C	3	83,941
Voth, V	0	87,818
Waddell, D	1,607	75,532
Walker, C	0	79,213
Wang, S	991	89,388
Wilde, M	384	79,326
Wong, B	11	100,259
Woodhouse, M	0	78,895
Wotherspoon, P	61	84,833
Ziegenfuss, E	75	75,382
Employees' remuneration less than \$75,000		25,770,581
Total remuneration		<u>\$ 33,220,046</u>
Employer share of EI, CPP, and other benefits*		6,253,693
Accruals and amounts recorded in other accounts		(75,444)
Total per financial statements		<u><u>\$ 39,398,295</u></u>

(*) Payments to the Receiver General are made directly by the City of Vancouver on behalf of the Library. These payments are shown on this schedule at the standard rate allocated by the City of Vancouver, and not on the Schedule of Payments for the Provision of Goods and Services.

Statement of Severance Agreements

There were two severance agreements made between the Vancouver Public Library Board and its non-unionized employees during the 2018 fiscal year.

VANCOUVER PUBLIC LIBRARY BOARD**SCHEDULE OF PAYMENTS FOR THE PROVISION OF GOODS AND SERVICES**

Payments to Vendors with a cumulative total greater than or equal to \$25,000.

123 West Communications Inc.	\$	58,993
Amazon.Ca/Com		25,272
Antrust Technology Inc.		34,900
Aquilini Properties LP		47,999
BC Hydro		176,143
BC Libraries Cooperative		432,135
Beijing Bookstore		74,607
Bell Mobility Inc		33,698
Bibliocommons Inc.		47,367
Bibliotheca Canada Inc.		195,593
BrandAlliance Inc		25,921
Canada Chairlines Ltd		31,248
CDW Canada Corp		29,485
Centre For Equitable Library Access		43,696
Champlain Square LP		102,062
Compugen Inc		437,488
Contemporary Office Interiors Ltd.		97,441
Cornerstone Signage & Design Ltd		161,776
CVS Midwest Tape LLC		482,456
Ebsco Canada Ltd		215,787
Elia Kirby Productions Ltd		63,724
Gale Group		37,524
GardaWorld Cash Services Canada		29,631
Grand & Toy		32,014
The Great Courses		31,026
Heland Investments Limited		132,941
Hi-Cube Storage Products Ltd		269,673
Identive, Inc		38,824
Ingram International		31,814
Kidsbooks		84,207
Kinokuniya Book Stores Of		32,895
Konica Minolta Business Solutions		110,322
LexisNexis Canada Inc.		36,428
Librairie Monet		28,663
Library Bound Inc.		891,599
Lyngsoe Systems Inc		76,529
MAL Audio Ltd		27,670
Mott Electric GP		76,491
OCLC, Inc		54,589
Odgers Berndtson Canada Inc.		50,129
Overdrive Inc		577,936

Pacific Newspaper Group	32,465
Newspaperdirect Inc	78,073
Profit Systems Inc.	31,841
ProQuest LLC - USA	47,906
ProQuest LLC - Canada	44,136
Public Library Interlink	117,237
Quadreal Property Group LP	392,249
Scalar Decisions Inc	119,063
Securiguard Services Ltd	1,050,589
Sino United Publishing (Can) Ltd.	131,285
Sirsidynix (Canada) Inc	154,750
SkillsSoft Canada Ltd.	55,620
Staples Business Advantage	83,580
Telus Services Inc	77,817
The Cushion Shop	26,678
Thomson Reuters Canada Limited	39,666
Today'S Books	29,252
Uline Canada Corporation	49,289
United Library Services Inc.	376,554
Vancouver Public Library Foundation	120,138
Whitehots Inc.	644,553
Workers' Compensation Board	138,970
YWCA Vancouver	75,704
Total greater than \$25,000	\$ 9,386,106
Total less than \$25,000	1,861,181
Sub-total	\$ 11,247,287
Capital asset purchases from Operating budget	(3,576,600)
Amortization and loss on disposals	4,364,600
Amounts charged to City, capital accounts, GST rebates, Accruals, and Other	(647,968)
Amounts charged by City departments	3,203,982
Total per statement of operations	\$ 14,591,301
Total expense per statement of operations	53,989,596
Less salaries and benefits per statement of operations	(39,398,295)
Total non - salary and benefit expenses	\$ 14,591,301

June 24, 2019

TO: Internal Audit Committee
Malcolm Bromley – General Manager, Parks & Recreation
Shauna Wilton – Deputy General Manager, Parks & Recreation
Sev Araujo – Manager, Commercial Operations, Parks & Recreation
Joan Probert – Manager, Business Services, Parks & Recreation

FROM: Tony Hui – Chief of Internal Audit

CC: Jennifer Chow – Senior Internal Auditor
KPMG

SUBJECT: 2019 Surprise Cash Handling Audit - Pitch and Putt

Internal Audit conducted surprise cash handling audits at Queen Elizabeth Park, Stanley Park, and Rupert Park pitch and putt operations in June 2019. These pitch and putt locations operate seasonally between March to September and have a combined annual revenue of \$1.2 million.

The scope of the audit included a review of controls over the safeguarding of cash and compliance to City and Park Board policies. Business processes and internal controls were reviewed in the following areas:

- Cash handling practices, including a surprise cash count
- Safety and security of cash handling areas
- Deposit and reconciliation process
- PCI compliance
- Inventory management

In general, sufficient cash handling processes were in place to appropriately safeguard assets. Performing regular inventory counts and improving the safety and security of cash handling sites will enhance safeguarding of monetary assets at pitch and putt locations.

Recommendations have been discussed with management, who have taken immediate steps to begin implementing improvements to internal controls as noted below.

1. Reconcile inventory count with ActiveNet sales activity report

Pitch and putt inventory consists of food concession and golf merchandise for resale. In general, inventory counts are performed at the end of each season in the fall, but is not reconciled against actual sales activity in ActiveNet. Physical inventory counts are currently conducted as follows:

- Rupert Park and QE Park – inventory counted at end of season
- Stanley Park – inventory counted on a monthly basis

In order to ensure inventory is properly accounted for, inventory counts should be reconciled against actual sales activity reports. High dollar inventory items such as golf merchandise should be physically counted and reconciled against sales activity on a regular basis.

Recommendation:

1a) The Manager, Business Services should implement a process at all pitch and putt operations to reconcile inventory against ActiveNet sales on a regular basis, at least mid season and at year end closing. This should be implemented by September 30, 2019.

Management Comment

Manager, Business Services, Commercial Operations:

Agreed. Inventory will be taken on a monthly basis for the 2020 season. P&P's close late Sept. early Oct each season and the usual end of season inventory will be recorded and entered into SAP for the 2019 end of season.

2. Ensure fire safety equipment is inspected and maintained regularly

The fire extinguisher at two of the three pitch and putt locations were past due for inspection. Under the current process, an external vendor is contracted to inspect fire safety equipment at all Parks locations. During our site visit in June:

- The fire extinguisher at the Stanley Park pitch and putt cashier building was last inspected in 2017 and past due for inspection in July 2018. Management was advised and the vendor has since completed the inspection in June 2019;
- The fire extinguisher at QE Park pitch and putt cashier building was last inspected in 2017 and past due for inspection in March 2018. Based on a recent vendor report, a site inspection was conducted at QE Park in November 2018, however the pitch and putt cashier building was not included during this inspection.

In order to ensure safety of staff and public, fire safety equipment should be maintained and inspected by the vendor on a minimum annual basis.

Recommendation:

2a) The Manager, Business Services should work with REFM to ensure that fire safety equipment at pitch and putts and other Parks locations managed by Business Services is inspected and maintained on a regular annual basis. This should be in place by August 31, 2019.

Management Comment

Manager, Business Services, Commercial Operations:

Agreed. All fire extinguishers are currently inspected and up to date. A checklist item will be added to the Head Cashiers opening duties at the beginning of each season to ensure that extinguishers are inspected so that they all happen at the same time annually.

3. Replace s.15(1)(l) at Queen Elizabeth Park pitch and putt

During our site visit the s.15(1)(l) at QE Park pitch and putt was s.15(1)(l) s.15(1)(l). The head cashier indicated that a work request has already been submitted and a replacement would be made. s.15(1)(l) s.15(1)(l)

s.15(1)(l)

Recommendation:

3a) The Manager, Business Services should ensure the s.15(1)(l) is replaced immediately and stored in a secure area. This should be in place by July 31, 2019.

Management Comment

Manager, Business Services, Commercial Operations:

Agreed. s.15(1)(l) s.15(1)(l)

4. Change s.15(1)(l) on a regular (minimum annual) basis

The s.15(1)(l) at Stanley Park and QE Park have not been changed in a few years. It is best practice to change the s.15(1)(l) following staff turnover or on an annual basis to minimize the risk s.15(1)(l)

Management and staff have addressed this and indicated that a work order request has been submitted to have the s.15(1)(l) changed.

Recommendation:

4a) The Manager, Business Services should ensure the s.15(1)(l) at pitch and putt locations are changed annually. This should be in place by August 31, 2019.

Management Comment

Manager, Business Services, Commercial Operations:

Agreed. This will be added to the seasonal opening duties for Spring of 2020 and will happen annually at the beginning of each season. s.15(1)(l) s.15(1)(l)

5. Ensure s.15(1)(l) is stored securely

Customers are required to provide their s.15(1)(l) in exchange for golf club rentals for use at the pitch and putt site. s.15(1)(l) s.15(1)(l)

In order to ensure security s.15(1)(l)
s.15(1)(l)

Recommendation:

5a) The Manager, Business Services should s.15(1)(l)
s.15(1)(l) This should be in place by July 31, 2019.

Management Comment

Manager, Business Services, Commercial Operations:

Agreed. s.15(1)(l)
s.15(1)(l)
s.15(1)(l)

6. Ensure s.15(1)(l)

The s.15(1)(l) in use at the Stanley Park pitch and putt cashier booth was s.15(1)(l)
s.15(1)(l)

The current PCI policy requires that all s.15(1)(l)
s.15(1)(l)

Recommendation:

6a) The Manager, Business Services should work s.15(1)(l)
s.15(1)(l) This should be in place by August 31, 2019.

Management Comment

Manager, Business Services, Commercial Operations:

Agreed. s.15(1)(l)
s.15(1)(l)

7. Ensure foreign exchange rates are consistent

USD currency is accepted at all pitch and putt sites as a legal tender. During our site visits in June, we noted the foreign exchange rate for USD was inconsistent among the pitch and putt locations. The stated rate varied between \$1 USD against \$1 CAD to \$1.25 CAD. Although the amount of USD received is not significant, best practices recommend that a consistent rate be used across pitch and putt operations.

Recommendation:

7a) The Manager, Business Services should ensure that a consistent exchange rate is used for foreign currency across all pitch and putt locations. This should be in place by July 31, 2019.

Management Comment

Manager, Business Services, Commercial Operations:

Agreed. All P&P's confirmed that \$1.25 is the exchange rate. Manager to investigate with Activnet team about programming a PLU/tender option for US funds so that POS exchanges the given rate.

8. Ensure CCTV camera feed is accessible to site management in a timely manner

A CCTV camera is installed in the cashier booth facing the point of sale window in each of the pitch and putt locations. The objective of the CCTV system is to protect the safety of frontline staff and ensure security of assets.

Under the current process, s.15(1)(l) at the pitch and putt sites. There is currently a lack of clear protocol on how the images would be retrieved if needed and who has access to the obtain the images. Having a clear established protocol in managing access to the CCTV system can help to minimize any potential delay in incident response time.

Recommendation:

8a) The Manager, Business Services should establish a clear protocol for managing access to retrieve the CCTV images in a timely manner for all pitch and putt sites. This should be in place by September 30, 2019.

Management Comment

Manager, Business Services, Commercial Operations:

Agreed. CCTV has been checked and is active. s.15(1)(l) Recording is triggered by motion so overwrite times vary based on the amount of recording. Rose Security has keys to the recording equipment and can access units based on request from management. Management can access recordings as needed. s.15(1)(l) System will be added to a regular maintenance schedule with Rose Security for the beginning of each season to ensure system is working properly.

Submitted by:



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



Jennifer Chow, CPA, CMA, CIA, CRMA
Senior Internal Auditor



CITY OF VANCOUVER INTERNAL AUDIT REPORT Employee Expenses Audit

Distribution:

Audit Committee
KPMG

City Leadership Team

EXECUTIVE SUMMARY

April 5, 2019

The Employee Expense audit assessed whether the City's 2018 employee expenses are in compliance with established policies and procedures and are valid, reasonable expenses.

A small number of non-compliance items were noted. While these were not material, they did not comply with the City's policy for business meetings and discretionary expenses.

Management has committed to improve the monitoring process for employee P-Card purchases and expense reimbursements, and will communicate reminders regarding travel claim requirements to increase staff awareness of requirements such as authorization levels and supporting documentation.

The more significant findings and recommendations are:

E.1 Formalize monitoring of employee expenses to enhance oversight

Management has agreed to formalize a process for Accounting Operation's review of employee expenses, including establishing an escalation process whereby identified exceptions are followed-up with the respective departments.

E.2 Enhance compliance to Travel Policy for authorization levels and supporting documentation

Reminders will be issued to increase awareness of Travel Policy requirements, including the requirement to gain the appropriate level of authorization, depending on the type of travel involved, and the requirement for detailed receipts.

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

Carmen Fuelbrandt, CPA, CMA, CIA, CRMA

BACKGROUND

Employee expenses cover various City-related expenditures including travel, training, business meals, mileage, professional dues, and other miscellaneous items.

The total amount of employee expenses, for staff in all City departments, excluding the Vancouver Police Department, has steadily increased over the past three years. The City's Statements of Financial Information report the annual amount of employee expenses as follows:

- 2018 SOFI: \$1,722,736
- 2017 SOFI: \$1,511,558
- 2016 SOFI: \$1,126,395

Relevant City Policies

The City policies that provide guidance to staff regarding employee expenses are:

- ADMIN-013 Business Meeting and Discretionary Expenses;
- AE-017-01 Training – External;
- AF-004-01 Travel; and
- AF-010-01 Corporate Purchasing Cards.

The Vancouver Public Library, Vancouver Police Department, and Board of Parks and Recreation have their own respective departmental policies that cover employee expenses.

Employee Expense Channels

There are multiple channels through which employees charge expenses and obtain any necessary reimbursement:

- 1) City P-Card purchase (no reimbursement needed);
- 2) Travel claim form;
- 3) Training claim form (for cases where no travel required);
- 4) Cash reimbursement via Revenue Services (up to \$100);
- 5) EFT reimbursement via Accounts Payable (greater than \$100); and
- 6) Payroll direct deposit of professional dues.

In general, employees fill out the relevant form, which is then authorized by a manager before it is submitted to the appropriate area in Finance for processing. The form requires authorization from the reporting manager or the department's General Manager, depending on the type and amount of expense involved. For P-Card purchases, the transactions are approved online by the department manager through the BMO MasterCard system.

A. SCOPE

The audit objectives were to assess whether the City's employee expenses are in compliance with established policies and procedures and are valid, reasonable expenses.

The scope of the audit included a review of the processes and transactions for the period of January to December, 2018. Travel and training claims, purchase card transactions, and cash and EFT reimbursements for all City, Parks, and VPL staff were included. VPD staff expenses are covered under the VPD Financial Statement Review.

Our work included:

- Review of relevant policy and procedure documentation;
- Interviews with management and staff in Financial Services;
- Use of data analytics to identify potential exceptions, outliers, trends, and follow-up with staff and management as required; and
- Review of supporting documentation for a sample of reimbursements, P-card transactions, and travel claims.

The following were out of scope for the audit:

- Petty cash expenses and associated reimbursements; and
- Payroll direct deposit reimbursements for professional dues.

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

C. CONCLUSION

A small number of items were noted, which while not material, did not comply with the City's policy for business meetings and discretionary expenses. This policy was changed in 2018, with additional restrictions included, which may have accounted for some lack of awareness on the part of staff. The process will be strengthened by improvements in monitoring employee P-Card purchases and reimbursements, and communicating reminders regarding requirements for travel claims to increase staff awareness.

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:

- Financial loss due to inappropriate or excessive expenses; and
- Reputation loss for the City and impact to the value received for tax dollars.

E. POSITIVE FINDINGS

E.1 2018 Business Meeting and Discretionary Expenses Policy is generally being followed

The ADMIN-013 Business Meeting and Discretionary Expenses Policy was updated in September 2018. This version of the policy clarified restrictions on certain expenditures as follows:

4.2. Disallowable Expenditures

- Meals/food and gifts to staff for personal reasons such as birthdays, anniversaries, illness, retirement, bereavement.
- Office décor and plants with the exception of corporate protocol/promotional events.
- Office supplies purchased outside of the city's contracted suppliers are discouraged and should only be for extenuating circumstances.
- Rewards or gifts related to attendance or performance.

- Alcohol.
- Reciprocal meals between staff.

The updated policy also clarified that food or refreshments are to be limited to full-day departmental strategic planning meetings, or for meetings outside of regular hours.

Employee expenses for the period from January to December 2018 were analyzed to identify transactions that fell under these disallowable expenditure categories. A total of 38 exceptions were identified. 34 of these expenses were incurred prior to the September policy update and therefore are classified as disallowable but complied with the policy in place at the time. Four items totaling \$454 were incurred after September and are therefore disallowable expenses.

	<u># of Items</u>	<u>\$ Value</u>
Exceptions Identified Prior to Policy Update	34	\$ 3,810
Exceptions Identified After Policy Update	4	\$ 454

The four items identified after the policy update include office Christmas decorations and food for staff during an office move. The lower frequency of these types of expenses after the policy update appears to indicate that staff are generally aware of the policy and the restrictions on these items.

F. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

F.1 Formalize monitoring of employee expenses to enhance oversight

In 2018, there were over 41,000 purchase card transactions and over 5,000 SAP reimbursements for City staff. Although not all of these transactions relate to employee expenses, there is a relatively high volume of transactions. The City relies on department managers to review and ensure expenditures are valid and comply with policies.

In addition to management review, the Financial Services Accounting Operations department performs additional checks and follows up on unusual items noted. However, the current review process is ad-hoc. Management indicated that a periodic exception report for P-Card has been developed and will be enhanced to include all SAP transactions.

The following items were noted through analysis of 2018 expenses as non-compliant with City policy:

<u>Expense</u>	<u>Non-compliance issue</u>	<u>Amount</u>
Office Christmas tree and decorations	Disallowable expense under Business Meeting Policy	\$ 226.43
Food during office move	Disallowable expense under Business Meeting Policy	\$ 228.01
Total disallowable items		<u>\$ 454.44</u>

We also identified one transaction that was an appropriate business expense, however, the proper process to purchase the item, as outlined in the policy, was not followed.

<u>Expense</u>	<u>Non-compliance issue</u>	<u>Amount</u>
Kitchen equipment	Equipment over \$150 should be purchased by REFM	\$1,374.99

Formalizing a monitoring and reporting process external to departments' own management review of expenses would provide additional oversight and promote compliance to City policies.

Recommendation:

F.1.1 The Associate Director of Accounting Operations should implement a formalized process for review of employee expenses. Questionable expenses should be identified and followed up on with the department on a timely basis. This should include a defined escalation process for any identified exceptions to an appropriate level of management. This process should be in place 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:

Management agrees with the findings and recommendations. A periodic exception report will be developed for employee expenses and the review process will be formalized and in place by September 30, 2019

F.2 Enhance compliance to Travel Policy for authorization levels and supporting documentation

The City's Travel Policy (AF-004-01 Travel) provides guidelines to staff for allowable expenditures related to travel required for City business, training, or conferences. Travel claim forms are completed by the employee and signed off by an appropriate level of management. The Travel Policy defines the required level of authorization, based on the traveller's position and the travel location (e.g. within or outside of North America).

The following non-compliance issues were noted based on review of travel claim forms for 2018:

Authorization levels for travel outside of North America

There were four travel claims that involved travel outside of North America. While the travel was authorized at the General Manager level, it did not receive City Manager approval as prescribed by the Travel Policy.¹ This finding was raised with the department involved and management indicated that this was due to a lack of awareness and staff turnover for the travel coordinator role. Upon notification of this finding, management addressed this by distributing an email reminder to staff with Travel Policy information including the requirement for an appropriate level of authorization.

Approval for group travel

There were five staff that participated in overseas travel involving work-related research. The staff involved were from two departments and are part of an inter-departmental team. Two staff received City Manager as per the Travel Policy, while three staff from another department received

General Manager approval¹. Therefore, the authorizers may not have had the knowledge of the full number of City staff that were participating. These types of travel requests should be requested as a group, so that the authorizer may decide whether the number of staff travelling is appropriate.

Supporting documentation for accommodations

There were six travel claims for which accommodations were claimed; however, the supporting documentation submitted did not include a detailed or itemized hotel bill; a receipt showing only the total charge was provided. While these amounts were found to be in line with the hotel rates, a detailed bill would identify whether any additional charges were incurred, such as meals (which should be covered by the City's per diem), or phone charges. The Travel Policy does state that a detailed hotel bill should be submitted to support the claim.

An additional control in place for travel claim forms is the review conducted by the Accounts Payable department. We observed evidence of this review including follow-up to obtain any needed information, and corrections made to calculated amounts on the form to ensure accuracy.

Recommendation:

F.2.1 The Associate Director of Accounting Operations should send a reminder to all departmental travel coordinators of the Travel Policy requirements including: obtaining the right level of approval, complete supporting documentation, and consolidating the approval for travel involving larger groups of staff. This should be in place by September 30, 2019.

F.2.2 The Associate Director of Accounting Operations should ensure that as part of the checks completed by Accounts Payable, detailed hotel bills are requested as part of the supporting documentation provided with travel claims. This should be in place 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:

Management agrees with the findings and recommendations. Communication will be sent to department's travel coordinators to remind them to obtain the right level of approval (particularly around international travel) and to submit complete supporting documentation for charges, including detailed hotel bills. This will be done by September 30, 2019.

F.3 Consolidate reimbursement channels to improve auditability, efficiency, and reporting capability

There are multiple channels available to City staff to incur or reimburse City business-related expenses, including P-card purchase, EFT reimbursement, cash reimbursement, and travel claim form.

¹ Three out of the four travel claims noted to have not received the appropriate authorization for travel outside of North America were the same three travel claims noted in the group travel finding.

Having these multiple channels in place makes it inefficient to compile employee expenses reported in the City's Statement of Financial Information for all staff earning over \$75,000 for the year, as well as the aggregate total of expenses incurred by City staff.

Additionally, there is a risk of an employee submitting a receipt for reimbursement through one channel and re-submitting the same expense through another. No instances of this were found during this audit.

Recommendation:

F.3.1 The Associate Director of Accounting Operations, in consultation with the Information Technology department, should explore options available to clearly identify employee expenses and streamline the various channels involved to improve monitoring / reporting capability. A viable solution should be identified and a plan for implementation should be in place by December 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:

Management agrees with the findings and recommendations. The exploration of options to automate and consolidate the various ways that employee reimbursements are being done at the City will be completed by December 31, 2019.

F.4 Establish guidelines to management and staff for business lunches

While the Business Meeting and Discretionary Expenses Policy does provide guidelines on when meals and refreshments can validly be expensed, it does not specifically address business lunches with outside contacts. The policy refers to meal expenses incurred only for full-day departmental strategic planning meetings, or for meetings outside of regular hours.

Through this audit, there were instances noted where City staff had an expensed a meal for a meeting with outside contacts which was related to City business. We did not note any unusual or excessive items in this regard; however it is difficult to assess the appropriateness and compliance with City policy given the lack of specific guidance as to a reasonable frequency or dollar amount for these types of expenses.

Recommendation:

F.4.1 The Associate Director of Accounting Operations should communicate guidelines to City staff for business lunches, with consideration given to a reasonable frequency and dollar limit for these types of expenses. 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:

Management agrees with the findings and recommendations. Communication regarding guidelines on Business Meeting and Discretionary Expenses Policy will be communicated to City Staff by September 30, 2019.



Office of the City Manager
Internal Audit Division

July 25, 2019

To: Audit Committee:
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
Carmen Fuellbrandt – Senior Internal Auditor

Subject: **July 2019 6-Month Follow Up of Audit Recommendations**

As part of the annual Internal Audit plan, a follow up of open audit recommendations is conducted semi-annually for all audit reports issued. This report covers all recommendations that are due on or before July 2019. 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. 127 recommendations were followed up on across the City and 37 of the recommendations are now completed. As of July 25, 2019, there were 90 open recommendations.

A summary is shown below:

Open recommendations at beginning of period	72
<u>Add:</u> Recommendations now due	55
Total open recommendations followed up on	127
<u>Less:</u> Recommendations completed	(37)
Open recommendations at the end of review period (July 2019)	<u>90</u>

Of the 90 open recommendations, eight were initially targeted for completion by 2015/2016. Progress has been made around mitigating associated risks and management has indicated that these recommendations will be addressed in 2019, with the remaining to be completed by 2020.

The eight open audit recommendations that were initially targeted for completion by 2015/2016 are outlined below. A detailed list of all open audit recommendations is provided in Appendix A.

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

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

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

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.	Operating Level Agreements are in development between REFM and key client groups commencing with Park Board which will serve as the template for other OLAs. The remaining OLAs planned for 2019 (Non Market Housing, VFRS) will now commence in 2020.	REFM to complete the OLA and develop a review/monitoring process for Non-Market Housing in 2020.
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.4.1 Ensure that the citywide project control framework focuses on risk assessment, risk management, scope management and project communication management.	The risk management element of the CDOC process was implemented in Q1 2019.	Supporting documentation has been requested of Finance/SPPM department.
2014 Cloud Computing Audit (App A: Audit 128)		
F.1.1 The CIO should establish a cloud framework and strategy.	A draft Cloud Adoption Framework document is in draft stages and will continued to be refined over the next 6 months. Existing cloud adoption practices continue to be effective as projects and initiatives request to adopt cloud based services.	Technology Services to finalize the draft Cloud Adoption Framework strategy and communicate instructions and responsibilities to staff in 2019.
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.		
2015 Vancouver Fire & Rescue Service Operational Audit (App A: Audit 131)		
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	The Trackit pilot was run and system changes are needed to allow VFRS to move forward. Work is underway on building out the apparatus equipment lists in the system using system upgrades.	VFRS to work with IT to implement TrackIT system in full production in Q3 2019.
F.6.1 The Fire Chief should ensure the needs of the training centre and vehicle service and maintenance yards are addressed adequately in the soon to be released fire hall Renewal Strategy study.	A Vancouver Fire Facility Programming study has been conducted and a final report will be completed. This study would set us up to understand the needs for a new facility. The future needs of the Training Academy have been outlined and reported to the False Creek Flats Arterial Committee.	VFRS to provide an update on the Fire Facility Programming study final report in 2019.

2016 Social Media Audit (App A: Audit 136)		
F.3.1 Ensure that an incident response plan for social media is formalized and implemented.	The Hacking Response Plan has been reviewed by Hootsuite and IT. The plan will be updated to include preventative measures and key contacts. The City is also exploring ZeroFox tool which aids to internet security and hacking response. ZeroFox is currently undergoing COV Privacy Impact Assessment.	Corporate Communications to work with IT to finalize the Hacking Response Plan in 2019.

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	Expected Completion
110	2012: Non-Market Housing Operations	Arts, Culture, Community Services (ACCS) / REFM (Real Estate and Facilities Management)	6	0	4	2	0	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 deadline for the Park Board OLA has been extended to December 2019. The remaining OLAs planned for 2019 (Non Market Housing, VFRS) will now commence in 2020.	F.1.1: Medium F.1.2: Low	2020
122	2014: Capital Project Management Audit	Finance, Risk and Supply Chain Management	4	0	3	0	1	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: The Capital Delivery Oversight Committee (CDOC) gating process has incorporated a risk management element. (Note: Supporting documentation to be provided to Internal Audit)	F.4.1: Low	Q3 2019
128	2014: Cloud Computing Audit	Information Technology	5	0	3	2	0	F.1.1 - Establish a cloud computing framework and strategy. F.2.1 - Educate City employees on cloud solutions and privacy requirements. Leo de Sousa, Deputy Chief Information Officer: A draft Cloud Adoption Framework document is in draft stages and will continued to be refined over the next 6 months. Existing cloud adoption practices continue to be effective as projects and initiatives request to adopt cloud based services.	F.1.1: Medium F.2.1: Medium	2020
131	2015: VFRS Operational Audit	VFRS	11	0	9	0	2	F.4.1 Inventory of Fire equipment not regularly completed. F.6.1 Address adequacy of fire training centre and vehicle maintenance service area facilities. VFRS has been engaged in the planning of Fire Facilities in the False Creek Flats project and future needs of the Training Academy have been reported to the False Creek Flats Arterial Committee.	F.4.1: Low F.6.1: Low	2020
136	2015: Social Media	Corporate Communications	4	0	3	0	1	F.3 Ensure that an incident response plan for social media is formalized and implemented Ellie Lambert, Communications Manager: Corporate Communications is working with the Cybersecurity team to finalize the Hacking Response Policy.	F.3: Medium	Q4 2019
137	2015: Major Exhibiting Institutions	ACCS	8	0	7	0	1	F.2.1 Ensure that the Collection Policies for all major exhibiting institutions are updated and approved by the City if required. Branislav Henselmann, Managing Director, Cultural Services: MOV's revised Collection Policy will to back before the board on July 25th for final approval; VMM's work on Collection Policy is pending - we have requested an update on the progress.	F.2.1: Low	Q4 2019
138	2015: PNE Internal Controls	PNE	10	0	7	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. Business continuity plans for core PNE functions are in place and will be formalized following completion of a comprehensive risk management process.	F.1.1: Medium F.1.2: Low	2019
140	2016: CCTV Compliance Spot Audit	City Clerk REFM	9	0	4	1	4	F.2 Training operator on FIPPA and CCTV protocols. 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. Barbara van Fraassen, Director, Access to Information: All Staff will be required to take the FOI, Privacy and Records Management Online Training session managed through City Learn - full rollout to follow completion of the Conflict of Interest City-wide training completion. Other items will be addressed in conjunction with the CCTV Policy Review to take place in Q4 of 2019.	F.2: Medium	Q4 2019

#	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	Expected Completion
141	2016: VPD-CCTV Compliance Spot Audit	VPD	6	0	4	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: A comprehensive CCTV policy review is on the workplan for City Clerk's office in 2019. Work has been done to determine current generator run times and discussions continue around whether or not there is a need to extend these times.	F.3: Low	Q4 2019
144	2016: Cyber Security Audit	Finance, Risk and Supply Chain	6	0	5	0	1	F.4 Ensure confidentiality of sensitive data by completing a data classification scheme. Reported as complete; supporting documentation to be provided to Internal Audit.	F.4: Low	2019
145	2016: Bylaw Enforcement Processes	Development Services, Building & Licensing	8	0	5	2	1	F.2.1 Develop enhanced performance metrics and targets for the Integrated Enforcement Team to facilitate performance measurement and assist in management decision making. F.2.2 Develop enhanced performance metrics and targets for the bylaw enforcement staff to facilitate performance measurement and assist in management decision making. F.3.3 Create a shared online resource for enforcement staff containing reference and training material for common skillsets and training areas among the departments. Corrie Okell, Manager Business Services DBL: The Proactive Enforcement Team Manager has been hired and will assist with metric development. Initial work completed in Q2 to allow insight into processing times. Will work to refine in Q3-Q4 of 2019.	All: Low	Q4 2019
152	2016: Privacy Management Audit	City Clerk's Office and VPD	7	0	4	3	0	F1.1 Formalize and implement a privacy policy to guide management and staff on appropriate handling of personal information. F1.2 Communicate the privacy policy to management and staff to enhance awareness. F3.1 Formalize breach management protocols. Barbara Van Fraassen, Director, Access to Information: Privacy Policy and breach management protocols are in process. Staff can also take the City Learn Online Training Module for FOI, Privacy and Records Management to increase awareness of privacy requirements. Estimated completion Q3, 2019.	All: Low	Q3 2019
154	2016: Development Cost Levies (DCL) Waiver Audit	Development, Building & Licensing	9	0	8	0	1	F.6.1 Investigate the possibility of developing reporting capabilities in POSSE on DCL waivers issued. Corrie Okell, Manager Business Services DBL: The comprehensive review of DCLs/DCCs (by the Corporate Continuous Process Improvement team) is currently being scoped out, with the aim for this review to launch Q3-Q4 of 2019.	All: Low	Q4 2019
155	2017: Cemetery Operations Audit	Community Services	6	0	2	3	1	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. Glen Hodges, Manager of Cemetery: Mountain View Cemetery - By-law Amendments & Fee Increase - is scheduled for Council September 10, 2019. Estimated completion Q4, 2019.	All: Low	Q4 2019
159	2018: Payroll	Finance, Risk and Supply Chain Mgmt	5	0	4	1	0	F.2.1 The Director of Financial Services will work with the Chief Human Resource Officer to ensure that the process for loading and testing of new pay rates is formally documented for future testing. Michael Wallia, Associate Director, Accounting Operations: The process has been agreed with HR and documented. (Note: Supporting documentation to be provided to Internal Audit)	F.2.1 Low	2019

#	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	Expected Completion
161	2018: CAC Audit	Planning, Urban Design & Sustainability	12	0	5	5	2	<p>F.2.1 Clarify ownership of payment collection for phased CAC's, and ensure that adequate controls are in place such as entering holds in POSSE and tracking of phased payments.</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.</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.</p> <p>F.5.1 Consider limiting the locked-in period for CAC's to a maximum period such as one year.</p> <p>F.6.1 Determine whether the CAC policy should specifically address commercial developments and the treatment of associated CAC's.</p> <p>Part of CAC Policy review; now expected to report out in October. This is the result of enhanced engagement and industry.</p>	F.1.1 - F.4.1: Medium	Q4 2019
162	2018: Property Endowment Fund Audit	REFM (Real Estate and Facilities Management)	8	0	7	0	1	<p>E.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. Ongoing improvements to the dashboard is also recommended. This should be completed March 31, 2018.</p> <p>Andrew Newman, Associate Director, REFM: Work is underway by REFM and Finance with expected deliverables in Q3 2019.</p>	E.4.1: Low	Q3 2019
166	2018: Parks Restaurant Leases Audit	Park Board	6	0	3	1	2	<p>E.2.1 Document the roles and responsibilities of both departments involved with Parks restaurant leases.</p> <p>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.</p> <p>E.4.1 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.</p> <p>Sev Araujo, Manager of Commercial Operations: Discussion has taken place between Park Board and Finance regarding roles and responsibilities for Parks restaurant leases. Park Board is also working with REFM piloting 10 sites each where meters are being installed to capture accurate consumption of hydro and water to support accurate billing.</p>	E.2.1: Medium E.3.1 - E.4.1: Low	2019-2020
167	2018: Software Licence Audit	Information Technology	6	0	2	2	2	<p>E.1.1 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.</p> <p>E.2.1 Establish a central repository for software licence contracts and supporting information.</p> <p>E.3.1 Develop a communication package for City employees to educate staff on software purchases.</p> <p>E.4.1 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.</p> <p>Leo de Sousa, Deputy CIO: The Cloud Adoption Framework draft will address this recommendation once it is approved later in 2019. We will be building out the inventory of software applications that are available in the Service Catalogue as well as recording manually installed software. This process is underway and will continue into 2020.</p>	E.1.1, 2.1: Medium	2020
168	2018: Software Licence Audit - VPL	VPL	2	0	0	2	0	<p>E.1.1 Develop a communication package for employees to educate them on the use and purchase of cloud software.</p> <p>E.2.1 Develop a communication package for VPL employees to educate staff on software purchases.</p> <p>Dawn Ibey, Director, Library Experience: Cloud Services Policy draft is complete and ready to move forward with the rollout. Next steps are approval by Directors' Group and introduction to all staff, planned in July.</p>	E.1.1, 2.1: Low	Q3 2019
169	2018: Sick Without Pay Benefits Audit	HR	5	0	0	4	1	<p>E.1.1 Establish responsibility for benefits cancellation.</p> <p>E.1.2 Document and communicate the benefits cancellation process including key dates and timeframes used for reminders sent prior to cancelling benefits.</p> <p>E.1.3 Ensure that the benefits cancellation templates are finalized and used by Payroll clerks with minimal edits to items such as names, dates and amounts.</p> <p>E.2.1 Ensure that the benefits arrears process is formalized and communicated to staff with clearly defined repayments guidelines and parameters.</p> <p>E.3.1 Implement a quarterly audit of processes that involve employees paying benefits to ensure benefits are paid for appropriately.</p> <p>Deb Gale, Director, HR Business Partnerships: CPI project is currently on hold due to Payroll resource constraints, will be rescheduled for later in 2019.</p>	E.1.1-2.1: Medium E.3.1: Low	2020

#	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	Expected Completion
170	2018: Inventory Management Audit	Finance, Risk and Supply Chain Mgmt	29	0	24	1	4	<p>E.1.1 Establish a SCM Warehouse & Inventory Operations department guideline outlining roles, responsibility and accountability around storage of inventory.</p> <p>E.3.1 Ensure individual labels are created for all indoor and outdoor inventory, as reasonable.</p> <p>E.4.4 Ensure the SAP Stockout Report that summarizes stockout frequency is developed and reviewed monthly.</p> <p>E.6.3 Create individual barcode labels that are compatible with D4H for all HUSAR deployment containers.</p> <p>E.6.4 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.</p> <p>Supply Chain Management has been working on addressing the audit recommendations throughout Q4 2018 and expect to complete the remaining recommendations in 2019.</p>	E.1.1: Medium E.3.1-E.6.4: Low	Q4 2019
173	2018: Homelessness Services Outreach Audit	Arts, Culture, Community Services	16	0	14	0	2	<p>E.4.1 Obtain access to metrics information for all Outreach metrics outlined in the joint BC Housing agreement.</p> <p>E.8.1 Document internal purchasing guidelines on acceptable purchases within Outreach and have them approved by the GM, ACCS.</p> <p>Celine Mauboules, Director Homelessness Services: Draft guidelines have been developed and will be finalized pending GM review and approval. Expected completion, September 30, 2019.</p>	All: Low	Q4 2019
174	Property Tax Process Audit	Finance, Risk and Supply Chain Mgmt	8	0	6	0	2	<p>E.3.2 Complete documentation and cross-training for property tax calculations and validations</p> <p>E.4.1 Improve the multi-year supplementary rolls upload by submitting an enhancement request to the Tempest software vendor.</p> <p>Marina Marzin, Associate Director Revenue Services: Documentation is completed but cross-training required. A cost-benefit analysis is underway for the Tempest request.</p>	All: Low	2019
175	2018: Health & Safety Compliance Audit	Human Resources; REFM; VFRS	10	1	5	4	0	<p>E.2.3 Update OHS training module and maintain it for use by all business units anticipated to use contractors.</p> <p>E.4.1 Ensure responsibilities for safety training are communicated and shared by all City Department operations and all required initial and ongoing safety training is developed and incorporated into all employees' work schedules.</p> <p>E.5.1 The Fire Chief should initiate a review of the safety items in the report with the aim of developing a plan to address them and setting target dates for their resolution.</p> <p>E.6.1 REFM should update the City's property list to determine the ownership and responsibility for their maintenance, capital replacement and safety requirements. Formal agreements should be drafted for all City operated.</p> <p>Andrew Ross, Manager Organizational Safety: A refresh and rewrite of the Contractor Coordination Program is in progress and HR has put forward a business case for a Learning Managing System that will enable tracking of required training. Approval to move forward has been given and is being prepared for 2020.</p>	All: Med	2020

486 22 374 36 54

Total Recommendations Open and Due:

90



CITY OF VANCOUVER INTERNAL AUDIT REPORT Nat Bailey Stadium Review

Distribution:

Audit Committee	Malcolm Bromley – General Manager, Parks & Recreation
KPMG	Nick Kassam – General Manager, Real Estate & Facilities Management
	Danica Djurkovic – Director, Facilities Planning & Development
	Melanie Kerr – Director, Financial Services
	Kelly Oehlschlager – Assistant Director – Corporate, Legal Services
	Sev Araujo – Manager, Commercial Operations
	Harry Khella – Senior Associate, Strategic Business Advisory

EXECUTIVE SUMMARY

June 6, 2019

The Nat Bailey Stadium Lease Review was initiated to determine the extent of compliance with the terms of the lease agreement. The objective of the audit was to provide supporting information for the lease negotiations underway as the agreement enters its third five-year term. The 25-year agreement in place stipulates that fair market rent be determined and agreed to for the third term, which commenced in May 1, 2017.

The areas of non-compliance fall primarily within the following categories:

- Maintenance and Repairs (Lease Section 6.2);
- Property Tax (Lease Section 3.1-3.3);
- Financial Reporting (Lease Section 2.8);
- Insurance (Lease Section 10.1-10.2); and
- Notice of Renewal/Renewal Rent Determination (Lease Section 17.1).

Given the above areas of non-compliance, we recommend that the deficiencies be addressed and that any resulting financial obligations be taken into consideration in negotiating the fair market rent to be applied for the third lease term.

The more significant findings and recommendations are:

D.1 Establish and Assign Responsibilities for a Working Governance Structure, Continuity and Oversight

Lease management processes should be strengthened to ensure that lease compliance is maintained and sufficient oversight is in place for the remaining 13 years of the lease.


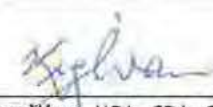
D.2 Address Capital Maintenance and Improvements Required

The Tenant has, for many years, failed to comply with its maintenance and repair obligations. Some are safety related and some are critical to operational efficiency of the facility. These deficiencies should be addressed now in priority to bring the Tenant into compliance with the lease terms.

D.3 Outstanding Payment of In Lieu of Property Tax

The exact amount owing has yet to be determined as the property parcel is split between Nat Bailey Stadium and the Vancouver Racquet Club, and the percentage allocation for each has yet to be determined. Park Board should consult with Legal Services and determine if the outstanding payments assigned to Nat Bailey Stadium for 2007-2011 should be collected.

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


Tony Hui, CPA, CA, CRMA
Chief of Internal Audit
King Wan, MBA, CPA, CMA, CIA, CRMA
Manager, Internal Audit Projects

A. BACKGROUND

The initial Nat Bailey 25-year term lease between the Vancouver Park Board and the Vancouver Professional Baseball Club was signed in 2007 and is renewable by the Tenant every five years. This lease was amended in 2012 (second term) and it came up for the third renewal in 2017. By the end of 2018 the renegotiation was still in progress.

According to the lease the Landlord and the Tenant must agree on a new rent amount for the Third Renewal Term in accordance with the formula set in the lease. This amount has not yet been finalized and agreed upon. In the meantime, the Vancouver Professional Baseball Club has submitted a development permit application to expand its operations at the leased site.

It is recommended that the City should not sign off on Owner's Undertaking and facilitate permit issuance unless and until:

- the third Renewal Rent is successfully negotiated and agreed upon and paid in full;
- all outstanding maintenance repair items required to be completed by the Tenant at its sole cost have been completed by the Tenant to the City's/Park Board's satisfaction;
- all required audited and unaudited statements have been provided by the Tenant as agreed with Tenant, namely unaudited for all of First Term and Second Term and audited for prior two years; and
- the City/Park Board and Tenant have agreed on the financial and other terms associated with the capital upgrade and expansion requested by the Tenant and a suitable modification of Lease has been executed and agreed upon setting out the terms of same.

B. SCOPE

The following areas were assessed as to the Tenant's compliance with the lease terms, as defined by Nat Bailey Stadium Lease Amendment #1, Amended and Restated as of November 1, 2012. The review covered the years 2007 (beginning of lease's first term) to 2018.

- Audited and unaudited financial statements submitted by the Tenant;
- Revenue reporting, rent calculations, and associated payments submitted by the Tenant;
- Review of payments relating to capital improvements undertaken; and
- The Tenant's compliance with other lease terms including pay in lieu property tax, insurance, and notice of renewal.

Our work included interviews and discussions with key stakeholders in Park Board, Finance, and Legal Services. Documentation reviewed includes the lease and amendments with the Vancouver Professional Baseball LLP, as well as other departmental records and correspondence. Revenue reports and rent payments submitted by the Tenant were also reviewed and recalculated.

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

C. CONCLUSION

Given the non-compliance issues noted, we recommend that the deficiencies be addressed and that any resulting financial obligations be taken into consideration in negotiating the fair market rent to be applied for the third lease term.

Additionally, lease management processes should be strengthened to ensure that lease compliance is maintained and sufficient oversight is in place for the remaining years of the lease term.

D. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

D.1 Establish and Assign Responsibilities for a Working Governance Structure, Continuity and Oversight

Overall management of the Nat Bailey Stadium lease renewal lacked a working governance structure, continuity and oversight. The lease terms have not been, in a material extent, monitored, enforced or followed-up. Changes in staff over time left the above noted obligations of the Tenant in default with no follow-up or enforcement plan in place.

At the request of the former Deputy General Manager, Park Board, the Vancouver Services Review (VSR) conducted a 'Park Board: Lease Agreements Review' in April 2015 which aimed to review the way lease and other contracts were managed, administered and documented at the Park Board. Several recommendations were made, including clarifying and confirming the roles of Park Board staff in lease administration. That model should be revisited and used as a starting point to manage the Nat Bailey Stadium Lease. The recommendations arising from the VSR review would be appropriate to use to define and assign staff from different departments their roles and responsibilities for this lease and other Park Board leases and contracts on an ongoing basis.

Recommendation:

D.1.1 The Park Board General Manager, in collaboration with BPPS, Finance, REFM, and Legal Services should confirm monitoring roles and responsibilities for all stakeholders in this lease agreement and all other Park Board leases and contracts. This should include assigning responsibility for the Nat Bailey for verifying ongoing compliance with lease terms and 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 the findings and the recommendation. While we can implement something by July 31, 2019 for this specific relationship and agreement, this is something that needs to be implemented for all 500 relationships and 1,250 agreements but Commercial Operations currently does not have the capacity or the resources to do this; it has been identified as a gap and is currently being addressed by the REFM/Park Board review of responsibilities/processes.

D.2 Address Maintenance and Repair Deficiencies

Lease requirement:

Section	Description
6.2	Maintenance and Repairs – Tenant's Obligations
	<p>Stadium</p> <p>Subject only to Article 7 – <i>Alterations, Capital Contributions and Ownership/Removal</i>, Article 11 – <i>Damage and Destruction</i>, and paragraph (e) – <i>Limitation on Tenant's Repair Responsibilities</i> below, the Tenant will, at the Tenant's sole expense, at all times during the Term, continuously, actively and diligently keep, operate and maintain, as would a careful and prudent owner, in a safe, clean, and good working order, condition and repair, and promptly make, using first quality new materials, at the Tenant's expense, all needed Alterations of, to, or in connection with, in the whole and in each and every part of the Stadium and Field (both interior and exterior) including, by way of example only and without limitation, the following:</p> <p>All load-bearing and structural components,</p> <p>The roof structure and roof membrane,</p> <p>Structural defects in the Stadium or Field,</p> <p>Defects in the roof structure or membrane,</p> <p>Repairs, alterations, upgrades, replacements or additions required to the structural, load-bearing, roof, electrical, plumbing, mechanical, or any other components of the Stadium or Field which are required by any governmental authority or the National Association,</p> <p>Spectator risers and seating,</p> <p>Field drainage, irrigation, aeration, compaction, seeding, or plantings,</p> <p>All entrances, glass, walls, ceilings, floors, thresholds, exterior and interior windows and window frames, doors and door frames, signs (interior and exterior), partitions, hardware, locks and mouldings,</p> <p>All fixtures (including Tenant's Baseball Equipment), improvements (including Tenant's Work), machinery, installations, equipment, systems, services and facilities located on, in, under, above or which serve the Stadium and Field including, without limitation, wiring, piping, lighting and plumbing fixtures, operating equipment,</p> <p>And, at Tenant's expense, repaint, redecorate and renovate the Stadium and Field in accordance with Article 7 – <i>Alterations, Capital Contributions Ownership/Removal</i>.</p>

Findings:

Many of the maintenance and repair items that the Tenant is responsible for have not been completed. The most recent assessment shows that for the next five years, approximately \$ 3.3M (in 2019 dollars) of repair work is required, with \$ 2 M to be completed in 2019.

There is no evidence of monitoring or verification of any of the required maintenance and repair work over the span of the first two lease terms.

REFM has subsequently completed an evaluation of the facility and has identified the outstanding maintenance items required. Some are safety related and some are critical to operational efficiency of the facility.

Recommendation:

D.2.1 The Park Board General Manager, working in conjunction with REFM, should follow-up with the Tenant on all outstanding maintenance and repair deficiencies so that they are categorized, sorted and scheduled for completion. This working timeline will likely to be factored into the negotiation of the rent for the third term with the Tenant. 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 the findings and the recommendation.

D.3 Collect Outstanding Property Tax

Lease requirement:

Section	Description
3.1	Payment of Property Taxes Where Lands Are Not Exempt
	<p>Except as otherwise provided in Section 3.2 – <i>Payment of Property Taxes Where Lands are Exempt</i>, the Tenant will in each year during the Term not later than the day immediately preceding the date or dates on which real-property taxes and other charges imposed upon real property within the City of Vancouver become due and payable whether monthly, quarterly, twice-yearly or otherwise, pay and discharge or cause to be paid and discharged all taxes, rates, levies, duties, charges and assessments, including for example and without limitation, school taxes, local improvement rates, utility or municipal services levies, and other charges which now are or will or may be levied, rated, charged or assessed in respect of the:</p> <p>Stadium and Field, all other structures, all machinery, equipment, facilities and other property of any nature whatsoever thereon and therein; The owner or occupier of same; and Municipal services provided to or made available to same,</p> <p>(collectively, "Property Taxes")</p> <p>Despite the above, the Tenant will be responsible only for payments of Property Taxes as and from the Commencement Date, subject always to pro-rata adjustment pursuant to Section 2.16 – <i>Interest on Overdue Rent</i>.</p>
3.3	Delinquent Taxes
	<p>If the Tenant fails to pay the amount owing under Section 3.1 – <i>Payment of Property Taxes Where Lands Are Not Exempt</i> when due, the Tenant will pay the penalty and/or interest on such overdue amounts imposed by law. However, the Landlord may but is not obliged to pay the arrears, in which case the Tenant will be liable for interest and/or penalties prescribed by law up to the point in time the Landlord makes payment, and for any period of time after that the Tenant will be liable to pay interest at the rate and in the manner provided in Section 2.16 – <i>Interest on Overdue Rent</i>.</p> <p>If the Tenant fails to pay the sum owing under Section 3.2 – <i>Payment of Property</i></p>

	<i>Taxes Where Lands Are Not Exempt</i> when due, the Tenant will be liable to pay interest at the rate and in the manner provided in Section 2.16 – <i>Interest on Overdue Rent</i> .
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Findings:

There is no evidence that the payments in lieu of property tax were paid by the Tenant during the first five years as required by the lease. The Tenant was, for some reason, exempted from such payment for the next five years 2012-2017 (the second term).

The exact amount owing has yet to be determined as the property parcel is split between Nat Bailey Stadium and the Vancouver Racquet Club, and the percentage allocation for each has yet to be determined. No records of this allocation were able to be provided by Park Board staff.

Recommendation:

D.3.1 The Manager, Commercial Operations, Park Board should determine the payment in lieu of property tax due for Nat Bailey Stadium. Once complete, Park Board should consult with Legal Services and determine if the outstanding payments assigned to Nat Bailey Stadium for 2007-2011 should be collected. This should be completed by December 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:

If its determined Payment In Lieu of Taxes (PILT) is applicable for these two tenants, agree with the findings but not the recommendation in its entirety. Historically the Park Board, with its commercial tenants has negotiated the area which PILT is to be applicable and then applies the approved Council Tax Mill Rate. The agreement does not outline this type of formula and greater discussions are required between Legal and Finance and would form part of current discussions and negotiations.

D.4 Ensure Tenant Provides Audited Financial Statements

Lease requirement:

Section	Description
2.8 (c)	<p>(c) Full Audited Financial Statements Prior to Expiry of Renewal Term</p> <p>The Tenant will, at the Tenant's expense, deliver to the Landlord no later than 6 months prior to the expiry of each Renewal Term (and in the event of sooner expiry or cancellation of the Lease within 60 days of such sooner expiry or cancellation):</p> <p>(i) Complete financial statements of the Tenant duly audited by an Accountant for all preceding Baseball Years, including a balance sheet, a statement of profit and loss and a statement of changes in financial position, and all notes made pertaining to such statement, and</p>

	(ii) A copy of all procedural audits, if any, conducted by an Accountant of the Tenant's operating and administrative procedures for each such Baseball Years.
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Findings:

Audited revenue statements were not submitted on a timely basis as required by the lease. Financial reports provided consisted solely of Gross Revenue statements, supporting the amount of the rent paid by the Tenant.

Audited financial statements required by the lease were never submitted. There was no evidence of follow-up action taken by Park Board staff to request the audited financial statements. However, through the course of this audit and upon request from senior management, the Tenant has since provided financial statements that were reviewed by an external auditor. While a review performed by an external accounting firm provides some assurance, it is a lower level of assurance than a full audit, which is the requirement under the lease.

A letter has been sent by the City Manager to the Tenant requesting the most current two years of "audited financial statements" for the Vancouver Professional Baseball LLP in accordance with the lease term. The Tenant has since replied that -they are working to try to accommodate our request for two years of audited statements.

Recommendation:

D.4.1 The Manager, Commercial Operations at the Park Board and Financial Services, should ensure that full audited financial statements, as well as audited revenue statements required for the percentage rent calculation under the lease, are provided by the Tenant starting immediately with the next ensuing deadline under the lease.

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 findings and the recommendation.

D.5 Ensure Insurance Policy Complies to Lease and Documentation is retained

Lease requirement:

Section	Description
10.2	Tenant's Insurance Program – Administrative Requirements
	<p>(a) Insurance Companies – Must be Rated</p> <p>All policies must be written with companies licensed to do business in British Columbia with a financial rating of VIII or better and a policy holder's rating of A- or better in the latest edition of <i>Best Rating Guide</i> on Property and Casualty Insurance Companies.</p>

	<p>(b) Tenant to Pay Premium</p> <p>The Tenant will pay all premiums and deductible costs for the insurance required to be effected and maintained by and under this Lease, provided always that under no circumstances does the payment of such premiums give the Tenant any interest in the proceeds of such insurance or any control over such policies as they relate to the Landlord's interests (except as expressly set out in Section 1.3 – <i>Landlord/Tenant's Option to Terminate</i>).</p> <p>(c) Tenant to Provide Proper Disclosure</p> <p>The Tenant will properly disclose all risks in each insurance application, ensure that it does not violate or void any policy or otherwise comply at all times with the requirements of insurance and underwriters.</p>
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Findings:

Certificates of insurance were not on file initially with either Park Board or Risk Management. They were subsequently provided upon request by senior management, through the course of this audit.

The City's Insurance department has since reviewed the insurance documentation and has noted that aspects of the Insurance policy do not fully comply with the lease requirements.

Recommendation:

D.5.1 The Manager, Commercial Operations, Park Board should ensure that insurance documentation is obtained annually from the Tenant and retained on file, either with Park Board staff or the City's Insurance department. Additionally, the non-compliance issues noted by the Insurance department should be discussed with the Tenant and rectified going forward. This should be completed immediately as lack of proper insurance is a material financial risk to the City and Park Board.

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 findings and the recommendation. While we can implement something by July 31, 2019 for this specific relationship and agreement, this is something that needs to be implemented for all 500 relationships and 1,250 agreements but Commercial Operations currently do not have the capacity or the resources to do this; it has been identified as a gap and is currently being addressed by the REFM/Park Board review of responsibilities/processes.

D.6 No Timely Receipt of Notice to Renew

Section	Description
17.1	Option to Renew
	If the Tenant has duly and regularly paid all Minimum Rent, Percentage Rent and Additional Rent and performed all of the other material obligations of the Tenant under this Lease during the Term, the Tenant will, at its option, have the right to

	<p>renew this lease upon its expiry for the following additional renewal terms of 5 years each, commencing on the day following the expiry of the Term, which option must be exercised by notice in writing to the Landlord at least 12 months prior to the expiry of the Term:</p> <p>(a) May 1, 2012 – April 30, 2017 (the “Second Term”), (b) May 1, 2017 – April 30, 2022 (the “Third Term”), (c) May 1, 2022 – April 30, 2027 (the “Fourth Term”), and (d) May 1, 2027 – April 30, 2032 (the “Fifth Term”),</p> <p>(collectively, the “Renewal Terms” and individually a “Renewal Term”).</p>
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Findings:

There was no timely receipt of notice to renew in accordance with the lease term. The third renewal period should have started with a notice in writing to the Landlord from the Tenant 12 months prior to May 1, 2017. That would have been May 1, 2016. The tenant sent Notice to Renew on or about October 31, 2016 and the renewal discussions commenced in December 2016.

Recommendation:

D.6.1 The Manager, Commercial Operations, Park Board should ensure that the Tenant is cognition of the renewal timeline and the requirement of notice in writing for future renewals in accordance with, and at least 12 month to the expiry date of the current lease period.

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 findings and recommendation

The responsibility to provide proper notice is clearly outlined in the Agreement and it is up to the Tenant to act on its obligation and tenant will be reminded of their obligation.



CITY OF VANCOUVER
INTERNAL AUDIT REPORT
Major Fund Audit – Sewer Utility

Distribution:

Audit Committee KPMG	Cheryl Nelms – Acting General Manager, Engineering Services Patrice Impey – General Manager, Finance, Risk & Supply Chain Management Malcolm Bromley – General Manager, Parks and Recreation Nick Kassam – General Manager, Real Estate and Facilities Management Daniel Roberge – Director of Water & Sewers – Design, Construction & Operations Jimmy Zammar – Director, Integrated Strategy & Utility Planning
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EXECUTIVE SUMMARY

October 11, 2019

The City's sewer utility processes comply with tax and collection policies and meet all legislative requirements. To strengthen sewer utility operations, management has committed to enhance operational effectiveness and efficiency by improving process documentation, increasing internal controls, addressing potential business continuity risks, expanding meter codes for better analysis, and strengthening meter data input integrity.

The more significant findings and recommendations are:

E.1 Need for a Long-Term Sewer and Drainage Masterplan

A long-term master plan (30 to 50 year time horizon) to guide the planning and delivery of services impacting sewers and drainage in the City will help achieve the goals set in the Integrated Rainwater Management Plan and Rain City Strategy.

E.2 Improve Alignment and Consistency among Policies and By-laws Impacting Sewers and Drainage Services

Identifying key gaps and opportunities and aligning by-laws and policies impacting the sewer and drainage services will accelerate the pace of deployment of innovative solutions. This will improve planning for programs and projects, enhance processing of development applications and industry capacity, and achieve efficiencies in service delivery.

E.3 Develop Common Meter Reading Format to Meet Operational Demand

Streamlining new meter installation and work on older meters to a common reading format will increase accuracy and improve efficiency in the billing process and safeguard the City's reputation.


E.4 Standardization of Meter Reading Codes and Process Required

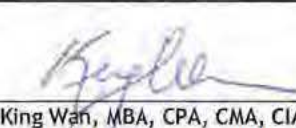
A standardized set of meter reading codes and related processes will reduce conflicting data and results and minimize time-consuming re-validation.

E.5 Address Limitation of Data Transfer for Metered Reading Data and System issues

Review and implementation of Tempest system enhancements and automation will improve efficiency and accuracy of Utility Billing work flow.

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 Aging Sewer System

The City's 2,100 km sewer system has a replacement value of over \$6 billion. Two components: sanitary and storm, make up the sewer system. Built initially of combined sewer and storm pipes, new and replacement sewer pipes are now constructed independently. The City's 2019-2022 Capital Plan states sewer mains have been replaced at an annual rate of 0.6 percent of the system during the past 10 years, with approximately 50 percent of the combined sewer system replaced or separated to date.

Under the Liquid Waste and Resource Management Plan by Metro Vancouver and approved by the Ministry of Environment in May 2010, Burnaby, New Westminster and Vancouver will implement plans to prevent combined sewer overflows by 2050.

Greater Vancouver Sewerage and Drainage District (GVS&DD)

The GVS&DD delivers sanitary waste to Iona island wastewater treatment plant. Combined Sewer Overflows (CSOs) can occur in which the combined sewer and storm system can overflow into receiving waters during periods of heavy rainfall.

Funding

1. Sanitary system is funded via sewer user rates based on water consumption;
2. Storm system is funded by general property taxes; and
3. Investments in system expansion due to growth are funded by a Utilities Development Cost Levy (UDCL).

The costs of running the City's system include:

1. the levy paid to Metro Vancouver (GVS&DD) for sewage treatment; and
2. capital and operating costs to maintain, upgrade, expand and improve the City's sewer system.

Sanitary sewer user fees and public sewer connection fees are reviewed annually by Council to establish the following year's rates. Engineering Sewer Utility Branch provides an annual Administration Report that describes:

1. the Utility's progress in meeting its strategic objectives;
2. sewage service plans for the upcoming year; and
3. recommended sewer rates and connection fees in the coming year.

Key drivers of the annual sewage user fees and rates are:

1. treatment costs paid to Metro Vancouver (GVS&DD); and
2. debt costs associated with the Sewers Capital Plan.

Major software systems supporting the City's Sewer System

Sensus – AMR (Automatic Meter Reading) facilitates the automatic collection of reading, consumption, diagnostic and status data from water devices and updates the central database, Tempest (Utilities), for analysis and billing.

Tempest (Utilities) – COV's central database houses meter, reading, consumption, account, billing and financial reporting information. Tempest (Utilities) runs various processes such as the reading capture of accounts each cycle, the export of data that Sensus will use in its automated reading process, the import of reading data and the billing creation itself. Tempest also has different parameters that can be set to act as controls in supporting the analysis and reasonability of consumption data so that corrective actions can be taken prior to billing.

Hansen – a Computerized Maintenance Management System used in Engineering primarily for water, storm water, streets, sewers, physical plant, inventory, GIS and a comprehensive asset management and work order management system.

B. SCOPE

The scope of the audit includes assessment of whether:

1. Sewage Utility tax is properly collected, used and applied towards City's administered "Sewage Utility" account;
2. The City's Sewage Utility programs and processes are in compliance with government legislations and established City policies and procedures;
3. The City manages its sewerage and watercourse system with the objective of meeting current and expected future demand; and
4. Effectiveness, efficiency and economy of management's processes and controls of the Sewage Utility.

Our work included interviewing staff, examining and reviewing records to provide reasonable independent assurance that the existing internal controls and business processes relating to the above scope are adequate and effective.

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

C. CONCLUSION

The City's sewer utility processes comply with tax and collection policies and meet all legislative requirements. To strengthen sewer utility operations, management has committed to enhance operational effectiveness and efficiency by improving process documentation, increasing internal controls, addressing potential business continuity risks, expanding meter codes for better analysis, and strengthening meter data input integrity.

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:

- Health and safety of residents are affected;
- Sewer operations are not run efficiently or effectively (Engineering Services 2017-2020 Strategic Plan – Goal # 2);
- Environment is not protected;
- Emergency plan not effective, not tested and lack of business continuity planning;
- Non-compliance to legislations and industry standard; and
- Inadequate capital infrastructure and asset management (Engineering Services 2017-2020 Strategic goal #10) to meet the demand from future growth of the City.

E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

E.1 Need for a Long-Term Sewer and Drainage Masterplan (30 to 50-year time horizon)

To deliver on the goals the City set in the Integrated Rainwater Management Plan and Rain City Strategy, meet regulatory obligations, and to respond to social and environmental challenges, there is a need for a long-term master plan to guide the planning and delivery of services impacting sewers and drainage in the City.

Such a plan would be aligned with Metro Vancouver's long-range regional plans, as well as anticipate and meet regulatory needs over the coming decades. The master plan would establish financial and capital strategies for sewers and drainage, as well as partnerships and collaboration with third parties and other levels of government. Currently, the capital plans that govern sewer and drainage investments are high-level guiding statements in the current ILWRMP (Integrated Liquid Waste and Resource Management Plan) and the high-level 10-year asset renewal outlook for Engineering that informs the four-year capital plan.

Recommendation

E.1 The General Manager of Engineering should scope, resource, and initiate a long-range sewer and drainage master planning effort that builds on the direction set in the Rain City Strategy and other relevant regional and corporate plans. This work should start by June 30, 2020.

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 address this recommendation by the due date.

E.2 Improve Alignment and Consistency among Policies and By-laws Impacting Sewers and Drainage Services

Sewers, drainage, coastal and inland flood planning and management, right-of-way, levels of service, and water quality services, among others, are impacted by a wide range of city-wide policies and by-laws. Several departments within the City are affected (notably Engineering and its multiple divisions, Development Building & Licensing - DBL, Planning Urban Design and

Sustainability - PDS, and Real Estate & Facilities Management - REFM), as well as the Park Board and third party agencies including Metro Vancouver.

There is a need for improved alignment and consistency among by-laws and policies across the City, especially in the areas of integrated water resource management. Examples are sewer, drainage, coastal food management, groundwater; at site and district levels, and city-wide, as well as areas of resilience and emerging risk. Such improvements will accelerate the pace of deployment of innovative solutions, improve planning for programs and projects, processing of development applications and industry capacity, and achieve efficiencies in service delivery.

Examples include:

- Clauses and sections that concern management of water across property lines, treatment and reuse, and definitions;
- Policies concerning enforcement and annual permitting;
- Identification of jurisdictional/financial instruments available opportunities, e.g. storm water utility, associated by-law and fees, etc.

Recommendation

E.2 The General Manager of Engineering should identify key gaps and opportunities in alignment among by-laws and policies impacting the sewer and drainage services, along with a roadmap for implementation of improvements.

This should be completed by June 30, 2020.

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 address this recommendation by the due date.

E.3 Common Meter Reading Format to Meet Operational Demands

City's Bylaw 4848 Schedule D requires water to be billed in "units" of 100 cubic feet. Older water meters use a different measurement scale and require manual modifications to the meters. If this is done incorrectly it would cause wrong meter readings and subsequent billings.

Problems Encountered

When the water meters are uploaded through the City's automatic drive by, these modification errors are difficult and time consuming to detect and trouble shoot. Utility Billing reported that the City had to refund \$16,000 to one overbilled residential customer and to back-bill a commercial property for over \$40,000.

New Meters and Current Process

All new water meters installed since this summer in the City transmit their consumption in cubic feet. This method does not require any modification to the meter and provides accurate reading information that can be used to assist with leak detection.

Issue

Many of the City's existing meters cannot be cost effectively converted to this new method of meter reading resolution so Engineering operates two different meter reading resolution types in the system. Even though the quality control process put in place last summer have been effective at identifying clerical errors and preventing erroneous water bills from being sent to customers; continue streamlining of new meter installation process and work on older meters could reduce clerical errors, time spent investigating errors, and overall risk to the City.

Recommendation

E.3 The Director of Water & Sewers – Design, Construction & Operations should work with Financial Services on enhancing the common meter data process that will minimize reading and billing errors to safeguard the City's reputation. This joint review should start as soon as possible or before March 31, 2020.

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 address this recommendation by the due date.

E.4 Standardization of Reading Codes and Process Required

Where exceptions occur, such as high or low meter readings, incorrect decimal places for the meter size, wrong meter type install data etc., manual readings and checks are required and referred back to field staff. As they are supported by different people this sometimes produces further different reading results or codes. There are very few reading codes and they are designed for use by Engineering to advise on meter conditions and not to support billing purpose. This causes delay since additional efforts are required to interpret data for billing.

Expanding and standardizing the reading codes and definitions would reduce conflicting data and results, eliminating some exceptions that need validation, and also assist the Clerks in the meter shop and Utility Billing to interpret results generated in the field.

E.4.1 Recommendation

The Director of Water & Sewers – Design, Construction & Operations should collaborate with the Associate Director of Financial Services to expand and standardize the set of processes and reading codes that will provide specific descriptions of meter data and meet the requirements of both teams. This should start as soon as possible or by March 31, 2020 to minimize the current workflow disruptions.

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 work with the Director of Waters & Sewers –

Design, Construction & Operations to expand and standardize the reading codes.

E.5 Address Limitation of Data Transfer for Metered Reading Data and System issues

Automation for the initial meter reading data from Sensus (Meter Shop) to Tempest (Utility) Billing was implemented approximately six years ago to support an electronic import/export process. Data is uploaded to the Tempest system and then manually analyzed by the Utility Billing staff.

Tempest can accept the entire file at each upload during the reading period. If subsequent and/or multiple reading data are needed the entire 'revised file' must be uploaded to replace the original file. This is cumbersome and delays the billing process as there are many late meter-reading changes.

Approximately 1,000 subsequent reading entries following the initial import to Tempest need to be reviewed manually in each billing period. They represent reading exceptions such as high and low check results, missed readings, inquiries and vacant check results which produce reading estimates and overrides.

A Tempest enhancement would allow reading exceptions to be made to the current period through an upload. This eliminates having to create additional manual reading entries for each account.

According to the Utility Billing staff and based on the current volume of exceptions, such an enhancement could provide a potential savings of up to 80 hours (250 hours annualized) of work being performed at the Clerk IV level for each billing period. If this savings could be realized, it could shorten the reading to billing period by a maximum of 5 business days enabling a more efficient data flow in the volume of exceptions, and enhance reading data accuracy.

Recommendation

E.5.1 The Associate Director of Financial Services should conduct a cost-benefit analysis of enhancing the Tempest system automation in improving efficiency and accuracy of the work flow in Utility Billing. This should be initiated by April 30, 2020.

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 cost benefit analysis of enhancing the Tempest system will be performed.

E.6 Revisit Critical Function in Engineering Data Collection

The clerk supporting the Meter Shop and Utility Billing is responsible for work orders, account and meter data entry in the Hansen system. This clerk also re-validates account information that are detected as erroneous (exceptions) and returned by Utility Billing after upload to Tempest.

The current situation is that only one clerk handles all meter transactions (water and sewer

utilities). The input data come from many sources and, at times, the data are inaccurate. This clerk creates work orders and supports front line and back end queries (e.g. 311, Utility Billing, vacancy home checks, meter identifications, high or low meter readings etc.). There is a high business continuity risk if the clerk is unavailable as large backlog causes delays, adds workload and downstream billing problems.

Management should review the role of this critical function to ensure appropriate staff, training and knowledge are utilized to perform data validation prior to submission to Utility Billing.

Recommendation

E.6.1 The Director of Water & Sewers – Design, Construction & Operations should:

- a) Provide training for and enhance technical analysis by the meter shop staff to reduce data returned from Utility Billing for further validation;**
- b) Develop and incorporate a reporting process at the meter shop to detect, identify and assist with minimizing these exceptions;**
- c) Implement ongoing work flow controls and improvements in the meter shop to streamline meter reading cycle; and**
- d) Assess the long-term requirements of this position for the Water Program.**

This should be started by December 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:

We will address this recommendation by the due date.

E.7 Track Incremental Costs due to Congested Right of Way for better Budgeting

Existing and new hydro, gas, telecommunications, and fibre optic utilities throughout the metro area increased the workload to upgrade and replace water and sewer utility constructions.

When opening up a street to replace water or sewer line, or separating storm and sewer pipes, added design and construction work is required to work around other “utilities right-of-ways” being affected. An example would be the trenches have to be dug deeper or routes detoured to accommodate other utility service lines.

The City is burdened with incremental costs to work around existing utilities and in congested right of ways versus design and constructing in unhindered service corridors. This increases project costs and unit cost calculations per kilometer of utility line and impacts the long-term replacement/installations being built. The City needs to start collecting data that can support these added expenses. Engineering should track these costs and work with Finance to incorporate this in its annual and long range water and sewer budgets.

Recommendation

E.7.1 The Director of Water & Sewers – Design, Construction & Operations should determine processes and procedures to track these incremental costs in efforts to quantify and recoup, where applicable, these costs. This should be initiated by

December 31, 2020.

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 address this recommendation by the due date.

E.8 Need to Formalize Plans for Management of Emerging Assets

Engineering is considering designing and/or building a number of new or emerging sewer or drainage services, green infrastructure, or similar assets. Examples include underground assets such as telecom ducts, green assets such as raingardens, swales and storm water tree trenches, coastal flood prevention structures such as ditches, dikes, and floodable spaces, technology-enabled assets such as emerging technology infrastructure (utility monitoring equipment, SCADA, 5G, EV charging infrastructure), data and other intangible assets, etc.

These assets vary in cost, complexity, lifespan, and level of maintenance needed to maintain level of service and desired performance. Currently these assets are managed in an ad-hoc manner with varying levels of success. There are also unclear or informal assumptions in relation to asset stewardship obligations, funding, and lifecycle management needs.

Recommendation

E.8.1 The General Manager of Engineering should develop asset management plans for emerging assets. The plans should include grouping of these assets and agreement on accountabilities, roles and responsibilities. Specific considerations and integral to these plans are:

- mapping and tracking of these assets;
- condition assessment and lifecycle management plans;
- financial and management strategy to maintain state of good repair; and
- stewardship and levels of service.

This should be scoped, documented in a project charter, and started by June 30, 2020.

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 address this recommendation by the due date.

F. OTHER OBSERVATIONS

F.1 City Inter-departmental Utility Charges

Currently REFM manages payment of utility provider billing for electricity, natural gas, steam, and district energy for all City departments. Water and sewer charges are billed directly to City owned facilities and tenants by the Engineering department where water metering is in place.

Tenant Sewer Utility Charges

Many City and Park Board (PB) owned facilities and tenants have not historically been billed by the Engineering department for water or sewage charges and do have water meters in place. Tenants in PB and Real Estate Services (RES) are responsible for their utility costs and where tenants have separate utility metering they are paying directly for their full utility costs.

Real Estate Services Tenants

For RES tenants that occupy buildings that have shared utility services the City is paying the utility costs and RES is generally recovering utility costs through gross leases, but would like to add utility sub-metering to more accurately allocate utility costs to tenants.

Park Board Tenants

For PB tenants that occupy facilities that have shared utility services, some facilities have sub meters which REFM uses to bill the tenants. Other PB tenants on shared utilities without sub metering, or at facilities that are not being billed for water and sewage costs, are being undercharged or not paying any utility costs even though lease agreements state tenants are responsible.

PB Commercial Operations and Planning & Development staff have identified some PB sites where utility recoveries are applicable but not being recovered or recovered fully. It is anticipated tenants will dispute usage when asked to pay when in past they have not as their sites are not sub metered.

Initiative by Park Board and REFM to Fully Recover Utility Costs

In a pilot project between REFM Energy & Utilities, Real Estate Services and Park Board Commercial Operations/Planning & Development, 16 PB sites were identified where sub metering would provide the data to support energy and water usage charges. An effort to install sub-meters at these sites has been initiated to find a third party metering contractor to install and manage sub meters and bill utility costs directly to tenants. Once the payback and benefits are established from these sites PB and REFM can continue expanding the project to recover all tenant hydro, water and sewage charges.

Current Status and Actions Taken by Park Board and REFM

REFM has secured funding sources, prepared a detailed scope of work, and submitted the project to Procurement. They are waiting on Procurement to assign a buyer to the project, prepare the tender documents, and issue the tender.

Once the work of installing the meters to obtain data that can substantiate charges to tenants for their water usage, it will support the City's levies on the tenants' water usage and enhance water conservation at those locations.