



Hamilton

CITY OF HAMILTON

**CITY MANAGER'S OFFICE
Audit Services Division**

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: June 11, 2012	
SUBJECT/REPORT NO: Follow Up of Audit Report 2010-10 - Development Charges (AUD12010) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office	PREPARED BY: Ann Pekaruk 905-546-2424 x4469
SIGNATURE:	

RECOMMENDATION

That Report AUD12010, respecting the follow up of Audit Report 2010-10, Development Charges, be received.

EXECUTIVE SUMMARY

Audit Report 2010-10, Development Charges, was originally issued in April, 2011 and management action plans with implementation timelines were included in the Report. In April, 2012, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Of the four recommendations that management agreed to in the original Report and Addendum, one has been completed, two are in progress and one alternative has been implemented.

Alternatives for Consideration – Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.
Staffing: None.
Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Audit Report 2010-12, Development Charges, was originally issued in April, 2011. The Report and Addendum provided four recommendations identifying opportunities for administrative improvements and for strengthening processes.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether action plans committed to by department management have been implemented.

POLICY IMPLICATIONS

- Development Charges Act, 1997, s.2
- City of Hamilton by-laws: 09-143 (amended by 09-228, 11-173, 12-053), 09-144 and 06-174

RELEVANT CONSULTATION

The results of the follow up were provided to management responsible for the implementation, recordkeeping and monitoring of development agreements and charges – Building Services Division, Planning and Economic Development Department and Financial Planning & Policy Division, Corporate Services Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix “A” to Report AUD12010 contains the first three columns as originally reported in Report 2010-10 along with an added fourth column indicating Internal Audit’s comments as a result of the follow up work. The original Addendum section containing one recommendation also contains a follow up comment.

The recommendation to investigate opportunities to streamline and automate processes to reduce the reliance on manual methods has been fully implemented by Financial Planning and Policy through the use of automated worksheet formulae.

An alternative was implemented for the one recommendation in the Addendum by the development and sending of reminder notices each year to developers with deferred development charges.

The two remaining recommendations whose implementations are in progress pertain to the development of written procedures for the collection of development charges and allocation of fees to the reserve funds accounts and the safeguarding of the receipt date information for building permit applications to ensure that the correct fees are charged.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability,
3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development,
6. Environmental Stewardship, 7. Healthy Community

Financial Sustainability

- ◆ Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner
- ◆ Address infrastructure deficiencies and unfunded liabilities.
- ◆ Generate non-tax revenues.

APPENDICES / SCHEDULES

Appendix "A" to Report AUD12010

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**CITY OF HAMILTON
 INTERNAL AUDIT REPORT 2010-10
 DEVELOPMENT CHARGES
 FOLLOW UP**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (APRIL 2012)
1.	<p><u>Written Procedures</u> In 2010 (year-to-date November 30), over \$37 million was collected for development charges. Several divisions are involved in the process yet only Treasury Services, which prepares the bank deposit, has developed written formal procedures to guide staff in performing their duties.</p> <p>Without written procedures, the employees currently carrying out related processes rely on personal understanding and experience which may result in incorrect, incomplete or inconsistent application. Also, it may be problematic and inefficient for a successor to commence his/her duties within a short period of time.</p>	<p>That written procedures be developed for the collection of development charges in Building Services and the allocation of fees to the reserve accounts in Financial Planning and Policy.</p>	<p>Agreed. Finance staff will work with Building Services staff to complete a set of written formal procedures before the next Development Charge By-law anniversary date of July 6, 2011.</p>	<p><i>Building Services</i> – In Progress. Procedures for the collection of development charges have been written. They remain in draft form to accommodate any changes that may be required after updates to the AMANDA system are made. Management expects finalization by the end of Q3 2012.</p> <p><i>Financial Planning & Policy</i> - In Progress. Procedures for the allocation of fees to the reserve accounts have been developed. They are expected to be signed by management by the end of Q2 2012.</p>

**DEVELOPMENT CHARGES
 FOLLOW UP – APRIL 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (APRIL 2012)
2.	<p><u>Monitoring</u></p> <p>According to the development charges by-laws, the amounts payable are based on the rates in effect on the date a completed building permit application is received and accepted by the Customer Service Representative in the Building Services Division (provided a building permit is issued within six (6) months of the development charge rate increase). The development charges are due at the time the building permit is issued. Therefore, it is important that for each permit application, a record be maintained of the date that the building permit application is received (the "in date" in the AMANDA application) as well as the date that the building permit is issued (the "issue date" in AMANDA) in order to be able to ensure that the correct amount is charged for development fees. This would especially be true when there are large increases in the charges as of a certain date as there were on July 6, 2010 when some fees increased over 30%.</p> <p>Staff in Building Services have the ability to change the "in date" and "issue date". Therefore, this makes it difficult to readily determine whether the correct development fee was collected from the developer.</p>	<p>That the two dates that are required to ascertain that the correct development fees are being charged be protected from being changed once they have been input into the AMANDA system.</p>	<p>Agreed. Finance will work with Building Services and IT to see if this recommendation is feasible. Target date: 4th quarter 2011.</p>	<p>In Progress. Building Services' Management has purchased a date stamp machine. A procedure to date stamp the permit application (as an alternative to making modifications to AMANDA) is in the process of being written and implemented. The date stamp would provide an unchangeable record of the date that the permit was received. This would facilitate verification that the correct development fees were collected. Implementation by the end of Q2 2012.</p>

**DEVELOPMENT CHARGES
 FOLLOW UP – APRIL 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (APRIL 2012)
3.	<p><u>Allocation of Fees</u></p> <p>Monthly development charges collected are allocated to the various reserve accounts according to the weighting determined by the Background Study conducted by independent consultants. The development charge information is gathered from paper documents related to the building permit and is manually entered into a spreadsheet. The data must be sorted by several different criteria and the results compared to those in the PeopleSoft financial system. The sorted information is entered into another spreadsheet in order to allocate the amounts to individual development charges reserves.</p> <p>This method is labour intensive, involves manual input and duplicates entry in different electronic spreadsheets. Due to the number of steps involved and the lack of automation, it is easy for an error to occur and remain undetected.</p>	<p>That Financial Planning and Policy investigate alternate means to streamline and automate the allocation process to reduce the reliance on manual methods.</p>	<p>Agreed. Staff will work with IT to determine the degree of additional automation feasible. Target date: 4th quarter 2011.</p>	<p>Completed. Financial Planning and Policy have investigated and implemented changes to the process used in allocating development fees collected. The new method reduces the amount of duplicate manual inputting through the use of automated worksheet formulae.</p>

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2010-10
DEVELOPMENT CHARGES
FOLLOW UP**

ADDENDUM

The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the issues, risks and inefficiencies and can address them appropriately.

Deferred Development Charges Agreements

1. The City of Hamilton's Development Charges by-laws allow the City to enter into agreements with individuals for deferring development charges on non-residential developments (including apartment buildings) for up to five years but may require the repayment to include interest. In the course of this review, it was noted that 20 such agreements with deferrals ranging from \$20,000 to \$2.5 million are currently open. In a situation noted during the audit, the holder of one such deferred development charges agreement that had come due was not reminded of the payment until the day before it was due. This necessitated a request to Council to change the repayment terms, affecting the flow of funds due to the City.

It is recommended:

That the Development Financial Officer be assigned the responsibility of reviewing the due dates of the deferred development charges agreements monthly for the purpose of notifying Accounts Receivable to send notification of amounts due to the developer 45-60 days in advance.

Management Response:

Agreed. In addition to the actions recommended above, Finance staff will look at additional trigger points (i.e., from A/R) so that this oversight cannot happen again. This will be implemented immediately.

Follow Up Comment:

Alternative Implemented. Financial Planning & Policy has developed a letter issued each year to all developers with deferred development charge agreements to remind them of the due dates and outstanding balances. In addition, Accounts Receivable sends out invoices to the developers 30 days before amounts are due.