

The Corporation of the City of Windsor EnWin Energy Ltd.

Final Internal Audit Report

17 October 2016

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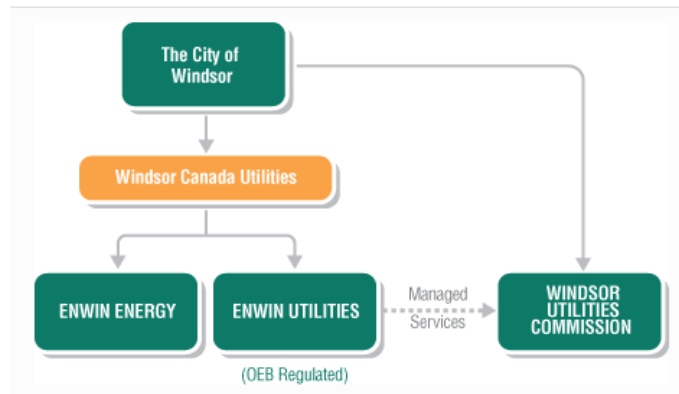
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Summary of Internal Audit Results

Background Information

The City of Windsor is the sole shareholder of Windsor Canada Utilities Ltd. (“WCU”), a holding company which owns both EnWin Energy Ltd. (“EnWin Energy”), as well as EnWin Utilities Ltd. (“EnWin Utilities”). Windsor Utilities Commission (“WUC”) is a local board of the Corporation of the City of Windsor (the “City”), which receives managed services from EnWin Utilities (all three collectively, “EnWin”).

The chart below describes the operating structure as of August 31, 2016.



WCU provides strategic direction and financing to the operations of EnWin Utilities as well as EnWin Energy.

Scope

EnWin Energy provides sentinel lighting and street lighting maintenance services. Sentinel lighting is provided to businesses in the City of Windsor. Street light maintenance services are provided to the City.

On September 26, 2014, EnWin and the City signed a Service and Indemnity Agreement, whereby EnWin Energy agreed to provide project management services for a maximum fee of \$400,000 in regards to a project approved by City Council to replace the existing High Pressure Sodium (HPS) streetlight fixtures with LED fixtures. A Charter outlining the responsibilities and expectations of both parties was signed by representatives of both EnWin Energy and the City in the summer of 2015. This Charter outlines the services to be provided by EnWin Energy, as well as provides regulations and guidance in regards to the completion of the project.

The scope of this review focused solely on the streetlight conversion project. EnWin Energy’s role in providing sentinel and street lighting maintenance services was considered out of scope.

As part of internal audit of the business processes and controls in effect, internal audit considered:

1. City Reporting relationship & agreement
2. Compliance with city reporting relationship and Tone at the top
3. Regular reporting to the City
4. Project management process
5. Purchasing and Procurement Contracts

Given the City's relationship with ABC's and the significant oversight for ABC's funding and operations, it was determined that an internal audit to review these areas was necessary to ensure that the current processes in place are sufficient and appropriately address the risks facing the City of Windsor and to ensure there is a consistent understanding of what is important. During the course of performing the "Specified Review", an emphasis was placed on key business processes, controls and systems or major projects and contracts.

Our scope covered the period of January 1, 2015 – December 31, 2015.

Additional details with respect to the controls considered during this review are set out in Appendix A.

Specific Scope Exclusion

Consistent with commonly accepted practices, our work was dependent on the following management activities which are excluded from the scope of this review:

1. The effective design, implementation and operation of the Information and Technology (IT) environment and IT general controls.
2. The effective design, implementation and operation of business system and application controls related to the capture, processing, storage, reporting/presentation and exporting of information and data.
3. Controls over the completeness, accuracy, reliability and validity of the evidence, information and data provided by management during the course of this review due to funding and resource constraints.

As noted above, our review did not consider the sentinel or street light maintenance programs.

Linkage to the internal audit plan

As part of the Council approved revised 2015/16 Internal Audit Plan, Internal Audit performed a Specified Review of in-scope areas which focused on predetermined key City business objectives where the Agencies, Board and Commissions ("ABCs") have a direct impact. In many instances, the issues and risks of both the City and the ABC are similar in their inherent nature.

As part of the internal audit plan development, this business process area has processes and controls associated with mitigating and managing the following corporate risks: Operational oversight, Funding oversight, Program delivery, Governance.



Report Classification

In general, controls relating to the streetlight conversion project are properly designed and are operating effectively for the purpose envisaged. Overall, EnWin Energy has provided timely project management to the City of Windsor, including vendor management, invoice review and tracking the project to encourage timely completion. Cost tracking is in place with a strong emphasis on meeting the established budget for the project.

Internal Audit Classification

While some design issues were identified, none were regarded as significant design deficiencies. If implemented, these recommendations would serve to provide for enhanced documentation of policies and procedures, as well as provide a greater repository of information and resources to be utilized on future projects.

Based on the controls identified and tested, we have determined that there is reasonable evidence to indicate that:

	No or limited scope improvement	No Major Concerns Noted	Cause for Concern	Cause for Considerable Concern
Controls over the process are designed in such a manner that there is:				
Sample tests indicated that process controls were operating such that there is:				

Management has provided a comprehensive action plan to address the one low risk finding identified, which we believe will address the deficiency noted.

Summary of Positive Themes

The project is governed by a Project Charter which is signed by key personnel from both the City of Windsor and EnWin Energy. This Charter sets out the scope of the project, responsibilities of both parties, a risk assessment (identification of risks and measurement of likelihood and impact of each), the Project Executive Committee's role and structure, relevant procedures and communication methods and requirements. The charter includes critical success factors which set out key objectives and how these will be measured. This charter was designed to set the stage for the entire project, act as a reference point and outline the governance of the project in a consistent and fair manner for all parties involved.

Bi-weekly meetings are held between the City of Windsor, EnWin Energy and its current vendors. Topics discussed include current progress, issues that have arisen, potential challenges in the project, as well as other matters relevant to the project. As these are held bi-weekly, it allows for timely communication between all parties to discuss current issues.

Invoice reviews are carried out by the Project Management group at EnWin. This is done through an Excel function which matches serial number details from the invoice to those that have been received. Any discrepancies are identified and reviewed prior to being paid. This provides a means to validate the invoices for the many parts received and reduces the risk of improper payment of invoices.

As it is a City-owned project, the City's Purchasing Bylaw was enforced in the year, noting that the tested instances of procurement followed this governing document. The City's Purchasing department led the procurement activities with assistance from EnWin's Purchasing department. This resulted in a consistent and predictable process whereby the City's regular standards and guidelines were followed.

EnWin measured its actual costs against the budget on a periodic basis, utilizing charge out rates for each employee consistently, while collecting hours spent on the project by each EnWin employee who is a part of the project. These costs are combined with other expenses involved in the project and measured against the \$400,000 budget provided by the City.

Summary of Findings

Finding #	Topic	Rating ¹			Management Action
		Significant	Moderate	Low	
1	Use of Third Party Charters			X	EnWin's Project Charter Template to identify, manage and monitor disputes and/or issues with vendors as well as identify escalation protocols when acting as a contracted service provider.
Total Audit Findings		0	0	1	

Summary of Significant Findings

As noted above in the Summary of Audit Findings, Internal Audit did not classify any findings pertaining to EnWin Energy as significant.

Management Comments

Name: J. Brown
 Title: Director, Infrastructure
 Date: October, 2016

Management agrees with the finding. EnWin's own charter template identifies escalation and issue/risk management protocols. EnWin has updated its Enterprise Project Management Office ("EPMO") System Level Procedure documentation to establish a process for identifying and resolving any gaps between project management protocols of the customer and its own project management protocols (including escalation protocols) when projects are executed as a contract service. This contracted services model is unique to EnWin. EnWin has also recently completed their annual internal review of EPMO Practices and included this recommendation in the updated drafted documentation. EnWin recently approved an Enterprise Project Management Office governance model that incorporates this finding as well.

Detailed Observations

Finding	Rating ¹	Recommendation & Action Plan
1. Use of Third Party Charters		
<p>Observation Internal Audit did not detect any guidelines or mechanisms in effect to identify, manage and monitor disputes and/or issues with vendors in the Project Charter. While it was noted that the in-force Project Charter was derived from a template used by the City of Windsor, it was learned that EnWin's Charters typically provide for an identification of those responsible in the escalation of issues with vendors. Thus, EnWin did not review the Charter for the project to determine whether it captures the elements of their own Charter template. The inclusion of dispute resolution and escalation parameters is a good practice for charters and legal agreements.</p>	<p>Overall Low</p>	<p>Recommendation It is recommended that when EnWin develops guidelines or mechanisms to identify, manage and monitor disputes and/or issues with vendors in the Project Charter, escalation protocols should be included in all contracts and charters. Management may wish to consider embedding these in a template.</p>
<p>Implication While having a standard template for project charters provides for consistency, by not reviewing their own charter template when agreeing to a third party's version, it creates the possibility that the consistency applies to its own projects is at risk and EnWin could face enhanced risks should an unfavourable situation arise.</p>	<p>Impact Low</p>	<p>Management Action Plan Management agrees with the finding and will update EnWin's Project Charter Template to identify, manage and monitor disputes and/or issues with vendors as well as identify escalation protocols when acting as a contracted service provider.</p>
<p>Root Cause Guidelines or mechanisms in effect to identify, manage and monitor disputes and/or issues are not included in the charters/agreements.</p>	<p>Likelihood Likely</p>	<p>Responsibility B. Leavitt</p> <p>Due Date October 2016</p>

¹ See Appendix A for Basis of Finding Rating and Report Classification
PricewaterhouseCoopers LLP

Considerations for Improvement

We did not identify further considerations for improvement.

Appendix A: Summary of Controls Reviewed

Controls identified and mapped to Control Objectives

The following table summarizes the control objectives which were subject to review and the 11 key controls observed during the course of fieldwork and for the period under review. This table also provides a reference to the summary of findings and considerations for improvements noted in the body of the report.

Review Area	Control Objectives	Control Title	Control Description	Reference to Finding
City Reporting relationship & agreement	Clear accountabilities, expectations and reporting relationships and protocols are established for the City/EE relationship. Both parties are aware of those agreed to expectations.	Project Charter/Project Executive Committee	The project is governed by a Charter, which was agreed to by key levels of management of all parties involved. The Charter sets out the project scope, financial and spending rules, goals, critical success factors, the key players and organization structure, project assumptions and milestones, as well as other administrative and miscellaneous guidelines. This is provided in order to set out the expectations of all parties and to provide accountability in carrying out the objectives of the project. The Project Executive Committee is in place to provide governance over the project, and to provide oversight for the project to meet its mandate in an expected amount of time.	#1 – Use of Third Party Charters

Compliance with city reporting relationship, Tone at the top	Management has mechanisms in effect to ensure that agreed-to reporting relationships and expectations are adhered to, that appropriately scaled governance is in effect and that information is protected from disclosure outside of this relationship.	Critical Success Factors	The project Charter includes critical success factors with listed objectives, as well as measurement methods, including the need for monthly updates to be provided to the Project Executive Committee in regards to the performance of the project and any issues/obstacles encountered. This provides objective, agreed-to measures giving both parties an expectation as to what will be required throughout the program.	
	Access to and transmission/sharing of information is not protected or is available to individuals not requiring this access.	Project Management	A project manager employed by EnWin is in place and dedicated to this project. The manager is responsible for contact with vendors, as well as the City of Windsor's Project Manager in order to provide a means for the continued progress of the project ahead of its deadline. Information is provided to the manager, who in turn is responsible for its dissemination, and providing it to the Project Executive Committee. The City of Windsor has also provided a project sponsor who receives all information regarding the progress of the project, including vendor invoices.	
Regular reporting to the customer	Two way communications between the City and EE occurs and defined/required information is exchanged in a timely manner.	Status Meetings	On a weekly basis, status meetings are held between the City of Windsor, the project management team of EnWin, and their key vendors to discuss current matters, project milestones and any issues which could impair their ability to meet the deadline. Significant matters are followed up on at future meetings.	

Project Management Processes	EnWin Energy will use commercially reasonable efforts to assist the Project Steering Committee in carrying out its duties	Use of Contractors	To deliver the project, the City of Windsor and EnWin Energy sought out contractors to assist in the design of the fixtures, their supply, as well as their installation to make use of the capabilities of the external vendors' experience and capabilities to deliver an effective and efficient product.	
		Internal Charging/Budget Variance Analysis	On a monthly basis, the Project Management Office at EnWin compiles the time spent on the project by internal staff members and applies a cost per hour to the time in order to determine how EnWin is performing against their funded budget amount.	
		Project Charter/Project Executive Committee	The project is governed by a Charter, which was agreed to by key levels of management of all parties involved. The Charter sets out the project scope, financial and spending rules, goals, critical success factors, the key players and organization structure, project assumptions and milestones, as well as other administrative and miscellaneous guidelines. This is provided in order to set out the expectations of all parties and to provide accountability in carrying out the objectives of the project. The Project Executive Committee is in place to provide governance over the project, and to provide oversight for the project to meet its mandate in an expected amount of time.	

		Invoice Review	Before providing an invoice, the vendor provides a listing of fixtures installed, providing the serial number to the Project Management Office of EnWin, which is also supplied by the supervisor reviewing the work performed. These are then compared to invoice details which include all serial numbers being charged. Using Excel functions, these are reviewed for consistency and matching before being approved and provided to the City for review and payment.	
		Risk Management	The project charter includes a risk management matrix found in Schedule C. This matrix sets out the potential impact of a risk's occurrence, the likelihood of that occurrence, and the overall consequences to arrive at a risk level. This was done in order to plan for appropriate contingencies in the event that any of these risks are realized. To that effect, the schedule contains a contingency plan for each identified risk.	
Purchasing and Procurement Management	EnWin Energy manages procurements with all applicable laws and good industry practice and in compliance with the City's Purchasing Bylaw 93-2012.	Procurement Governance	For purchases paid for by the City of Windsor, the Purchasing Bylaw applies in order to provide a fair means to bid on the advertised work and provide a fair opportunity for vendors to bid in a manner consistent with all other City of Windsor procurements.	

	<p>EnWin Energy manages procurements with all applicable laws and good industry practice and in compliance with The City's Purchasing Bylaw 93-2012.</p>	<p>Procurement Staffing</p>	<p>Representatives from EnWin in the EnWin purchasing process included the Manager of Purchasing. Furthermore, a Senior Buyer (from the City of Windsor) was assigned to the procurements pertaining to the project in order to provide oversight in regards to the procurement function for these purchases to bring consistency in the approach, as well as ensuring the Purchasing Bylaw is applied.</p>	
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Appendix B: Basis of Finding Rating and Report Classification

Findings Rating Matrix

Audit Findings Rating		Impact		
		Low	Medium	High
Likelihood	Highly Likely	Moderate	Significant	Significant
	Likely	Low	Moderate	Significant
	Unlikely	Low	Low	Moderate

Likelihood Consideration

Rating	Description
Highly Likely	<ul style="list-style-type: none"> History of regular occurrence of the event. The event is expected to occur in most circumstances.
Likely	<ul style="list-style-type: none"> History of occasional occurrence of the event. The event could occur at some time.
Unlikely	<ul style="list-style-type: none"> History of no or seldom occurrence of the event. The event may occur only in exceptional circumstances.

Impact Consideration

Rating	Basis	Description
HIGH	Dollar Value ²	Financial impact likely to exceed \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p>Internal Control Significant control weaknesses, which would lead to financial or fraud loss.</p> <p>An issue that requires a significant amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> • Failure to meet key strategic objectives/major impact on strategy and objectives. • Loss of ability to sustain ongoing operations: <ul style="list-style-type: none"> - Loss of key competitive advantage / opportunity - Loss of supply of key process inputs • A major reputational sensitivity e.g., Market share, earnings per share, credibility with stakeholders and brand name/reputation building. <p>Legal / Regulatory Large scale action, major breach of legislation with very significant financial or reputational consequences.</p>
MEDIUM	Dollar Value	Financial impact likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p>Internal Control Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures.</p> <p>An issue that requires some amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> • No material or moderate impact on strategy and objectives. • Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives • Moderate reputational sensitivity. <p>Legal / Regulatory Regulatory breach with material financial consequences including fines.</p>
LOW	Dollar Value	Financial impact likely to be less than \$75,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p>Internal Control Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies.</p> <p>An issue that requires no or minimal amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> • Minimal impact on strategy • Disruption to normal operations with no effect on achievement of corporate strategy and objectives • Minimal reputational sensitivity. <p>Legal / Regulatory Regulatory breach with minimal consequences.</p>

² Dollar value amounts are agreed with the client prior to execution of fieldwork.

Audit Report Classification

Report Classification	The internal audit identified one or more of the following:
Cause for considerable concern	<ul style="list-style-type: none"> • Significant control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met. • An unacceptable number of controls (including a selection of both significant and minor) identified as not operating for which sufficient mitigating back-up controls could not be identified. • Material losses have occurred as a result of control environment deficiencies. • Instances of fraud or significant contravention of corporate policy detected. • No action taken on previous significant audit findings to resolve the item on a timely basis.
Cause for concern	<ul style="list-style-type: none"> • Control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met. • A number of significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified. • Losses have occurred as a result of control environment deficiencies. • Little action taken on previous significant audit findings to resolve the item on a timely basis.
No major concerns noted	<ul style="list-style-type: none"> • Control design improvements identified, however, the risk of loss is immaterial. • Isolated or “one-off” significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified. • Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified. • Some previous significant audit action items have not been resolved on a timely basis.
No or limited scope for improvement	<ul style="list-style-type: none"> • No control design improvements identified. • Only minor instances of controls identified as not operating which have mitigating back-up controls, or the risk of loss is immaterial. • All previous significant audit action items have been closed.