



**CITY OF VANCOUVER
INTERNAL AUDIT REPORT
Density Bonus Zoning Payments**

Distribution:

Audit Committee
KPMG

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EXECUTIVE SUMMARY

November 7, 2019

The objective of the Density Bonus Zoning Payments audit is to provide assurance that payments relating to density bonus zoning and heritage amenity shares are complete, accurately calculated, and in compliance with City policies and bylaws.

Internal controls over density bonus and heritage amenity share payments require improvement. Strengthening management oversight and improving processes for tracking of outstanding and received payments will enhance internal controls over accuracy and completeness of payments. Management has committed to addressing the current inefficiencies in the handling of payments to mitigate the risks inherent to having multiple staff groups involved with payment processing.

The more significant findings and recommendations are:

E.1 Establish management oversight for payment calculations

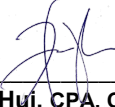
Manual processes are involved in calculating amounts owing for density bonus and heritage amenity shares payments. Management has committed to strengthen management oversight by implementing a review process to ensure accuracy. This will mitigate the risks of a single staff both calculating and handling payment processing for relatively large contribution amounts.

E.2 Clarify ownership for tracking of development permit conditions

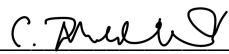
To ensure payment completeness and fulfillment of development permit related conditions, management has committed to establish a comprehensive tracking process and clearly define responsibilities among the departments involved.

E.3 Streamline payment processing for development related payments

As some development-related payments have dedicated staff that process payments, there is an opportunity to streamline the various payments and minimize the risk involved with multiple staff handling cheques. Management will also consider the use of the wire transfer payment method to enhance security of payments.



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A. BACKGROUND

Both density bonus contributions and heritage amenity shares involve a specified financial contribution towards public amenities such as affordable housing or heritage preservation in exchange for a specified increase in the permitted floor area, or density, of a development.

There are two types of density bonus contributions: in-kind contributions where the applicant delivers an amenity as part of the development typically on-site, and cash contributions where the applicant pays a flat per square foot rate in-lieu of providing an amenity. This audit report focuses exclusively on the latter, density bonus cash contributions.

Between 2014 and 2018 a series of density bonus zones were enacted by Council in the following neighbourhood areas: Marpole, Norquay, Joyce-Collingwood, Mount Pleasant, False Creek Flats, Cambie Corridor, and Grandview-Woodland. Annual revenue from contribution payments has grown to over \$2 million, based on 2018 receipts.

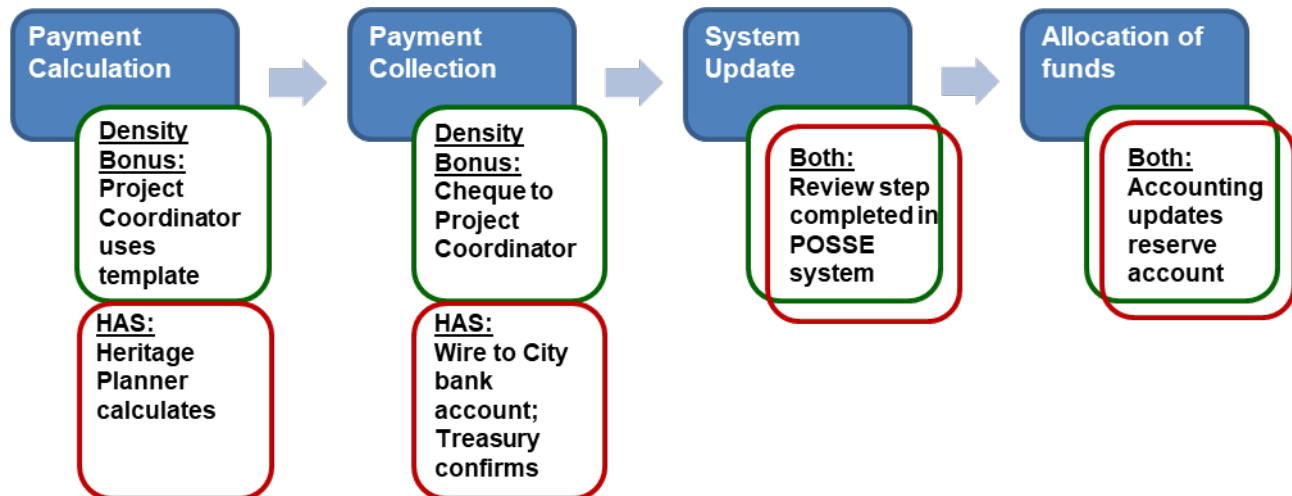
New density bonus zones were introduced in 2018 allowing for townhouses within the Cambie Corridor. The Planning, Urban Design & Sustainability (PDS) Department projects that this will result in approximately \$20M in density bonus revenue in 2020. Furthermore, an upcoming mixed-use project in the new False Creek Flats density bonus zone is estimated to result in an additional \$17M of density bonus payments.

Rates applied for density bonus contributions vary among zone and neighbourhood area. Additionally, an inflationary adjustment is applied to these rates on an annual basis. There is a single rate involved with heritage amenity share purchases, which is not adjusted annually.

Density Bonus and Heritage Amenity Share Payment Process

Multiple groups are involved in the calculation, payment processing, and allocation of funds received for density bonus contributions and heritage amenity shares. Project Coordinators in the Development, Building and Licensing (DBL) department and Heritage Planners in the Planning Department calculate amounts owing for the projects that are assigned to them. These staff collect the payments as well. There is no single designated staff to collect either density bonus contribution or heritage amenity share payments.

Figure 1: Overview of Density Bonus and Heritage Amenity Share Payment Process



B. SCOPE

The scope of the audit included a review of the following processes for density bonus zoning payments and heritage amenity share purchases:

- Application of relevant bylaws and calculation of amounts owing;
- Payment tracking and collection; and
- Allocation of funds to appropriate reserve accounts.

The audit objective is to provide assurance that payments relating to density bonus zoning and heritage amenity shares are complete, accurately calculated, and in compliance with City policies and bylaws. The effectiveness and efficiency of the related internal controls and business processes were evaluated.

Our work included:

- Review of relevant policy and procedure documentation;
- Interviews with management and staff in Planning, Urban Design and Sustainability (PDS), Development, Buildings & Licensing (DBL), and Financial Services; and
- Review of supporting documentation for a sample of payment calculations.

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

C. CONCLUSION

Internal controls over density bonus and heritage amenity share payments require improvement. Strengthening management oversight and improving processes for tracking of outstanding and received payments will enhance internal controls over accuracy and completeness of payments. Management has committed to addressing the current inefficiencies in the handling of payments to mitigate the risks inherent to having multiple staff groups involved with payment processing.

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:

- Incorrect payment amounts are charged to developers, resulting in inconsistent treatment of applicants and/or loss of revenue;
- Payments are not completed prior to permit issuance, resulting in loss of revenue and associated impact to neighbourhood amenities;
- Funds are not applied to the intended public benefit usage or neighbourhood area;
- Inefficiencies in payment processing; and
- Non-compliance to City policies and/or bylaws.

E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

E.1 Establish management oversight for payment calculations

Density Bonus Contributions

Density bonus contribution amounts vary based on the size of the development. Past transactions have involved payments as high as \$950,000 per application and are expected to increase with larger applications that are instream.

Density Bonus amounts are manually calculated by Project Coordinators in DBL. Project Coordinators fill out a template that was developed by the PDS department, which simplifies the calculation and helps to ensure that the correct rate is applied. The template contains a formula to arrive at the calculation but requires manual entry of the site area and floor area measurements.

Heritage Amenity Shares

Heritage Amenity Share payments involve a more straightforward calculation in that a single rate applies. There is no formal documentation of the calculated amounts as developers are advised via email as to the amount owing. A Heritage Planner from PDS works with the projects that involve these purchases and advises as to the payment required.

Single staff typically calculates, collects payment and approves project

For both payment types, there is typically a single staff member involved in calculating the payment amount, collecting the payment, and approving the project to proceed to building permit issuance upon receipt of payment. There was no evidence found of management review of the calculations to ensure accuracy and mitigate the risk of errors or manipulation of the amounts.

Review of 25 payment calculations revealed the following:

- Three instances of an incorrect rate used, resulting in two payment amounts of \$37,000 and \$79,000 higher, and one \$111,000 lower, than if the correct rate had been applied. Staff indicated this was attributed to changing interpretations and guidance around applicable rates for the calculations (refer to Finding E.5);
- One minor transposition error in which the amount owing was copied incorrectly from the calculation worksheet to the accounting document.
- Two payments which were allocated to a reserve account that did not reflect the neighbourhood area of the development. This was subsequently corrected and the correct reserve account was credited with the funds.

Given the manual processes involved, additional management oversight is warranted to ensure that calculated amounts are accurate and that calculations are consistent and in compliance with policy.

Recommendations:

E.1.1 The General Manager, Planning, Urban Design & Sustainability and the General Manager, Development, Buildings & Licensing, should ensure that a formal oversight process is established for management review of density bonus and heritage amenity share calculations to ensure accuracy of payment amounts and retention of sufficient supporting documentation. This will involve clarification of role and responsibilities among the three teams involved in PDS and DBL. Process mapping of current state and future state should be completed and signed off by all parties. This should be completed by April 30, 2021.

Management Response:

- | | |
|-------------------------------------------------------------|--------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: DBL & PDS teams to collaborate to map and document processes to ensure clarity of responsibilities (AL)

E.1.2 The General Manager, Planning, Urban Design & Sustainability and the General Manager, Development, Buildings & Licensing should ensure that qualified clerical staff that will take on responsibility for calculating charges, communicating charges to applicants, managing rate protection, collecting payments and remitting payments to Finance. Pending completion of E1.1 and 2.1a, this should be completed by August 31, 2021.

Management Response: DBL and PDS teams to establish consistent and coordinate model to manage process around payments.(AL)

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| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: Short Term Plan: DBL will commit to added layer of management oversight and sign off for calculation collecting and remitting payments.

E.2 Clarify ownership for tracking of development permit conditions

No tracking of development application payment status

As the length of time from development permit application to building permit issuance can be as long as a few years, a tracking system is required that follows through from the development application stage, where the payment obligation is identified, to payment collection prior to the building permit issuance. Currently, tracking processes are fragmented and ownership is unclear.

Accounting Department's role

The Accounting department manually reviews Council reports and makes note of any upcoming applications that will involve these payments. Accounting staff receive a copy of the density bonus payment receipt, with the relevant accounting codes, once payment is made by the developer. They do not receive any information as to which payments should have been completed, i.e. the permit conditions should be fulfilled as the project has moved to building permit stage.

DBL Department's role

The DBL department calculates and receives density bonus payments; however, a tracking mechanism is not in place. The POSSE permitting system does not readily identify which development applications involve permit conditions such as density bonus contributions or heritage amenity shares. This lack of visibility is compounded by the fact that payments for density bonus and heritage amenity shares are received outside of the POSSE system (see Finding E.4).

Without a robust tracking process, there is a lack of reliable information as to the completeness of payments. As the POSSE system also does not have any reporting capability with respect to these payments, the risk of an overlooked payment remains.

Recommendation:

E.2.1 The General Manager, Planning, Urban Design & Sustainability, in consultation with the General Manager, Development, Buildings & Licensing and the General Manager, Finance, Risk and Supply Chain, should:

- a) **determine ownership and ultimate responsibility for tracking of payments related to density bonus contributions. A DARCI matrix may be a useful tool in this regard and this should be part of the process work in establishing management oversight as per Recommendation E.1.1;**
- b) **ensure that a comprehensive tracking system is established that provides assurance over payment completeness and fulfillment of development permit related conditions.**

An initial analysis and assessment should be started by November 30, 2020.

Management Response:

- Agree with the findings
- Disagree with the findings
- Agree with the recommendations
- Disagree with the recommendations

E.3 Streamline payment processing for development related payments

There are various payments involved with development applications and permits. While not all of them apply to all applications, there are often multiple payments made for the same project. The form of payment and processing of the payment types varies as follows:

<u>Payment Type</u>	<u>Payment received by</u>	<u>Payment method</u>
Development Cost Levies (DCL's)	DCL Coordinator (DBL department)	Cheque
Community Amenity Contributions (CAC's)	Legal department confirms receipt of payment	Wire transfer

Density Bonus Contributions	Various Project Coordinators (DBL department)	Cheque
Heritage Amenity Shares (HAS)	Heritage Planner (PDS Department) receives confirmation of payment	Wire transfer

While the timing of these various payments occurs at different stages of the development process, there are some similarities and potential efficiencies to be gained. Density bonus, HAS, and DCL's are required prior to building permit issuance and there is an opportunity to streamline these, given that DCL payments are required in most applications. Inconsistent payment formats (i.e. cheque, wire) and multiple intake processes are not optimal from a customer experience perspective.

As DBL has dedicated staff processing DCL payments, one option could be to modify the process so that the DCL Coordinator can also accept any applicable density bonus payment. This would eliminate the inefficiencies of having several Project Coordinator staff processing payments and limit the number of people handling cheques.

Given that wire transfers are considered more secure for large payments, wire payment instructions could be provided to the developer at the time of payment, and confirmation of payment received made by designated staff.

Recommendation:

E.3.1 The Director, Development Services should assess the feasibility of streamlining the payment processes for the various development-related payments. Consideration should be given to:

- a) whether the number of staff accepting payments can be reduced by streamlining payment handling and designating staff to handle more than one payment type ; and
- b) whether additional payment types would benefit from being made via wire transfer.

This assessment should be completed by April 30, 2021.

Management Response: Development Services will undertake feasibility assessment as above

- Agree with the findings
- Disagree with the findings
- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan: Short Term – will implement measures that ensure management oversight for the calculation and collections of fees and conduct and assessment regarding future payment method

Long term – consider consolidating all similar payments and processes

E.4 Investigate POSSE enhancement to build in system control over payment completeness

No system control preventing building permit issuance without payment

Payments related to density bonusing or heritage amenity share purchases are required to be made prior to the issuance of the building permit. Both of these payment types are recorded and processed outside of the POSSE permitting system. As such, there is no system control that

effectively prevents or detects omission of these payments. Ultimately, there is a risk that a building permit could be issued in POSSE without the applicable payments having been made. This differs from Development Cost Levies (DCL's) which are recorded in POSSE and are required to be paid before the permit is issued in the system.

Currently, the POSSE system automatically generates a review step for all development applications that fall under zones involved with density bonus zoning. This flags a review for the Project Coordinator who must mark the density bonus review step as complete. However, there is no control from within the system to ensure payment has been made. Reliance is placed upon staff advising via email that the payment has been received before DBL staff issue the building permit.

Management indicated that staff are to place a hold on the building permit (or the land parcel if no building permit exists yet in the system), which is intended to notify staff that payment is required before building permit issuance. However, as this is a manual step and existing procedure documentation does not clearly outline this requirement for staff, there is a risk that this could be overlooked.

Since the amounts owing are not embedded in the system, it is difficult to verify that all payments have been made. Our review of development permits and associated payments did not identify any missed payments. However, as the projects involving these payments are expected to increase in both quantity and value, management should ensure that adequate controls over payment completeness are in place.

Recommendations:

E.4.1 The Director, Development Services, in consultation with the PDS department, should engage with POSSE system support and identify potential system enhancements that would provide additional control over receipt of payments for density bonus contributions and heritage amenity shares.

As this may be a longer term solution, an interim control is the establishment of tracking mechanisms for outstanding payments (refer to recommendation E.2.1). An initial analysis of the system enhancement should be complete by April 30, 2021.

Management Response: There is acknowledgement that tighter controls are needed regarding consistency for receipt of payments.

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| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: in collaboration with PDS, DBL will explore options available with the POSSE system to support tracking and payment

E.4.2 The Director, Development Services should ensure that procedure documentation is updated to detail the POSSE entries required, such as a hold on the related permit, to reflect any outstanding payments. This should be communicated to staff by August 31, 2021.

Management Response: updated documentation is necessary depending on the analysis of the viability of POSSE or another tool.

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Disagree with the findings

Disagree with the recommendations

Management Action Plan: Short term – will explore options available in POSSE and where viable, update documentation to support workflow with POSSE for Density Bonus and explore whether this is possible with Heritage amenity shares which are not currently documented in POSSE.

E.5 Clarify rules around density bonus locked-in rates

Contribution rates locked in; payment due prior to building permit

Any applicable density bonus contributions are identified at the development application intake stage. Payment of the density bonus contribution is stipulated as a condition of granting the permit in the Prior-to Letter and the applicant also indicates agreement via a formal response letter to the City. However, as the associated payment is due prior to building permit issuance, it is often made months, or even years after the development permit application. This requires clear rules around which rate is applicable, or locked-in, to ensure consistent and fair treatment for all applications.

Wording of locked-in rate guidelines varies

Some inconsistency in the treatment of locked-in rates was noted, which may be attributed to the following wording differences in associated documentation:

- The Density Bonus Zoning & Public Benefits bulletin provides for in-stream rate protection, “provided that a building permit has been submitted to the City and an associated application fee has been paid.”
- The wording of the Prior to letter states that “Payment of the density bonus contribution is a condition of Building Permit issuance and is calculated at the rate in effect on the date of issuance.”
- The Bonus Density worksheet template used by staff to calculate contribution amounts states: “Rates are locked in when the DP is received by the City.”

Using the approach of applying the rates in effect at the time of development permit application, three instances were noted of an incorrect rate applied in the density bonus calculations. Two of these cases used a higher, more current rate rather than the previous locked-in rate, resulting in contribution amounts that were \$37,000 and \$79,000 higher. The third case applied a lower rate which resulted in a payment amount that was \$111,000 lower.

Recommendation:

E.5.1 The Assistant Director, City-Wide & Regional Planning should ensure that the rules around locked-in rates for density bonus contributions are clearly and accurately documented. These guidelines should be in place and communicated to staff involved with payment calculation and intake by August 31, 2021.

Management Response:

Agree with the findings

Agree with the recommendations

Disagree with the findings

Disagree with the recommendations

E.5.2 The Director, Development Services should ensure that the rates for the three calculation discrepancies noted are reviewed. If it is determined that the rate applied did not follow the rules in effect, the appropriate adjustment should be made to the contribution amount. This should be completed by December 31, 2020.

Management Response: discrepancies will be reviewed and adjusted accordingly

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| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: Will review and make recommendations regarding the three discrepancies noted in the audit report

E.6 Establish process for approving and documenting exemptions

The Density Bonus Zoning & Public Benefits policy Section 3.3 sets out eligibility criteria for exemptions from density bonus contributions. Eligible cases include secured market rental housing and social housing, among others, but are subject to staff review for eligibility.

Discussions with Planning and DBL staff indicate that to-date there have not been any cases of density bonus exemptions granted. However, there is a lack of process around the approval and documentation of any exemptions, should there be an application in the future.

It is not clear which staff, or which department, would be responsible for reviewing potential exemptions. Additionally, without retaining clear documentation of the approved exemption, it would be difficult to differentiate whether the exemption was valid, or whether the density bonus payment was required but not paid.

Recommendation:

E.6.1 The Assistant Director, City-Wide & Regional Planning should establish clear responsibility for reviewing and granting density bonus payment exemptions and determine what documentation of exemptions should be retained and in what format. Clear procedures for handling exemptions should be developed and communicated to staff involved with development applications by August 31, 2021.

Management Response:

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| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |