

# The Corporation of the City of Windsor

Internal Audit Quarterly Summary Report

April 1 to June 30, 2019

Prepared as of July 11, 2019





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# 1. Executive Summary


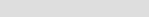







## 1.1 2019-20 IA Plan Completion Overview

15%	% of Plan Complete	1	Deliverables Issued In Period	0	Findings Raised in Quarter	0	Advisory Findings Raised in Quarter	1 1	2020 Projects/ Deliverables Outstanding
4	Subject Matter Specialists Involved YTD	0	CCEP Calls Under Investigation	0	Findings Raised YTD	NA	Average Satisfaction Score YTD out of 10	1	2019 Projects/ Deliverables Completed

## 1.2 2018-19 IA Plan Completion Overview

99%	% of Plan Complete	4	Deliverables Issued In Period	4	Findings Raised in Quarter	3	Advisory Findings Raised in Quarter	1	2019 Projects/ Deliverables Outstanding
5	Subject Matter Specialists Involved YTD	1	CCEP Calls Investigated	23	Findings Raised YTD	8.5	Average Satisfaction Score YTD out of 10 (7 responses YTD)	13	2019 Projects/ Deliverables Completed

## 1.3 Performance Dashboard 2018-19

Planned projects	Percent complete	Report issued
• Risk Assessment and Annual Plan Development	 100%	
• IA Attendance at City Meetings a) Quarterly Status & Reporting b) Year in Review (2018/19)	 100%  100%	
• Management Action Plan Validation (Annual)	 100%	
• Inbound Call Investigation	 100%	n/a
• Facilities Operations	 100%	
• WECHC Asset Management - Housing Portfolio	 100%	
• Legislative Emergency Management/Planning	 100%	
• Life Cycle Costing & Asset Planning Methodology	 97%	
• Pursuit of Grant Funding	 100%	
• Social Media Strategy Assessment	 100%	
• CoW Hotline Complaint Analysis	 100%	
• Unallocated	 100%	n/a

### Internal audit activities - April 2019 - June 2019

- Issued internal audit report WECHC - Asset Management Housing Portfolio (per for the 2018-19 IA plan).
- Issued a report on a Hotline Investigation (NTS-002-NOV-2018).
- Issued our Year in Review Report 2018-19
- Completed fieldwork, closing meeting and issued report for management comment of Life Cycle Costing and Asset Planning Methodology (final 2018-19 Internal Audit)
- Commenced fieldwork for the 2019-20 Internal Audit HR Recruiting Process and Retention Strategy
- Commenced planning for three 2019-20 Internal Audits: Cyber Response Strategy, Value For Money Audit - Purchased Services - Road Clearing/Maintenance, and Planning & Development

(Additional details provided in 'Appendix A - Unallocated Effort' and 'Appendix B - Concerned Citizen and Employee Hotline Status')

#### Audit quality survey score

	Q1	Q2	Q3	Q4	Avg Score
<b>Targets</b>	7	7	7	7	7
<b>Actuals</b>	-	8.7	8.4	-	8.5

#### Delivery Target Times (Days Elapsed)

	Notification	Start	Draft report	Mgt comments	Final
<b>Targets</b>	20	+/- 2	5	15	5
<b>Actuals</b>	23	-7	4	13	4

# 2. Quarterly Report

## 2.1 During the quarter (April - June 2019)

### We completed:

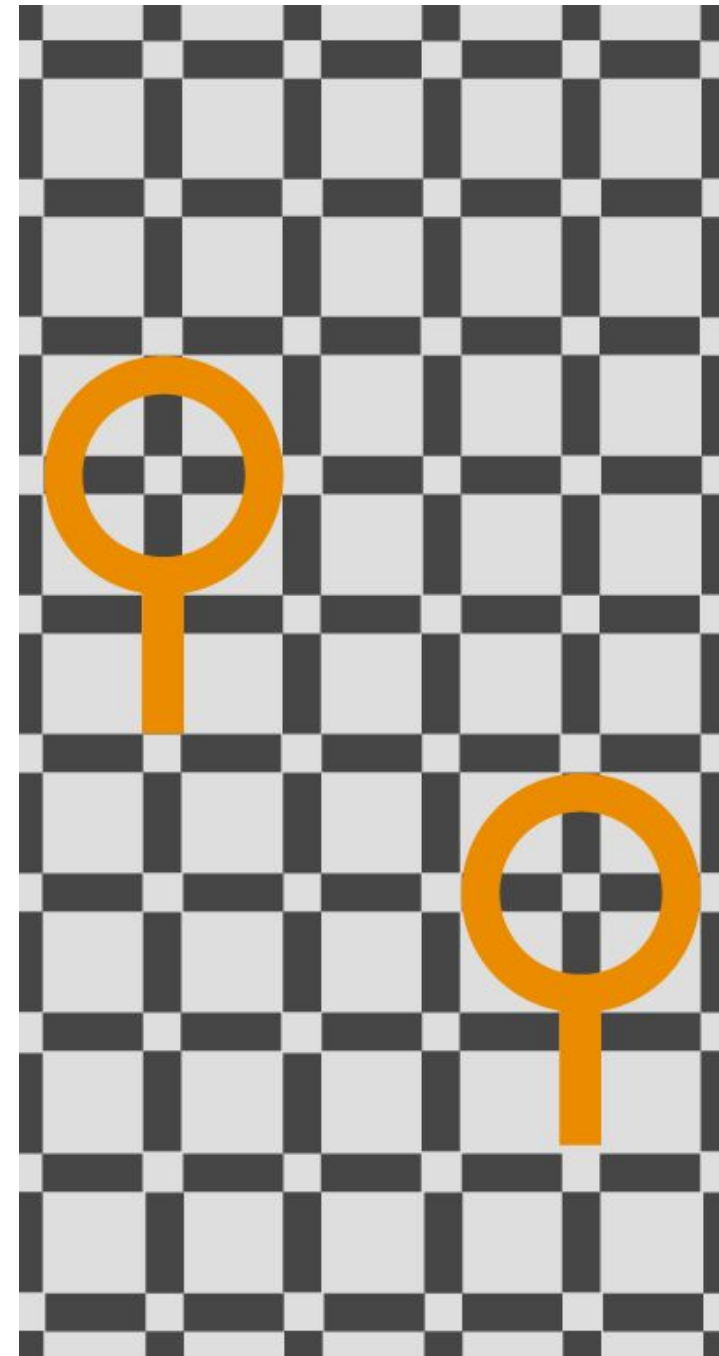
- one internal audit for the 2018-19 IA plan: CHC - Asset Management Housing Portfolio.
- one special project Hotline Investigation NTS-002-NOV-2018
- the Year in Review Report 2018-19
- fieldwork, closing meeting and draft report issuance for the last 2018-19 Internal Audit project - Life Cycle Costing and Asset Planning Methodology
- planning for the 2019-20 Internal Audit HR Recruiting Process and Retention Strategy

### We administered:

- the Concerned Citizen/Employee Hotline (call/email) where we received no hang up calls (five last quarter), routed another 12 messages to management for consideration (eight last quarter).
- the overall internal audit function.

### We commenced:

- planning for three 2019-20 Internal Audits: Cyber Response Strategy, Value For Money Audit - Purchased Services - Road Clearing/Maintenance, and Planning & Development
- fieldwork for the 2019-20 Internal Audit of HR Recruiting Process and Retention Strategy



## 2.2 In the coming quarter (July - September 2019)

### We expect to continue:

- administering the Concerned Citizen/Employee Hotline.

### We expect to complete:

- reporting of internal audit project for 2018-19 Internal Audit Plan: Life Cycle Costing & Asset Planning Methodology. The draft report is completed and management comments are expected to be received before the end of July 2019.
- reporting for one internal audit project 2019-20 - Cyber Response Strategy
- fieldwork for two internal audit projects for 2019-20 namely Cyber Response Strategy, and the Value For Money Audit - Purchased Services - Road Clearing/Maintenance

### We expect to commence:

- fieldwork for three 2019-20 Internal Audits: Cyber Response Strategy, Value For Money Audit - Purchased Services - Road Clearing/Maintenance, and Planning & Development



## 2.3 Concerned Citizen and Employee Hotline Summary

	Voicemail box checked daily	# of notifications received	# of hang ups	# of handoffs to management	# of items under analysis	# of items under investigation	# of items investigated
In the quarter	Yes	12	0	12	0	0	1

*(Additional details provided in 'Appendix B - Concerned Citizen and Employee Hotline Status')*

## 2.4 Internal Audit Summary

### 2.4.1 CHC - Asset Management Housing Portfolio

Scope and Objectives	Report Classification				
<p>For the scope period January 1, 2018 to September 30, 2018 and for assets in service considered when developing the planning for the 2018 annual capital plans and reporting during 2018, Internal Audit evaluated the processes and controls management had designed and placed into operations to attain the following objectives:</p> <ul style="list-style-type: none"> <li>CHC has set an asset management strategy that incorporates the provincial/federal strategies/requirements and municipal service agreements or other housing initiatives (e.g. regeneration plan).</li> <li>CHC has established procedures to support long term capital needs/plans align with the asset management strategy or regeneration plan.</li> <li>CHC has established metrics including FCI targets for strategic objectives related to asset management and timely and relevant reporting to stakeholders.</li> <li>CHC has established procedures to support necessary asset data that is captured within the Asset Planner Software and procedures to update and reconcile this data in a timely manner.</li> <li>CHC has established a work-flow for regular update and review of asset details and lifecycle costing assumptions (e.g. updates or changes to portfolio).</li> <li>CHC has established protocols to facilitate consistency in how asset management methodology is applied across various portfolios.</li> </ul>	Limited Scope for Improvement	No Major Concerns	Cause for Concern	Considerable Cause for Concern	
	Control Design Assessment				
	Control Operating Effectiveness Assessment				

**Summary of Findings:** We noted a total of two findings and three considerations for improvement.

#	Topic	Rating	Management Action	Action Owner	Due Date
1	Develop Strategic Asset Management Plan (SAMP) and establish clear accountability for achieving AM goals (design effectiveness)	<b>Moderate</b>	Present phase 2 regeneration plan prior to assigning accountabilities for SAMP goals and objectives	Chief Development and Regeneration Officer	Q4 2020
2	Document procedures regarding steps involved in adopting/revising an organization wide FCI (design effectiveness)	<b>Low</b>	Update LTAM Policy with approved FCI target and outline requirements for review/ approval when changes are required to FCI into a procedure/guideline	Director of Asset Management	Q1 2020

*(Additional details provided in 'Appendix C - Asset Management Housing Portfolio Internal Audit Report')*

## 2.4.2 Hotline Investigation - NTS-002-NOV-2018

Allegation Information	Results
<p>A complaint received via the Concerned Citizen &amp; Employee Hotline Protocol (CCEHP) lead to an investigation of the following four allegations:</p> <ul style="list-style-type: none"> <li>Allegation #1: The form/content/scope of solicitation documents such as RFT, RFP, Bid Requests from initial development are drafted in a way to direct the work to specific parties.</li> <li>Allegation #2: Specific project allegations where supply of material to contractors by the City was provided for free to selected contractors who then: <ul style="list-style-type: none"> <li>Used it on jobs for which the supply was not intended for, and/or</li> <li>Charge the materials back to the City.</li> </ul> </li> <li>Allegation #3: Some contractors (general and subcontractors) are not bonded and/or general contractors are using subcontractor bonding when they have none.</li> <li>Allegation #4: A contract was awarded to a contractor due to a personal relationship between the contractor's subcontractor and the Manager of the department which issued the tender.</li> </ul> <p>The fourth allegation was not made in the original written submission but disclosed during the in-person discussion between the complainant and the Acting Chief Internal Auditor.</p>	<p>Allegation #1: We detected no evidence to support the allegation that participants in the procurement process intentionally circumvented a control to direct work to a specific bidder for the alleged tenders. Internal Auditors suggest one recommendation to improve transparency when the scope of a project is changed.</p> <p>Allegation #2: We detected no evidence to support that contractors are accessing the materials without implied authorization, or charging the material back to the City. In addition, the Inventory Audit completed by Internal Auditors in 2017 provided comfort over the physical security over inventory. However, in our follow up procedures, we could not conclude whether inventory in excess was provided due to absence of tracking information for the alleged materials.</p> <p>Allegation #3: We detected no evidence to support that general contractors are not bonded and/or general contractors are using subcontractor bonding for the alleged tenders.</p> <p>Allegation #4: We detected no evidence to support that contract was awarded to a contractor due to a personal relationship between the contractor's subcontractor and the Manager of the department which issued the tender for the alleged tender; however, we relied upon City control structures which cannot prohibit or guarantee detection of the existence of such a relationship.</p>

### Investigation Approach

For each allegation we developed investigative procedures and tests to ascertain (1) management's controls to mitigate the occurrence of the alleged incident and (2) specifically identified instances as alleged by the complainant.

**Summary of Findings:** We noted a total of two findings:

#	Topic	Management Action	Action Owner	Due Date
1	Establish an acknowledgement procedure to document whether changes to scope prior to issuing addendum were reviewed by a qualified professional	Management will create an informal process, which documents that a qualified professional reviewed the change in scope prior to the issuance of the addendum, when applicable, excluding all consultant-initiated addendums.	Purchasing Manager	Q4 2019
2	Enhance controls over authorization, recording and release of materials to contractors	Management has implemented a contractor acknowledgement sheet and will log inventory movements and evidence that reconciliations are performed and reviewed.	Senior Manager of Traffic Operations:	Q4 2019

(Additional details provided in 'Appendix D - Hotline Investigation - NTS-002-NOV-2018')



# Appendix A - Unallocated Effort

Unallocated Effort			
Activity	Requested by	2018-19 effort hours	Result
An allegation was lodged on March 13, 2018 through the Concerned Citizen and Employee Hotline regarding transparency and conduct related to the tendering process and resulting awarding of contracts.	Complainant	51.1*	Reporting issued in accordance with protocols and was presented to the Council on Aug 27, 2018 Council Meeting. The Hotline Complaint Investigation Report was presented as part of the Internal Audit Quarterly Summary Report.
PwC performed an on site action plan validation exercise to close the finding that was raised during the Memorandum - EFT Review in 2013. This finding was regarding manual approval of high-dollar payments.	Management	7.5	<p>Internal Audit reviewed the following evidence of samples of High Dollar EFT payments processed from Nov 1, 2018 to Feb 11, 2019 provided by the management:</p> <ul style="list-style-type: none"> <li>• High Dollar AP Trial Payment register with City Treasurer/Deputy Treasurer approval (date and time)</li> <li>• Supporting invoices</li> <li>• Accounts Payable voucher form with AP approval (date and time)</li> <li>• AP signing authorities document</li> <li>• Bank Statement capturing date, time and amount disbursed to the relevant vendor</li> </ul> <p>IA noted that valid manual approval of the Treasurer/Deputy Treasurer was timely provided along with the requisite supporting documents post which the payments were processed from the City bank account by finance manager for release to the vendors.</p>
<b>*Total</b>		<b>58.6</b>	

\* The above complaint pertains to the period 2017-18 audit period, therefore 40.5 unallocated hours were used from the IA plan 17-18 budget and 51.1 hours were used from the 18-19 IA plan.

# Appendix B - Concerned Citizen and Employee Hotline Status

Inbound notices							
	Voicemail box checked daily	# of notifications received	# of hang ups	# of handoffs to management	# of items under analysis	# of items under investigation	# of items investigated
<b>In the Qtr</b>	Yes	12	0	12	0	0	1
<b>YTD</b>	Yes	38	7	30	0	0	1

Item under investigation		
Description of item	Activities to date	Results
None		

# Appendix C - CHC Asset Management Housing Portfolio Internal Audit Report

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# *The Corporation of the City of Windsor - CHC - Asset Management Housing Portfolio*

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*FINAL Internal  
Audit Report*

*June 19, 2019*

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## **Distribution List**

### **For action**

Jelena Payne, Commissioner Community Development and Health  
Jim Steele, Chief Executive Officer  
Kirk Whittal, Chief Operating Officer  
Hans Kogel, Chief Development & Regeneration Officer

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### **For information**

Onorio Colucci, Chief Administrative Officer  
Joe Mancina, Chief Financial Officer and City Treasurer  
Marco Aquino, Executive Initiatives Coordinator

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## **Limitations & Responsibilities**

This Report was developed in accordance with our engagement letter dated June 2016 and is subject to the terms and conditions included therein. Our work was limited to the specific procedures and analysis described herein and was based only on the information made available at the time we prepared the report. Accordingly, changes in circumstances after the date of this Report could affect the findings outlined herein. We are providing no opinion, attestation or other form of assurance with respect to our work and we did not verify or audit any information provided to us. This information has been prepared solely for the use and benefit of and pursuant to a client relationship exclusively with the Corporation of the City of Windsor. PwC disclaims any responsibility to others based on its use and accordingly this information may not be relied upon by anyone other than the Corporation of the City of Windsor.



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# Internal audit context

## Background information

The Windsor Essex Community Housing Corporation (CHC) - Asset Management Housing Portfolio Review is part of the risk-based 2018-2019 City of Windsor Internal Audit Risk Assessment and Plan approved by the Executive Committee of Council on June 4, 2018. Internal Audit had been tasked to perform a review of the controls over the CHC's Asset Management Strategic Planning and Reporting & Asset Lifecycle Costing to provide further insights into the process.

CHC is an independent local housing corporation, with a Board of Directors (Board) appointed by the City of Windsor (City) and includes City and County of Essex (County) Councillor representation, members at large from the local community and tenant representatives.

The City has a dual role with respect to the social housing portfolio and the delivery of social housing programs. The City is the designated Service Manager and is required to administer, deliver and in some cases fund housing programs in the City and County. In addition, the City is the sole shareholder of CHC.

The City of Windsor, as designated Service Manager, and through the Housing Services department is responsible for the administration and funding of Social Housing Programs in the City and County as prescribed by the Housing Services Act, 2011 and provincial rules and regulations. CHC maintains three housing portfolios including Non-Profit Seniors (NPS), Non-Profit Family (NPF), and Public Housing (PH) portfolios and each of these portfolios can have different combination of funding sources.

In 2013, CHC submitted a letter to the City to provide an overview of the state of asset management at CHC and documented initiatives CHC planned to undertake. One of the major accomplishments was the realignment of roles by adding a role of Chief Development and Regeneration Officer (CDRO).

The CEO and the Board are responsible for the oversight and strategic direction of CHC. The Executive Management Team (EMT) develops, reviews and seeks approval from the Board for the capital budget of CHC, and is also responsible for making financial and asset planning decisions on the strategic management of assets. The Director of Asset Management (DAM) reports to the EMT and the Board on asset management.

In June 2017, an Asset Management report was issued to the CHC board of directors about the Facility Condition Assessment (FCA) methodology, stated that the projected total needs are in excess of \$141 million over a period of 10 years. Also the rationale for CHC's selection of its targeted Facility Condition Index (FCI) is described in this report and how the 10% FCI target was determined to evaluate the performance/outcomes of the regeneration report and asset planning/management processes. The following figures are extracted from the 2017 report with comparative 2019 estimates provided by management:

<b>Metric</b>	<b>2017</b>	<b>2019</b>
Total Current Annual Capital Funding (as per the approved budget)	\$3.5 million	\$3.6 million
Expected Annual Capital Needs based on 10% FCI	\$14.2 million	\$17.3 million
Total Net Annual Capital Funding Surplus/Deficit	\$14.2 million- \$3.5 million = \$10.7 million.	\$13.7 million

The following is the break down of the annual potential unfunded capital (capital deficit) on the basis of 60% funding by City and 40% of public housing funding from the County of Essex:

Portion attributed to City of Windsor	2017	2019
Unfunded capital deficit	\$10.7 * 60% = \$6.4 million (approximately)	\$13.7 * 60% = \$8.2 million (approximately)
Current capital funding	\$3.5 - \$0.4 NPS = \$3.1 * 60% = \$1.86 million (approximately)	\$3.6 - \$0.5 NPS = \$3.1 * 60% = \$1.86 million (approximately)

The above capital budget of CHC (\$3.1 million for PH+NPF) is currently funded from the City's Operating Budget. With operating funds the City does not prioritize specific projects. CHC receives a lump-sum budget and prioritizes projects based on its capital needs. CHC has also come forth more recently to seek additional funding in the City's annual Capital Budget. While City Council has approved and allocated some capital funding for this purpose within the 7 year Capital Budget Plan, the funding levels still remain well below the desired funding levels of CHC given the City's finite financial resources and the significant and competing capital budget demands placed on the City. The Phase 2 regeneration plan that will be presented to the Council will outline the timelines and priorities before significant investments are considered.

An external consultant was retained by CHC in 2017 to complete a regeneration study to achieve the following objectives:

- Determine CHC's asset needs over the next 5, 10, and 15 year periods and determine how these needs can be most appropriately satisfied;
- Achieve long term sustainability of CHC
- Determine the best and most appropriate way to utilize equity and any available capital; and
- Position CHC to be able to make a business case for its regeneration needs.

The regeneration study, also covered the portfolio rating and assessment that evaluated every property in the CHC portfolio and sorted them into five broad asset classifications based on each property's current performance and appropriate go-forward strategy.

CHC has deployed an online asset management and database tool known as Asset Planner that holds the inventory of all CHC capital assets and their specific building components, to forecast the repair and replacement needs of each asset category in the Asset Planner Software.

## Scope

The scope of this internal audit included an assessment of the controls in effect for the period January 1, 2018 to September 30, 2018 and for assets in service considered when developing the planning for the 2018 annual capital plans and reporting during 2018.

## Internal audit objectives

Overall purpose of this internal audit project was to provide a current state assessment of the design effectiveness of controls management has implemented to achieve the following objectives related to CHC Asset Management Housing Portfolio:

### 1. Asset Management Strategic Planning and Reporting

- a. CHC has set an asset management strategy that incorporates the provincial/federal strategies/requirements and municipal service agreements or other housing initiatives (e.g. regeneration plan).
- b. CHC has established procedures to support long term capital needs/plans align with the asset management strategy or regeneration plan.

- c. CHC has established metrics including FCI targets for strategic objectives related to asset management and timely and relevant reporting to stakeholders.

## 2. Asset Lifecycle Costing

- a. CHC has established procedures to support necessary asset data that is captured within the Asset Planner Software and procedures to update and reconcile this data in a timely manner.
- b. CHC has established a work-flow for regular update and review of asset details and lifecycle costing assumptions (e.g. updates or changes to portfolio).
- c. CHC has established protocols to facilitate consistency in how asset management methodology is applied across various portfolios.

## *Specific scope exclusions*

Given the nature of the work, risk considerations and budgeted effort, the following elements are explicitly excluded from the scope of this specific internal audit:

- The design, implementation and operation of the Information and Technology (IT) environment and IT general controls, end user computing controls, IT application controls, data integrity of reports used in IT dependent manual controls.
- Detailed transactional processes such as: Procurement/Spending controls, reporting to the City or budget approval by the City, debt/capital structure and funding or grant revenue or debt/other sources of revenue.

# *Summary of Internal Audit results*

## *Report classification*

During the course of the internal audit, specific controls were identified which generally address the control objectives of the internal audit; however, there are some controls which may be improved around documenting procedures regarding steps involved in adopting/revising an organization wide FCI. In addition, the asset management procedures and framework for lifecycle costing exist but strategic direction and mechanisms to measure and report against strategic goals/objectives in regular and repeatable manner are not developed in a Strategic Asset Management Plan (SAMP).

Quarterly meetings between CHC and the Service Manager are scheduled to discuss updates on operational activities. Regular Board meetings are held where the Board is updated on matters including capital expenditure, metrics including projected needs and unfunded liability, as well as other funding options.

A regeneration study was conducted by external consultants on behalf of CHC and subsequently a report including recommendations was submitted to CHC in August 2017. This report was initially reviewed by the EMT, the Board and the Service Manager. The Phase I recommendations provided a framework for CHC to pursue further regeneration activities. CHC has prepared an action plan to incorporate recommendations from Phase 1 which are used to guide the preparation of the Phase 2 regeneration report. The Phase 2 report will identify the detailed regeneration plan, related costs/revenue and detailed timing. The Phase 1 recommendations will be implemented once Phase 2 plan is approved. The Phase 2 Regeneration Report will be delivered to the Service Manager for review and subsequently to council for approval. The Phase 2 recommendations will build on the Phase 1 recommendations, and will be implemented subject to City Council approval, funding etc.

CHC has strategically established baseline FCI of 10%. This decision was based on considerations such as (1) the recommendation of external consultant that conducted the FCA's, and (2) CHC analysis and review as well as (3) discussion of options and final approval at the Board level. In addition, FCI was also determined by reviewing industry practices and benchmarking against private real-estate developers, non-profit developers and other non-profit housing providers. FCAs are conducted at least every seven to ten years.



CHC should establish procedures to define the basis for determining the organization’s FCI target such as key considerations and minimum expectations when analysing and recommending FCI targets. Further, appropriate accountabilities for the review and approval should be defined. CHC should also perform sensitivity analysis using data from the Asset Planner Software to simulate or project condition ratings against forward looking expectations or level of service goals.





CHC has updated its Capital Plan for 2018 based on the assets identified for lifecycle updates through Asset Planner Software reports, and the FCI ratings identified considering its Long Term Asset Management Policy. CHC engages in capital planning annually by identifying the capital needs according to the following criteria:

- degree of urgency by building component
- availability of funding
- empirical data from Operations Department
- empirical data from Project Managers
- support the creation and execution of the SAMP

CHC has deployed an online asset management and database tool known as Asset Planner that holds the inventory of all CHC capital assets and their specific building components, to forecast the repair and replacement needs of each asset category in the Asset Planner Software.. The Asset Planner Software is able to track and log updates/changes made to asset details within the program. In addition, staff that have access to the Asset Planner Software are restricted from adding/deleting assets from the Asset Planner Software. Further, such staff do not have access to the Yardi system (property management software) which demonstrates appropriate segregation of duties.

Standard repeat intervals are built into the Asset Planner Software for replacement of assets/materials. “Appendix I” to the Asset Planner Software manual “Element Life Values and Standard Costs” includes list of replacement cycle which has not been updated to reflect results from the most recent FCA’s. CHC should update the list within suitable time frame subsequent to receiving the FCA reports. In addition, the list should be reviewed and approved by the EMT. To facilitate effective reporting and oversight of asset performance and to enhance communication with the Service Manager, a summary of reports available from the Asset Planner Software should be shared.

Based on the controls identified and assessed, 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
<b>For the objectives related to Asset Management Strategic Planning and Reporting</b>				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				
<b>For the objectives related to Asset Lifecycle Costing</b>				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				

Management has provided comprehensive action plans, which we believe will address the deficiencies noted.

## ***Summary of positive themes***

Based on the discussion with CHC and documentation reviewed to date and conducted by Internal Audit, the following positive themes were noted:

### **1. Strategy Development**

- a. CHC has shown its commitment to asset management and the impact of asset planning on core strategic objectives which have been enforced by the City and approved by the Board. This alignment gives the asset management team/program the necessary support to implement and operate processes and report on progress to assist CHC with more timely and evidence based decision making.
- b. An organization wide Strategic Plan has been developed (2015-2019) by CHC which covers five strategic priorities. This plan has been reviewed and approved by the CEO and the Board. The Strategic Plan includes objectives regarding asset management, maintenance, and regeneration of communities.
- c. A regeneration study was conducted by external consultants on behalf of CHC and subsequently a report was submitted in Aug 2017. This report highlights the current conditions, asset classification assessment, cost reduction and revenue generation strategies, development strategies, and regeneration plan.

### **2. Monitoring & Reporting**

- a. Quarterly meetings are held between CHC and the Service Manager. This meeting includes discussion and updates on various operational activities including but not limited to funding opportunities, retention of surplus, rent increases, housing and homelessness master plan update etc.
- b. Metrics including projected needs and unfunded liability as well as other funding options are presented to the Board regularly. In addition, reports like: FCIs, Reserve Fund Study, and cumulative unfunded liability are also generated from the Asset Planner Software for the purposes of annual report preparation and update to Board.
- c. CHC Board has been updated about National Housing Strategy in 2018 via CEO report. This report demonstrates management's awareness and transparency with the Board. The Board meetings include detailed discussions on Asset Management Report by Director, Asset Management including updates on capital spending changes to the planned spending due to emergency projects.

### **3. Policies & Procedures**

- a. CHC has developed a Long Term Asset Management Policy which aligns with the City's Asset Management Policy. The policy includes elements regarding Asset Management Governance and Framework as well as Capital Planning and Improvement Execution. The Capital plan for 2018 was drafted in consideration with the existing policy based on our testing.
- b. CHC has adopted a 10% FCI as an acceptable condition target on a consolidated basis. The target for a specific building's FCI may vary for strategic reasons.
- c. FCA's are carried out by third party consultant every 7-10 years who assess the condition and report on results. The purpose of the assessment is to review major capital components of the building to determine general conditions and to provide recommendations for repair/replacement, complete with budget estimates, over the next 30 year period. CHC conducts an updated interim assessment of critical and poor items identified in the FCA. The FCA or the interim assessment include update of the data contained in the Asset Planner Software and written reports on each development and a summary report.
- d. An online asset management and database tool known as Asset Planner Software is currently deployed at CHC. For user guidance, an Asset Planner Manual is prepared and made available to CHC staff. This manual was last updated on Apr 20, 2015. Asset Planner Software tracks and logs the updates/changes made to asset details within the software. In addition, staff having access to the Asset Planner Software do not have access to add/delete assets from the Asset Planner Software.

#### 4. Lifecycle Costing

- a. The Capital Plan 2018 has been updated based on the assets identified for lifestyle updates through Asset Planner software reports and the FCI ratings identified in the regeneration report considering the CHC's Long Term Asset Management Policy.
- b. Asset management roles within CHC include a Chief Development and Regeneration Officer, Director of Asset Management, and the Project Manager assigned to update Asset Planner Software do not have access to the Yardi system (property management software).
- c. The repeat intervals for replacement of assets/materials are based on the standard repeat intervals built into the Asset Planner Software or revised by CHC management depending on the nature of replacement material/asset and usage. This was witnessed during our testing of replacement cycle set within Asset Planner Software. The "Appendix I" to the Asset Planner Manual "Element Life Values and Standard Costs" includes list of replacement cycles of assets.

### Summary of findings

Finding #	Topic	Rating <sup>1</sup>			Management Action Plan
		Significant	Moderate	Low	
<b>Asset Management Strategic Planning and Reporting</b>					
1	Develop Strategic Asset Management Plan (SAMP) and establish clear accountability for achieving AM goals (design effectiveness)		X	-	Present phase 2 regeneration plan prior to assigning accountabilities for SAMP goals and objectives - Q4 2020
2	Document procedures regarding steps involved in adopting/revising an organization wide FCI (design effectiveness)	-	-	X	Update LTAM Policy with approved FCI target and outline requirements for review/approval when changes are required to FCI into a procedure/guideline - Q1 2020
<b>Asset Lifecycle Costing</b>					
-	No findings were noted	-	-	-	
<b>Total</b>		-	1	1	

### Management comments

CHC appreciates the review and feedback. Our detailed comments are noted below.

Name: Jim Steele, CEO

Date: June 19, 2019

<sup>1</sup> See Appendix A for Basis of Finding Rating and Report Classification

# Detailed observations

<b>1. Develop Strategic Asset Management Plan (SAMP) and establish clear accountability for achieving asset management goals (<i>design effectiveness</i>)</b>			<b>Overall Rating:</b> Moderate
<b>Impact:</b>	Medium	<b>Likelihood:</b>	Likely
<p><b>Observation</b></p> <p>Objectives related to asset management have been identified in the overall CHC Strategic Plan (2015-2019). In addition, a regeneration plan has been developed as a result of a study conducted by external consultants on behalf of CHC in 2017 to support AM objectives.</p> <p>As of the date of fieldwork, we noted that CHC has not developed a Strategic Asset Management Plan (SAMP) via a process to support alignment to the regeneration plan. During fieldwork management indicated plans were already established, or anticipated, to address the above finding elements in 2019. There is a process outlined in the existing Long Term Asset Management (LTAM) policy regarding SAMP. Once a SAMP is developed the process for oversight within the LTAM policy can be followed or applied.</p>			
<p><b>Implication</b></p> <p>In the absence of an integrated, strategy and plan the desired outcomes may not be achieved or inefficiencies may occur.</p>			
<p><b>Possible root cause</b></p> <p>Phase 2 study is in progress which will be a part of the planned SAMP.</p>			
<p><b>Recommendation</b></p> <p>Management should work on developing a Strategic Asset Management Plan (SAMP) via a process to support alignment to other provincial or federal programs/strategies.</p> <p>Objectives for key elements of the regeneration plan should be established before launching into Phase 2. Each of the 17 recommendations from the regeneration plan should be taken into consideration by establishing estimated cost and timeline for completion.</p> <p>In addition, the Executive Management Team should be involved in providing direction and/or overseeing quality and timelines of action plans.</p>			
<b>Management Action Plan</b>			
<p><b>Action Plan:</b></p> <p>CHC will finalize the Phase 2 Regeneration Study, which will examine the Phase I recommendations, and also provide CHC with a broader strategic framework for our SAMP. The SAMP is a planning tool to clarify intentions, priorities and practices to be adopted. It takes a long-term view and considers the combination of organization needs, stakeholder expectations and realities of existing assets and asset management capabilities.</p> <p>The Phase 2 Regeneration Study will be completed and presented to City Council in the fourth quarter of 2019. CHC is currently resource constrained in developing and executing a SAMP and will have to identify resources to implement the recommendation. Subject to obtaining the resources required, SAMP will be completed.</p>		<p><b>Responsible Party:</b></p> <p>Chief Development and Regeneration Officer</p>	<p><b>Due Date:</b></p> <p>Q4 2020</p>

<b>2. Document procedures regarding steps involved in adopting/revising an organization wide FCI (design effectiveness)</b>			<b>Overall Rating:</b> Low
<b>Impact:</b>	Low	<b>Likelihood:</b>	Likely
<p><b>Observation</b> We noted two procedural areas where governance standards were not clearly defined:</p> <ol style="list-style-type: none"> <li>1. While the FCI target was reviewed, analysed and options presented to the Board for approval, the minimum expectations with regards to this analysis and review are people dependent and not clearly defined.</li> <li>2. Within the Long Term Asset Management Policy, requirements for overseeing asset performance goals/targets, calculation of significant deficit and reliance on input from an external parties is not formally defined.</li> </ol>			
<p><b>Implication</b> Requirements or responsibilities may not be known or understood by those involved in the process. Changes to FCI goals/targets may not be processed in a structured/reliable manner due to dependency/availability of third party benchmarking data/statistics.</p>			
<p><b>Possible root cause</b> Guidance and oversight of the development of policy components is not defined</p>			
<p><b>Recommendation</b> Management should establish procedures including but not limited to:</p> <ul style="list-style-type: none"> <li>• define minimum expectations and key considerations for determining the organization’s FCI target. For example desired levels of service, key inputs, sources of data, options analysis, sensitivity analysis, etc. could be a basis for the determination.</li> <li>• define appropriate accountabilities for review and approval, including the role of Executive Management Team).</li> <li>• requirements to inform the Board of changes to unfunded liability and related risks to effectively managing asset portfolio in a timely manner.</li> </ul> <p>Management should also perform sensitivity analysis using data from the Asset Planner Software to simulate or project condition ratings against forward looking expectations or level of service goals.</p>			
<b>Management Action Plan</b>			
<b>Action Plan:</b> Management agrees with the finding and would address the above recommendation by updating the Long Term Assets Management Policy and define appropriate accountabilities for the review and approval via a procedure or guideline.	<b>Responsible Party:</b>	Director of Asset Management	
	<b>Due Date:</b>	Q1 2020	

# Considerations for improvement

## 1. Enhance the Long Term Asset Management Policy

### Observation

Upon benchmarking CHC's Long Term Asset Management Policy (LTAMP) with the City of Windsor and other municipalities' LTAMP, it was noted that items including: use of Support Data Systems, consideration of Climate Change Impact, and provision indicating intention to strive beyond minimum legislative solutions were not taken into consideration in the CHC Long Term Asset Management Policy.

### Considerations

Management should incorporate the use of data and business support resources as well as the climate change impact within its LTAMP. The update against climate change impacts can address potential risk impacts to existing operations as follows:

- Increase in demand to areas of operations when responding to an increase in severe storms (during and after)
- Implementation of development policies which were created in the absence of climate change considerations, which may increase vulnerability
- Increase in operating/maintenance demands to deal with climate extremes
- Increased chance of flooding to basements
- Increase in public health risks due to extreme heat

In addition, management should also incorporate a provision to indicate its intention to strive beyond the minimum legislative solutions to make assets more resilient to changing conditions.

## 2. Enhance Asset Planner to produce key information relevant for decision making

### Observation

Currently, with regards to Asset Planner Software:

1. Does not include the following information:
  - a. substance management & remediation;
  - b. regulatory compliance;
  - c. future FCA costs;
  - d. building components improvements, and;
  - e. risk management components to support enhanced and effective decision making.
2. Properties within the Asset Planner Software are not classified by category as documented in the regeneration report.
3. Communication regarding the menu/dashboard of reports available from the Asset Planner Software to the Service Manager could be enhanced.

### Considerations

Management should:

- Include substance management & remediation, regulatory compliance, future FCA costs, building components improvements, and risk management components within the Asset Planner Software to support enhanced and effective decision making.
- Properties within the Asset Planner Software should be classified by category as documented in the regeneration report to effectively review the assets by category
- Continue using the Asset Planner Software for forecasting and performing the sensitivity analysis to provide better and effective reporting to the Board and City.
- Continue incorporating energy retrofits beyond replacements within the Asset Planner Software to support enhanced and effective decision making.

Further, communication could be enhanced with the Service Manager if menu/dashboard of reports available from Asset Planner Software is shared. This will facilitate effective reporting and oversight of asset performance.

## 3. Establish procedure to update list of lifecycle assumptions and obtain approval for revisions

### Observation

The Asset Planner manual is maintained at CHC which also includes an appendix that lists the lifecycle assumptions across different portfolios. It was noted that this list has not been updated to reflect results from the most recent FCAs.

### Considerations

Management should establish procedures to update "Appendix I" to the Asset Planner manual "Element Life Values and Standard Costs" which includes list of replacement cycle. This list should be updated within a suitable time frame subsequent to receiving the FCA reports. In addition, the list should be reviewed and approved by the Executive Management Team.

# Appendix A: Basis of findings 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"> <li>History of regular occurrence of the event.</li> <li>The event is expected to occur in most circumstances.</li> </ul>
Likely	<ul style="list-style-type: none"> <li>History of occasional occurrence of the event.</li> <li>The event could occur at some time.</li> </ul>
Unlikely	<ul style="list-style-type: none"> <li>History of no or seldom occurrence of the event.</li> <li>The event may occur only in exceptional circumstances.</li> </ul>



## Impact consideration

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

<sup>2</sup> Dollar value amounts are agreed with the client prior to execution of fieldwork.

## ***Audit report classification***

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

# ***Appendix B: Limitations and responsibilities***

## ***Limitations inherent to the Internal Auditor's work***

### ***Internal control***

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### ***Future periods***

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

## ***Responsibilities of management and Internal Auditors***

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



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# Appendix D - Hotline Investigation Report

## NTS-002-2018

# Corporation of the City of Windsor

Hotline Investigation Report  
NTS-002-Nov 2018

July 11, 2019



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# Executive summary

## Allegation information

A complaint received via the Concerned Citizen & Employee Hotline Protocol (CCEHP) led to an investigation of the following four allegations:

- Allegation #1: The form/content/scope of solicitation documents such as RFT, RFP, Bid Requests from initial development are drafted in a way to direct the work to specific parties.
- Allegation #2: Specific project allegations where supply of material to contractors by the City was provided for free to selected contractors who then:
  - Used it on jobs for which the supply was not intended for, and/or
  - Charge the materials back to the City.
- Allegation #3: Some contractors (general and subcontractors) are not bonded and/or general contractors are using subcontractor bonding when they have none.
- Allegation #4: A contract was awarded to a contractor due to a personal relationship between the contractor's subcontractor and the Manager of the department which issued the tender.

The fourth allegation was not made in the original written submission but disclosed during the in-person discussion between the complainant and the Acting Chief Internal Auditor.

## Investigation approach

For each allegation we developed investigative procedures and tests to ascertain (1) management's controls to mitigate the occurrence of the alleged incident and (2) specifically identified instances as alleged by the complainant. Details of our activities may be found in the Summary of Procedures and Results later in this report.

## Scope limitation

This limitation impacts Allegation #2. We are not able to ascertain if excess inventory may have been acquired/provided to an external party without real time observation (surveillance, paperwork or physical observation) of a potential incident or access to third party (not part of the City or its affiliated ABCs) records (such efforts should involve legal and formal investigative powers). We could not conclude whether inventory in excess was provided to external third parties. This circumstance was due to absence of variance analysis to identify trends - i.e. reconciliation and details of unreconciled variances were not performed or available within the scope period.

## Summary of procedures & findings

Based on the procedures we executed and the results of our testing we found no evidence to support allegations # 1, 3 and 4. For allegation #2 we completed the majority of procedures but were not able to conclude for one specific procedure due to the scope limitation. We did note two recommendations which Administration should address related to controls related to addendums as well as inventory provided to third parties by the City.



# Summary of procedures & results

## Allegation #1 & #4:

The form/content/scope of solicitation documents such as RFT, RFP, Bid Requests from initial development are drafted in a way to direct the work to specific parties.

A contract was awarded to a contractor due to a personal relationship between the contractor's subcontractor and the Manager of the department which issued the tender.

### General approach, procedures and results:

Assess controls in place to prevent or detect instances of management personnel overriding standard processes for preparing tender specifications and relevant training/awareness controls by Purchasing.

#	Procedure	Results
	<p>Determine what evidence exists, if any, to substantiate that a personal relationship may exist between an alleged subcontractor and the alleged Manager.</p>	<p>Internal Audit presented a hotline investigation report dated July 17, 2018 regarding this relationship allegation by same complainant.</p> <p>We noted that conflict of interest forms were submitted by the Manager prior to the required timeframe and the manager was not therefore involved in the bid evaluation.</p> <p>This would indicate that the allegation of a previously existing personal relationship as described above is valid. However, due to the conflict of interest disclosure the Manager could not participate in the bid evaluation.</p> <p>Therefore the remainder of our procedures were designed to consider if we could detect any evidence that a RFP/RFT/Tender Specification could be directed, or influenced, to a specific vendor - or exclude other vendors in procurement activities prior to the required Conflict of Interest timing.</p>
1.1	<p>Inquire with the Purchasing Supervisor, and Manager in order to understand the standard processes or expectations for preparing tender specifications</p>	<p>We inquired of the Purchasing Supervisor, and Manager, and acquired the following governing process documents and established an understanding of the process and expectations for preparing tender specifications. Key controls include:</p> <ul style="list-style-type: none"> <li>• Experienced buyers at the Purchasing department</li> <li>• Purchasing By-Laws Training Class</li> <li>• Compliance with external legislation- Canadian Free Trade Agreement</li> <li>• Central E-mail address managed by the Purchasing department</li> <li>• Use of a Single Bidder Acknowledgement Form</li> <li>• Use of the caveat “or equivalent” when a specific brand-name material is required</li> <li>• Conflict of Interest Disclosure requirements</li> <li>• Segregation of duties and the use of a non-disclosure agreement when an Evaluation Committee is used</li> </ul>

#	Procedure	Results
1.2	Inquire with department lead to ascertain their understanding of the standard practices applicable to the development of fair and competitive tender specifications.	<p>We inquired of Manager, and Supervisor, Purchasing as to the standard practices applicable to the development of fair and competitive tender specifications. This inquiry lead us to corroborate the individuals that we met with had an awareness of the requirements. We considered key elements such as:</p> <ul style="list-style-type: none"> <li>• Experienced buyers at the Purchasing department</li> <li>• Purchasing By-Laws Training Class</li> <li>• Compliance with external legislation- Canadian Free Trade Agreement</li> </ul>
1.3	Understand the nature of bids circulated and if apparent requirements precluded generally bidabble parties. Consider what the specified must have are and if they limit bidding opportunities.	<p>On understanding the nature of bids and our review of 8 samples (including 2 related to the allegation), we noted 2 samples including Adjustment of Existing Manhole Frames and Covers, and Traffic Paint. These appeared to contain requirements specific to the nature of the work required/material to be used. Given that currently, the basis/reason for these parameters is not required to be documented our assessment was based on verbal discussion with the areas subject to our judgement. This specific samples were tested in Procedure #1.5 below.</p>
1.4	Understand personnel involved in and approach to generating RFT/RFP/etc. for road work, intersections, line pulling and signage. Consider the interactions between those involved in preparing detailed technical specifications and Purchasing and whether a review is performed prior to finalizing specifications or evaluation criteria which could be subjective (i.e. directive when they do not need to be).	<p>We established an understanding of personnel involved in and the approach to generating RFP/RFT/etc for road work, intersections, line pulling and signage.</p> <p>The allocation of a single Purchasing employee to the City departments helps the buyer gain deeper insight over the specifications produced by the department. The mandatory Purchasing By-Laws Training Program educates City staff with the authority to make purchases on how to ensure that Purchases are in compliance with the By-Laws.</p> <p>External legislation that the City must abide by, including the Canadian Free Trade Agreement (CFTA), prohibits specifications meant to create unnecessary obstacles to trade.</p> <p>Based on discussion we determined that a review of the technical specifications is reviewed by a knowledgeable party that is independent of the preparer. This was included in our sample testing below (Procedure #1.5).</p>
1.5	Review a sample of bids (including the ones related to the allegation) that have the ability to be more likely limited to few proponents with the capability/capacity to deliver and whether tender specifications are intentionally/ unintentionally described to potentially exclude specific vendors. (Samples will not include sole source).	<p>From our sample of 8, (including 2 related to the allegation), we noted that in the testing for each sample we considered whether the following key controls, and/or evidence thereof, existed to prevent the direction of tenders to specific parties - through standard process or management override. We considered the following control points:</p> <ol style="list-style-type: none"> <li>1. The use of addendums to make changes to a project that is communicated to all interested bidders.</li> <li>2. The use of the caveat “or equivalent” when the City requires specific material to be used all help the City comply with the CFTA.</li> <li>3. Bid specifications are appropriate to the business need in question.</li> <li>4. Bid specifications limit potential bidders (without reason will be deemed an exception).</li> <li>5. Bid specifications reviewed by knowledgeable party who is independent of and not subordinate to the preparer.</li> </ol>

#	Procedure	Results
		<p>6. Subjective evaluation criteria are reviewed by a knowledgeable party who is independent of and not subordinate to the preparer.</p> <p>7. Directiveness of the criteria is relevant to the nature of work.</p> <p>8. The conflict of interest disclosure requirement by the City requires both City employees and potential bidders to disclose a conflict of interest.</p> <p>9. The department is responsible for preparing specifications while the Purchasing department is responsible for the evaluation of the bid.</p> <p>In our testing we found exceptions in #1 of the above criteria regarding change in scope of a project by issuing an addendum without appropriate evidence of review by a qualified professional. We recommend that purchasing department should document acknowledgement from the department whether changes to scope prior to issuing addendum were reviewed by a qualified professional.</p>

Conclusion: We detected no evidence to support the allegation that participants in the procurement process intentionally circumvented a control to direct work to a specific bidder for the alleged tenders. We detected no evidence to support that contract was awarded to a contractor due to a personal relationship between the contractor’s subcontractor and the Manager of the department which issued the tender for the alleged tender; however, we relied upon City control structures which cannot prohibit or guarantee detection of the existence of such a relationship.

## Allegation #2:

Specific project allegations where supply of material to contractors by the City was provided for free to selected contractors who then:

- Used it on jobs for which the supply was not intended for, and/or
- Charge the materials back to the City.

### General approach, procedures and results:

Assess controls in place to ensure that City inventory is accounted for and, where (if) City inventory is provided to contractors, this is accounted for and properly recorded.

#	Procedure	Results
2.1	Understand the inventory control process/mechanisms for the yard (road, exterior, etc...), specifically managing and logging inventory picked up or provided to contractors or non-city personnel.	We inquired of the Executive Director of Operations to understand the inventory controls related to yard and managing and logging of inventory when such items are provided to contractors. We were informed that in certain instances the City does provide material to the contractor which is clearly outlined in the tender specifications. The material is released at the yard by inventory clerk on the instructions of project manager. The inventory list is then updated by the Inventory Analyst.
2.2	Assess site/yard control (access and logging) controls or consider actions taken since Inventory Internal Audit project for relevance or elements that were not covered. We will also consider if action items taken are effective as part of validation of management action plan exercise.	In 2017, IA completed an internal audit related to inventory at the City to obtain comfort over the Inventory Lifecycle and Management Control process and to find gaps in existing processes. The internal audit reviewed: <ul style="list-style-type: none"> <li>• Policies and Procedures</li> <li>• Physical Security over Inventory</li> <li>• Inventory Movement and Tracking</li> <li>• Inventory Reconciliation and Monitoring</li> <li>• Segregation of Duties over handling inventory</li> </ul> We reviewed five findings related to inventory of which four have been closed. The 1 open finding did not relate to this allegation. Further, we have reviewed the conceptual viability of management's action plans to address the control weaknesses and expect them to address the gap if and when implemented properly.
2.3	Review inventory variance and count process controls and disposition as well as inventory control procedures. Consider variances, trends and disposition and alignment with accusation.	We reviewed the inventory count and disposition spreadsheets and did not note unreconciled differences. We also inspected the tool inventory control procedures which includes procedures related to new tool purchases, tool location changes and disposal. We also followed up on 2017 inventory audit management action plan with Executive Director of operations about the operating effectiveness of inventory controls.

#	Procedure	Results
		<p>In our testing we found exception with the above criteria regarding inventory provided to contractor by the City without receiving acknowledgement. We recommend that management should formalize sign-off document for contractors to sign and staff to review when inventory is supplied to contractors by the City. Refer finding 2.</p> <p>Of the eight samples selected, two samples clearly stated that the City would provide specific materials to the contractors. The two samples that relate specifically to the allegation did not have specification of City providing material to contractor.</p> <p>We performed two steps to assess the inventory controls.</p> <ol style="list-style-type: none"> <li>1. We reviewed the inventory tracking sheet for the inventory items/types related to the allegations and found that the inventory movement is not captured and tracked to allow management to perform investigation on items having discrepancies. Refer to finding 2 for additional details.</li> <li>2. We reviewed selected inventory items/types focusing on explained and unexplained variances in count versus expected inventory. This was tested as part of an open finding related to prior internal audit where we recommended management perform reconciliations. We noted that inventory is tracked and reconciled through spreadsheets on a monthly basis, including details of each purchases/issue of inventory and closing balance. Our tests results did not indicate any unreconciled differences.</li> </ol> <p>We could not determine if the process could potentially mask inventory activity due to inconsistent inventory tracking practices. As such, we are not able to ascertain if excess inventory may have been acquired/provided to an external party without real time observation of a potential incident or access to third party records.</p>
2.4	Review of controls which mitigate risks of excessive chargebacks, inappropriate credit notes or duplicate billing to the City?	<p>While assessing risks related to excessive chargebacks, inappropriate credit note, it was noted that majority of RFT's contain a Schedule of Unit Prices which is used to break down large projects into smaller components to clearly indicate the deliverables that the contractor must complete.</p> <p>The Schedule of Unit Prices indicates which material a contractor is required to supply and install. The schedule includes the unit cost and total cost the contractor is willing to charge for each of the deliverables, and that total would feed directly into their bid.</p> <p>When a contractor submits an invoice, they must also complete a Schedule of Unit Price to indicate how much work has been completed (e.g., 2 of the 6 poles installed). A City Site Inspector is assigned by City to each project to verify the information on the Schedule of Unit Prices and verify the information.</p> <p>The Inspector sends their assessment to the either the Manager of Traffic Operations or the Executive Director of Operations depending on the value of the project. The Manager or Executive Director reviews the assessment by the Inspector and completes a Payment Certificate. The Payment Certificate is authorized by the Accounts Payable team to authorize the invoice for payment.</p>

#	Procedure	Results
		<p>In order to review the controls surrounding duplicate billing, we inquired of the Manager of Accounting Services. It was noted that the City uses PeopleSoft as the accounting software to record invoice details. Once an invoice is received from either an internal courier or in a locked invoice drop box, the Accounts Payable clerk reviews the payment certificate to verify the invoice has the appropriate authorizations.</p> <p>All vendors are assigned a unique vendor number and invoices received from a vendor are added into PeopleSoft along with the vendor number. The system automatically flags instances of duplicate invoice numbers for a single vendor which mitigates the risk of duplicate billing.</p> <p>Furthermore, the departmental review of the invoices further helps reduce the risk of duplicate billing.</p>
2.5	Assess controls over lost/impaired items and understand viable approval levels and reporting.	<p>Based on our understanding of existing controls, inspection of tool inventory control procedures, and review of spreadsheet, control around tracking lost/impaired items is based on the aforementioned controls.</p> <p>In our testing we found exception with the above criteria regarding inventory provided to contractor by the City without receiving acknowledgement. We recommend that management should document a signed acknowledgement form from vendor which will help management determine whether inventory was lost/impaired or provided to contractor for a project.</p>
2.6	Consider selected time periods in the above analysis.	The samples selected for review ranged from April 2017 to November 2018.
2.7	Test the above controls for a sample of RFP/RFT periods with some directed efforts.	<p>Of the eight samples selected, two samples clearly stated that the City would provide specific materials to the contractors. The two samples that relate specifically to the allegation did not have specification of City providing material to contractor. A sample of eight invoices were reviewed and noted that there were no charges associated with materials provided by the City.</p> <p>The Schedule of Unit Prices is a strong control at mitigating the risk of contractors charging the City for materials provided by the City. By reviewing the Schedule of Unit Prices against invoices along with the site inspector assessment, the reviewer can identify any unauthorized charges and take corrective action.</p> <p>Using a Site Inspector lowers the risk of incorrect billing by verifying the completion of deliverables invoiced by the contractor. The inspector helps bring comfort to the department by verifying the content of the Schedule of Unit Prices completed by the contractor and reinforcing the idea of diligent billing.</p>

#	Procedure	Results
		<p>The final review of the invoice by the Manager of Traffic Operations or Executive Director of Operations helps minimize the risk of incorrect billing. The Manager and Executive Director are the only parties authorized to prepare the Payment Certificate for their respective departments and these individuals are beyond the parties named in the allegation. Custom stamps are also given to the authorized parties by the Manager of Accounting Services to further protect the integrity of the payment process and minimize the risk of incorrect billing.</p>

Conclusion: We detected no evidence to support that contractors are accessing the materials without implied authorization, or charging the material back to the City. In addition, the Inventory Audit completed by Internal Auditors in 2017 provided comfort over the physical security over inventory. However, in our follow up procedures, we could not conclude whether inventory in excess was provided due to absence of tracking information for the alleged materials.

### Allegation #3:

Some contractors (general and subcontractors) are not bonded and/or general contractors are using subcontractor bonding when they have none.

#### General approach, procedures and results:

Assess the implications and related viability of the allegation that some contractors (general and sub) are not bonded and/or general contractors are using subcontractor bonding when they have no bond.

	Procedure	Results
3.1	Inquire of management regarding the minimum bonding requirements.	We inquired of the Purchasing Manager, and Supervisor to understand the minimum bonding requirements and learned that there are three types of bonds that most RFT/RFP's require from a bidder which includes a Performance Bond, Material & Labour bond, and a Bid Bond. Bid Bonds are to be provided by all bidders where as a Performance Bond is only required by the winning bidder who must submit it directly to the City Clerk. If bidders do not meet the requirements outlined in the tender, they are disqualified from bidding on that project.
3.2	Review associated policy/guideline documentation.	<p>We inspected the City's purchasing bylaws and noted that section 120 states that Performance security, and labour and material payment security are required for all construction purchases over \$150,000. The bylaws also state that the Purchasing Manager in consultation with the City Solicitor may require Performance security, and labour and material payment security for non-Construction projects over \$150,000 if the Purchasing Manager and the City Solicitor deems such security to be in the best interests of the City.</p> <p>The City maintains a Named Subtrades Policy to outline the relationship between the City and subcontractors. The key provision from the policy which mitigates the risk of lack of oversight on activities of a subcontractor states:</p> <p>"The Nature of the relationship between the General Contractor and its subcontractor are not the responsibility of the City and the City will not intervene or participate in this relationship."</p> <p>As a result of the policy, the City maintains the position that General Contractors that win the RFT/RFP must be responsible for managing subcontractors. This shifts the risk of lack of oversight with regards to the activities of subcontractors from the City to the General Contractor.</p> <p>The City only accepts bonds from the General Contractor and a General Contractor cannot use a subcontractor's bond to fulfill its obligation.</p>



	Procedure	Results
3.3	Conduct a random sample for validation with a random sample selection.	<p>Of the eight samples selected, four required a bid bond to be included in the file (including 1 related to the allegation). The other four did not require bonding as 2 were a pre-qual and 2 were not required due to the nature of tender. A total of 18 bidders bid on the four projects and of the 18 bidders, one did not include a Bid Bond in their response. As a result, they were disqualified from the tender process.</p> <p>Additionally, of the eight samples selected, one required a subcontractor listing in the solicitation documents. There were two bids received for the project and both included a subcontractor listing. As a result, neither of the contractors were disqualified.</p> <p>The Performance Bond must be submitted directly to the City Clerk and reviewed by the City Solicitor. A legal agreement must be signed by the Contractor prior to beginning work on the project where they legally agree to provide a Performance Bond to the City Clerk.</p> <p>Of the eight samples selected, four samples that required a bid bond to be included in the file (including 1 related to allegation), we were informed that the Performance bond was with the primary contractor only.</p> <p>Upon review of the performance, labour and material bonds received from awarding bidders maintained by the City Clerk's office, we noted that 4 of the 4 bonds selected for the sample were with the General Contractor and none from the sample were with subcontractors.</p>
3.4	Consider industry good practices through research and internal (PwC) consultation.	The existing purchasing bylaws and Named Sub-trade policy is in line with good procurement practices including fairness and transparency in regards to bid bonding. No other best practices were identified or noted.

Conclusion: We detected no evidence to support that general contractors are not bonded and/or general contractors are using subcontractor bonding for the alleged tenders.

# Recommendations

Finding	Recommendation & Action Plan
<p><b>1. Establish an acknowledgement procedure to document whether changes to scope prior to issuing addendum were reviewed by a qualified professional</b></p>	
<p><b>Observation</b>            Technical specifications for City departments are reviewed by the department head.</p> <p>An addendum was issued in response to a clarification question received from an interested bidder against the sampled RFT (Sample 4 per appendix 1). This addendum resulted in a minor change to the scope of the project.</p> <p>A change in scope/specification after initial issuance without the acknowledgment by the department that a qualified professional reviewed the change in scope prior to the issuance of the addendum may lower the perception of fair and transparent bidding process.</p>	<p><b>Recommendation</b>            Management should carry out following steps when an addendum is issued that results in a change in the scope of the project:</p> <ul style="list-style-type: none"> <li>• An acknowledgement from department should be documented that a qualified professional reviewed the change in scope prior to the issuance of the addendum.</li> </ul> <p><b>Management action plan:</b>            Management will create an informal process, which documents that a qualified professional reviewed the change in scope prior to the issuance of the addendum, when applicable, excluding all consultant-initiated addendums.</p> <p><b>Responsible party:</b> Purchasing Manager</p> <p><b>Due date:</b> Q4 2019.</p>

**Finding**

**Recommendation & Action Plan**

**2. Enhance controls over authorization, recording and release of materials to contractors**

**Observation**

Upon reviewing the inventory tracking process for the inventory items/types specifically related to the allegations and found that the inventory movement is captured and tracked to allow management to perform investigation on items having discrepancies.

With respect to the processes examined for Traffic operations, we learned through inquiry that a Project Manager currently informs the signal team verbally to release the material to the contractor. The analyst records the information related to the Project Manager request into the inventory list (maintained during the scope period). However, the clerk does not require the contractor to sign any acknowledgement form to document whether the contractor received the material. There was no formal evidence during the scope period of an independent and timely analysis of variances since required information to match movements to source documents was not tracked (i.e. tender number, date of exchange, date of request by project manager).

(The nature of this finding is a repeat of a finding which was previously identified during the inventory internal audit conducted in 2017.)

There is an increased risk of contractors receiving an incorrect amount of material which are not detected or corrected in a timely manner.

**Recommendation**

Management should communicate to the analyst to track all inventory items for purposes of having independent reconciliation. The reconciliation should be performed between tracking sheet and acknowledgement form in a consistent/standardized manner by someone independent of the analyst.

Where applicable, management should also establish an acknowledgement form for contractors that clearly captures the following:

- Quantity and type of material provided.
- The project the material will be used for.
- The date and time the inventory was obtained.
- The name and signature of the contractor that picked up the inventory.
- The name and signature of the inventory clerk that provided the inventory to the contractor.

**Management action plan:**

Management agrees with the observation and has implemented a sign off sheet to be completed by contractors at the time of receiving required inventory set aside and verified by City Staff. Communication and training of the new process will occur in Spring 2019. (Complete)

For ease of reconciliation of signed inventory sheets to the master inventory tracking records, management agrees to also log the source of inventory movement (i.e. tender number, date of inventory exchange and contractor) as well as initials of analyst indicating that the details in the tracking sheet agree to the signed acknowledgement. Where applicable, this practice will be applied to inventory items across the organization.

On a semi-annual basis, the signal supervisor, (not the person maintaining the inventory log/sheet) will formally evidence a review of material provided to contractors (e.g. signature on the tracking sheet and/or email following up on discrepancies identified) to indicate reconciliation is performed and discrepancies are investigated as needed.

**Responsible party:** Senior Manager of Traffic Operations:

**Due date:** Q4 2019

# Appendix A: Sample Matrix

Our conclusion is limited to only the tenders specifically mentioned in the complaint and not the broader overall control environment. The basis for extending our samples was that we needed to protect the identity of vendors from management.

The purpose of this table is to clearly identify the samples selected for our testing. We selected 8 samples in total including 2 items that are specifically related to the allegation (Sample #1 and Sample #2). Additional 6 sample were selected so we could inspect other similar samples. However our review did not include specific coverage of a control over a period.

We identified certain attributes including the ones related to the complaint to test whether it met our sampling criteria listed below: .

Sample #	Sample Description	Department Responsible	Specific material was required	Single bidder	Bid Bond or a Performance Bond wa required	City provided materials	Conflict of Interest disclosure was made	Subcontractor information is required in the solicitation documents	Addendums were issued
1	Sample 1 Prequalification	Traffic							
2	Sample 2 RFT	Traffic		X	X	X	X		
3	Sample 3 RFT	Public Operations	X		X				
4	Sample 4 RFT	Parks			X				X
5	Sample 5 RFT	Traffic	X	X					
6	Sample 6 Prequalification	Parks							
7	Sample 7 Tender	Parks				X			
8	Sample 8 RFT	Parks			X			X	X

# Appendix B: Limitations and responsibilities

## Limitations inherent to the Internal Auditor's work

### Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

### Responsibilities of management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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