



CITY OF HAMILTON
CITY MANAGER'S OFFICE
Audit Services Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	December 8, 2015
SUBJECT/REPORT NO:	Performance Audit Report 2015-07 - Protective Plumbing Program (Value for Money Audit) (AUD15033) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Brigitte Minard 905-546-2424 x2088 Amy Bodner 905-546-2424 x4438
SUBMITTED BY:	Brigitte Minard CPA, CA, CIA, CGAP Acting Director, Audit Services City Manager's Office
SIGNATURE:	

RECOMMENDATION

- (a) That the Management Action Plans as detailed in Appendix "A" of Report AUD15033 be approved; and
- (b) That the General Manager of Public Works and the General Manager of Finance and Corporate Services be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix "A" to Report AUD15033) implemented.

EXECUTIVE SUMMARY

The 2015-16 Performance Audit Work Plan approved by Council included an audit assessing the effectiveness and efficiency of the City's Protective Plumbing Program (3P) and the achievement of program objectives. 3P provides grants and loans to residential property owners to undertake plumbing measures to protect their home from sewer backups.

3P processes were documented and analyzed to identify opportunities to better utilize staff and technological resources. Time spent by staff to process 3P documentation was calculated to identify opportunities to enhance customer service. Current 3P grant limits were benchmarked against similar programs in other municipalities to identify alternate funding structures which may generate additional value for taxpayer dollars. Participation in 3P and the Residential Municipal Disaster Relief Assistance Program was analyzed to assess whether the volume of compassionate grant recipients had decreased. Trends in the value of distributed grants were analyzed to assess whether the submission of three contractor quotes had increased competition amongst contractors and reduced overall costs.

Recommendations were made to identify opportunities to improve value for money, customer service, process efficiency, achievement of program objectives and controls surrounding the assessment of future grant and loan applications.

The results of this audit are presented in a formal Performance Audit Report (2015-07) containing observations, recommendations and management responses. Audit Report 2015-07 is attached as Appendix "A" to Report AUD15033.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: The implementation of the recommendation in this report to subsidize a portion (50% to 80%) of improvement and permit costs may result in cost savings or service enhancements of approximately \$500,000 to \$1,250,000.

Staffing: None.

Legal: The implementation of the recommendation in this report to subsidize a portion of improvement and permit costs may result in changes to By-Law No. 13-080 Water and Wastewater Infrastructure Support Community Improvement Plan.

HISTORICAL BACKGROUND (Chronology of events)

This audit was scheduled as part of the 2015-16 Performance Audit work plan approved by Council. The audit fieldwork was completed in August 2015. The results of this audit are attached as Appendix "A" of Report AUD15033.

The Audit, Finance and Administration Committee receives and approves performance audit reports as part of its responsibilities for the oversight of governance.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

- Water and Wastewater Infrastructure Support Community Improvement Plan By-law (13-080)

RELEVANT CONSULTATION

Appendix “A” to Report AUD15033 includes action plans which reflect the responses of management responsible for the administration of the Protective Plumbing Program, Hamilton Water Division of the Public Works Department in coordination with management in the Risk Management Section, Financial Services Division and the Finance Section in the Finance, Administration and Revenue Generation Division in the Corporate Services Department.

The Legal Services Division in the City Manager’s Office was also consulted with for this report. A related report from Legal Services is Private & Confidential Report LS15037.

ANALYSIS AND RATIONALE FOR RECOMMENDATION (Include Performance Measurement/Benchmarking Data if applicable)

The City has paid \$15.2 million in 3P grants and \$7,780 in 3P loans from the inception of the program in 2009 to April 16, 2015. These amounts include both improvement and permit costs. Opportunities exist to improve the effectiveness and efficiency of the program in addition to obtaining additional value from budgeted funds.

Council revised 3P in February 2013 to require property owners to submit three contractor quotations with their application to base the approved 3P grant or loan amount on the lowest submitted quote. This change was unsuccessful in creating a competitive process to drive down overall costs. The average 3P grant payment represented 96% of the average maximum grant reimbursement before the three quotes requirement was in effect. This percentage decreased to only 95% after three quotes were required.

Other municipalities subsidize a portion of improvement costs, which may create a financial incentive for property owners to seek out the best price for services and stimulate competition amongst contractors in Hamilton. If adopted by Council, subsidizing 50% to 80% of improvement and permit costs may generate cost savings or service enhancements of approximately \$500,000 to \$1,250,000. Presently 100% of improvement and permit costs are subsidized up to a maximum of \$2,220 (maximum \$2,000 in improvements and the \$220 building permit fee).

**SUBJECT: Performance Audit Report 2015-07 - Protective Plumbing Program
(Value for Money Audit) (AUD15033) (City Wide) - Page 4 of 6**

Uptake of 3P is low amongst properties that have flooded in the past. Only 25% of the households that reported experiencing at least one sewer lateral backup participated in the program and installed a backwater valve. As a result, compassionate grants continue to be distributed to repeat recipients under the City's Residential Municipal Disaster Relief Assistance Program. As 3P participation is discretionary and there is no limit or enforcement as to the number of compassionate grants received by a single property, 3P may not be as effective in minimizing future compassionate grant costs as originally intended.

Although City staff are processing 3P paperwork and issuing reimbursement cheques to property owners in a timely manner, measuring actual performance to formally established timeline targets may provide management with opportunities for continuous process improvement and higher customer satisfaction.

Additional efficiencies may be achieved by utilizing technology to reduce the volume of manual data entry in the payment process and eliminating duplicate approval checkpoints.

A formal Performance Audit Report (2015-07) containing background information, audit objectives, scope, methodology, findings and recommendations was issued. Twelve recommendations were included in Performance Audit Report 2015-07 (attached as Appendix "A" to Report AUD15033). Among the recommendations are:

- Reduce the maximum grant allocation to subsidize only a portion of costs that is comparable with other municipalities;
- Direct the external claims adjuster to deny compassionate grants to properties with a history of flooding events that have not undertaken 3P improvements;
- Develop performance indicators to measure how long it takes City staff to process 3P applications and payments against established targets. Investigate significant delays and amend processes or reallocate resources when required;
- Investigate the feasibility of generating an approved payment report from the Hansen system to reduce the volume of manual data entry; and
- Measure the number of properties that experience a sewer backup after a backwater valve is installed. Set a threshold that would trigger an investigation or other actions if properties continue to flood after improvements are performed.

Management agreed with nine recommendations and provided action plans for implementation. Management disagreed with 2 recommendations and provided their rationale for disagreement. One recommendation had varied responses across the two Departments (Public Works and Corporate Services) with rationale and action plans provided. The implementation of the action plans is anticipated to be completed by the end of 2016. Management action plans can be found in the attached Performance Audit Report (Appendix "A" to Report AUD15033).

Audit Services conducted this audit in conformity with the *International Standards for the Professional Practice of Internal Auditing*. These standards require that Audit Services plan and perform the audit to obtain sufficient, appropriate evidence to support the findings and conclusions based on the audit objectives. Audit Services believes that the work performed provides a reasonable basis for the audit observations and recommendations.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

Not applicable.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

- 1.5 Support the development and implementation of neighbourhood and City wide strategies that will improve the health and well-being of residents.
- 1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.
- 2.2 Improve the City's approach to engaging and informing citizens and stakeholders.
- 2.3 Enhance customer service satisfaction.

Strategic Priority #3

Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective

3.4 Enhance opportunities for administrative and operational efficiencies.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report AUD15033.

BM:ab