



AUDIT COMMITTEE AGENDA

Audit Committee Meeting
Tuesday, September 15, 2020
Tom Davies Square - Council Chamber

COUNCILLOR DEB MCINTOSH, CHAIR

Mike Jakubo, Vice-Chair

4:00 p.m. AUDIT COMMITTEE MEETING, COUNCIL CHAMBER / ELECTRONIC PARTICIPATION

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ROLL CALL

DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF

PRESENTATIONS

1. Report dated August 24, 2020 from the General Manager of Corporate Services regarding 2020 External Audit Planning Report. **3 - 24**

(ELECTRONIC PRESENTATION) (RESOLUTION PREPARED)

- Oscar Poloni, Partner, KPMG LLP

(This presentation provides a recommendation regarding the 2020 External Audit.)

MANAGERS' REPORTS

- R-1. Report dated September 1, 2020 from the Auditor General regarding Performance Audit of Fleet Services. **25 - 34**

(RESOLUTION PREPARED)

(This report provides recommendations to improve value-for-money within the operations of Fleet Services.)

MEMBERS' MOTION

ADDENDUM

CIVIC PETITIONS

QUESTION PERIOD

ADJOURNMENT

Presented To:	Audit Committee
Presented:	Tuesday, Sep 15, 2020
Report Date	Monday, Aug 24, 2020
Type:	Presentations

Request for Decision

2020 External Audit Planning Report

Resolution

THAT the City of Greater Sudbury approves the 2020 External Audit Plan as outlined in the report entitled "2020 External Audit Planning Report", from the General Manager of Corporate Services, presented at the Audit Committee meeting on September 15, 2020.

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to Responsive, Fiscally Prudent, Open Governance: Focus on openness, transparency and accountability in everything we do.

Report Summary

The audit planning report contains audit areas and systems that will be reviewed during the external audit, the audit approach and details relating to scope and timing of the audit.

Financial Implications

There are no financial implications associated with this report.

Signed By

Report Prepared By

Christina Dempsey
Co-ordinator of Accounting
Digitally Signed Aug 24, 20

Manager Review

Jim Lister
Manager of Accounting/Deputy
Treasurer
Digitally Signed Aug 24, 20

Division Review

Ed Stankiewicz
Executive Director of Finance, Assets
and Fleet
Digitally Signed Aug 28, 20

Financial Implications

Steve Facey
Manager of Financial Planning &
Budgeting
Digitally Signed Aug 28, 20

Recommended by the Department

Kevin Fowke
General Manager of Corporate
Services
Digitally Signed Aug 28, 20

Recommended by the C.A.O.

Ed Archer
Chief Administrative Officer
Digitally Signed Aug 28, 20

Background

In accordance with generally accepted auditing standards, an annual audit plan must be approved by the Audit Committee. The objective of the audit plan is to identify audit areas and systems that will be reviewed during the external audit, explain the audit approach to be used, provide information with respect to the scope and timing of the audit and identify specific issues for the year under review.

Our external auditors will be presenting an over view of their External Audit Planning Report with respect to the 2020 year-end. The full External Audit Planning Report is attached.

Oscar Poloni from KPMG will be presenting the External Audit Planning Report. The purpose of the presentation is to provide information to the Audit Committee relating to the activities of the City External Auditors in discharging their audit responsibilities.

City of Greater Sudbury

Audit Planning Report
for the year ended December 31, 2020

KPMG LLP

September 15, 2020

kpmg.ca/audit



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Executive summary

COVID-19

COVID-19 continues to have an impact to the City's operations and financial reporting, as well as our audit procedures.

See page 3.

Audit and business risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Revenue recognition of conditional funding sources
- Management estimates, including those relying on the external experts
- Accounting for capital assets
- Assessing the risk that management estimates for financial statement amounts may be adversely impacted by COVID-19

See page 4 to 8.

Audit materiality

Materiality has been determined to be \$13 million, based on the prior year's reported revenues of \$654 million.

See pages 9.

Quality control

We have a robust and consistent system of quality control. We provide complete transparency on all services and follow Audit Committee approved protocols.

See pages 11.

Proposed fees

Proposed fees for the annual audit of the City's financial statements are \$98,660, with additional fees relating to the audit of components and special reports amounting to \$23,860.

See page 15.

Current developments and audit trends

Please refer to page 13 for auditing changes relevant to the City

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee, City Council, and Management of the Entity. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

COVID-19: Embedding Resilience & Readiness

COVID-19 continues to have an impact to the Entity's business and the Entity's financial reporting. Please refer to our [COVID-19 Financial Reporting](#) site for further information.

Potential financial reporting implications	Potential implications on internal control over financial reporting
<ul style="list-style-type: none"> Accounting for COVID-19 related grants and associated revenue recognition criteria Financial impacts arising from operational changes from COVID-19 	<ul style="list-style-type: none"> Consideration of changes in the individuals performing the control due to changes in work arrangements Consideration of the appropriateness of segregation of duties arising from changes in work arrangements Reconsideration of internal control over financial reporting impacts related to broader IT access given remote work arrangements
Potential financial reporting implications related to disclosures	Other potential considerations
<ul style="list-style-type: none"> New accounting policies implemented as a result of COVID-19 Significant management judgements in applying accounting policies Major sources of estimation uncertainty that have significant risk 	<ul style="list-style-type: none"> Reporting material changes in internal control over financial reporting Cyber security risks (e.g., wire transfers schemes)

Similarly, COVID-19 is a major consideration in the development of our audit plan for your 2020 financial statements.

Planning and Risk Assessment	Executing
<ul style="list-style-type: none"> Understanding the expected impact on the relevant metrics for determining materiality (including the benchmark) and the implication of that in identifying the risks of material misstatement, responding to such risks and evaluating uncorrected misstatements Understanding the potential financial reporting impacts, the changes in Entity's environment, and changes in the entity's system of internal control, and their impact on our: <ul style="list-style-type: none"> identified and assessed risks of material misstatement audit strategy, including the involvement of others and the nature, timing and extent of tests of controls and substantive procedures 	<ul style="list-style-type: none"> Continued use of remote auditing and reliance on collaboration tools and electronic evidence Timing of procedures may need to change

Audit risks

Significant financial reporting risk	Why is it significant?
The City receives funding from the Federal and Provincial governments under a variety of programs, including programs with specific revenue recognition criteria. This can result in potential financial reporting issues with respect to the amount of revenue recognized and the treatment of unearned funds at year-end (deferral vs. payable).	Grant revenues represent a major component of the City's revenues, accounting for 28% of reported revenues in the prior year.
Our audit approach	
<ul style="list-style-type: none">– We will review management's calculation of revenues and identified revenues that are conditional in nature, including new funding programs in response to COVID-19. For significant conditional revenue sources, we will review and test supporting documentation demonstrating that the revenue recognition criteria have been achieved.– We will review management's treatment of unearned revenues. For significant unearned revenue balances, we will test management's determination as to whether these represent deferred revenue or payable balances.– We will review management's treatment of prior year unearned revenue accounts (deferred revenues, accounts payable) that are recognized as revenue in the current year. For significant income inclusions from prior year amounts, we will review supporting documentation to ensure that revenue recognition criteria have been met.	

Audit risks

Significant financial reporting risk	Why is it significant?
The City's financial statements include a number of large management estimates, including but not limited to landfill closure and post-closure costs and employee future benefits. An estimate with a high degree of estimation uncertainty is considered a significant risk under professional standards	Management estimates are inherently subjective in nature, requiring the determination of key assumptions that may result in a material misstatement or be influenced by management bias. In addition, Canadian Auditing Standards for management estimates have changed, requiring an increase in audit procedures relating to management estimates. This includes enhanced risk assessment procedures and a comprehensive objectives-based work effort for supporting data and assumptions.

Our audit approach
<p>Our audit approach will reflect the requirements of the new auditing standards relating to management estimates and will include, among other procedures,</p> <ul style="list-style-type: none">– Assessing the spectrum of inherent risk in management estimates that considers estimation uncertainty, complexity and subjectivity– Developing a separate assessment of inherent risk and control risk for significant management estimates– Obtaining evidence from events occurring up to the date of the audit report– Developing a point estimate or range to test the appropriateness of management's estimates– Undertaking a "stand back" review that involves evaluating the reasonableness of estimates based on corroborative and contradictory audit evidence <p>Prior to the commencement of our audit procedures, we will meet with management to discuss the new audit requirements associated with management estimates and the impact on our audit procedures, including new analysis and documentation required from the City.</p>

Audit risks

Significant financial reporting risk

Accounting for capital expenditures requires the determination as to whether the item constitutes a betterment or an expense.

Why is it significant?

Capital expenditures represent a significant investment on the part of the City and in certain instances, may involve a degree of subjectivity and/or complexity in terms of whether they meet the criteria for capitalization.

Our audit approach

- We will perform substantive testing over recorded capital expenditures, including reviewing source documentation for a sample of capital expenditures, to determine the appropriate classification of costs (capitalization vs. expense).
- We will perform substantive testing over repairs and maintenance expenditures, including reviewing source documentation for a sample of capital expenditures, to identify any instances where items should be capitalized as opposed to expensed.
- We will review financial statement presentation and note disclosure of capital assets and deferred revenues

Audit risks

Significant financial reporting risk	Why is it significant?
<p>The City may experience an increase in property assessment appeals or taxpayers experiencing difficulties with respect to payment of property taxes due to COVID-19. As a result, the City's traditional allowance for doubtful accounts or provisions for property tax appeals may need to be reviewed in the context of COVID-19.</p>	<p>The impacts of COVID-19 continue to emerge and evolve, which may result in an increase in collection risk for the City.</p>
Our audit approach	
<ul style="list-style-type: none">– We will perform the necessary audit procedures as required for testing of management estimates– As part of our audit procedures, we will assess the sufficiency of the City's provision for assessment appeals to assessment at risk data provided by the Ontario Property Tax Analysis ("OPTA"). We will also identify the extent to which other municipalities have revised their approach to determine allowance for doubtful accounts and provisions for taxation appeals	

Other Areas of Focus

As an organization with high public profile, the City is exposed to potential reputational risks that may arise from transactions that, while not material to the financial statements, may call into question the appropriateness of the City's use of public funds. In order to address potential reputational risks, we will undertake the following procedures as a value-added service for the City:

- We will perform testing over a sample of procurements to ensure compliance with the City's procurement policies, including the requirement for competitive bids.
- We will select a sample of expense reports for City staff and elected officials to ensure compliance with the City's policies for travel and expense reimbursements, including approval requirements.
- We will conduct a high-level screen of the City's enterprise risk management processes to assess the effective of its processes for the identification and mitigation of risks
- We will provide the City with respect to best practices for the response to cybersecurity incidents, the intention of which are to reduce the City's overall risk exposure from a data and privacy perspective

Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors. To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

Materiality determination	Comments	Amount
Materiality	<p>Materiality is determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.</p> <p>The corresponding amount for the prior year's audit was \$12,100,000.</p> <p>We have considered potential changes to materiality as a result of COVID-19 and have determined that no adjustments are required. As part of our audit process, we will reassess the appropriateness of our audit materiality in order to reflect financial reporting and audit implications of COVID-19.</p>	\$13.0 million
Benchmark	Materiality is calculated at 2% of the prior year's revenue, which is consistent with the prior year.	\$654 million

We will report to the Audit Committee:

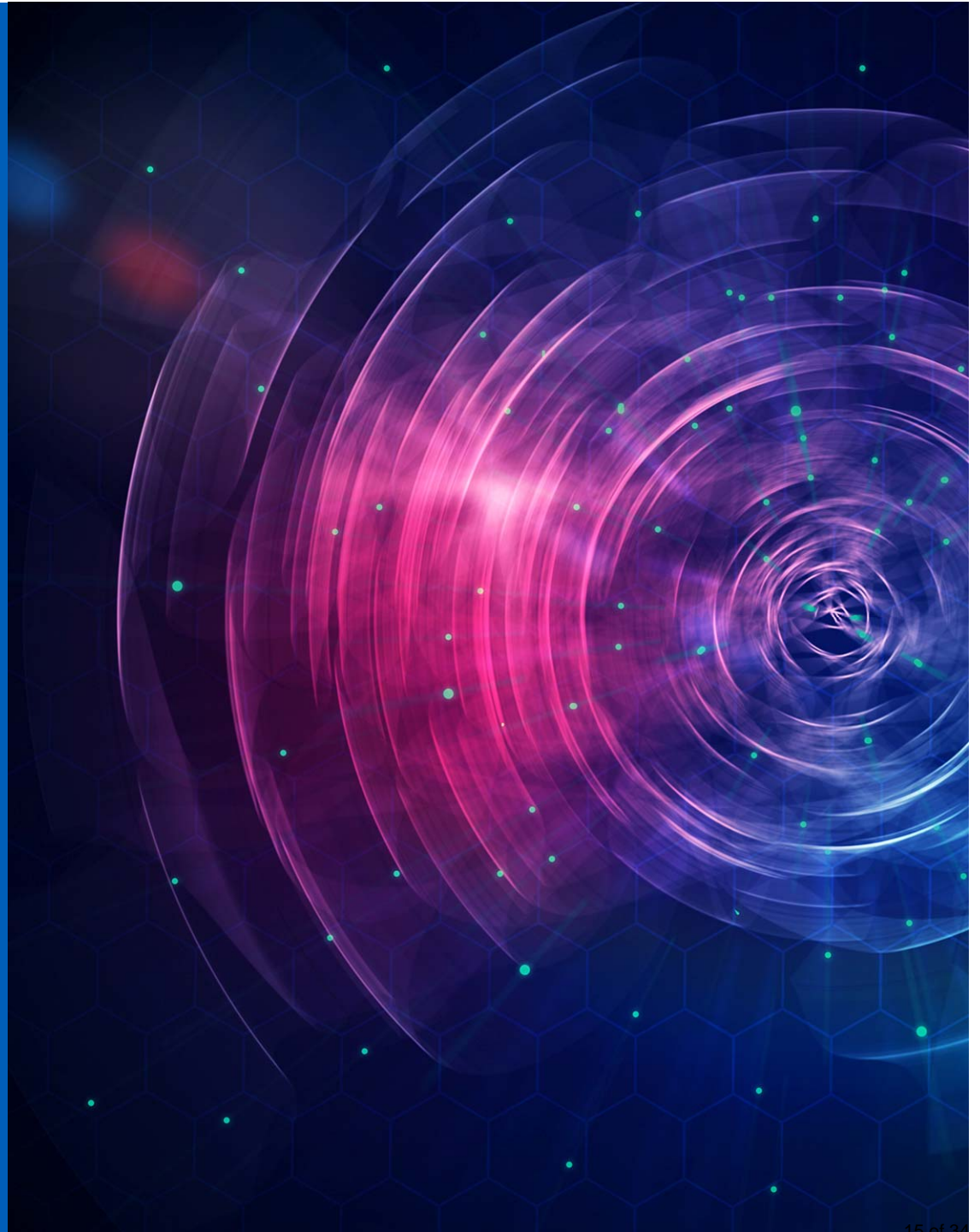


Corrected audit misstatements



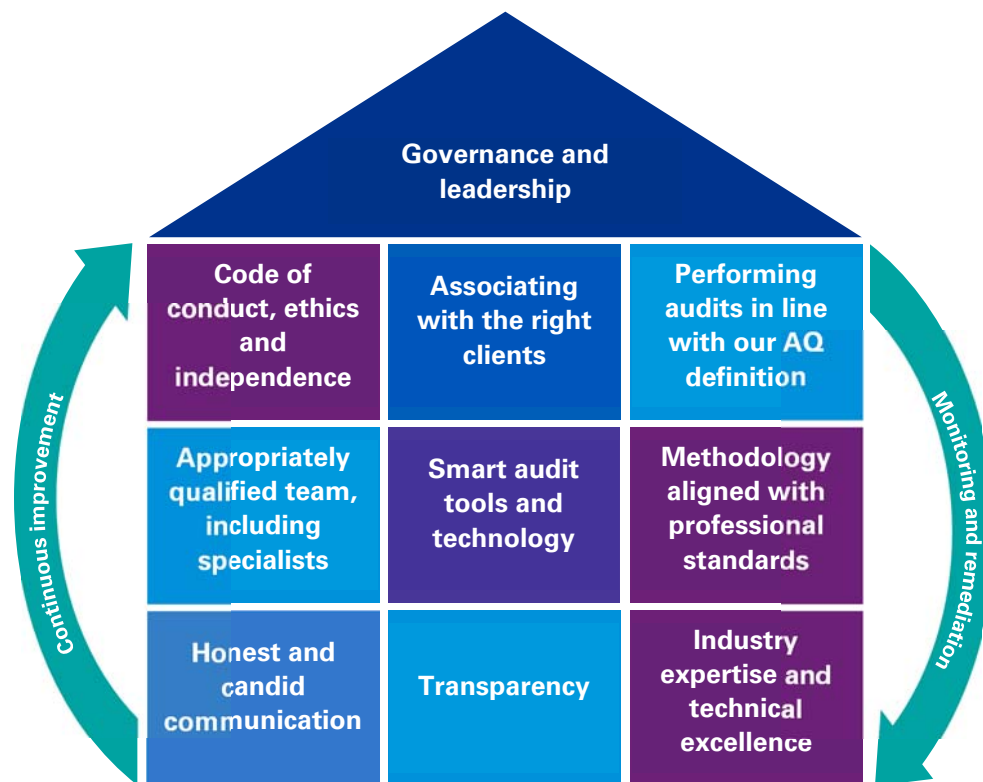
Uncorrected audit misstatements

Audit Quality Matters



Audit quality and transparency

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the key elements of our quality control system.



Audit Quality Framework

What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

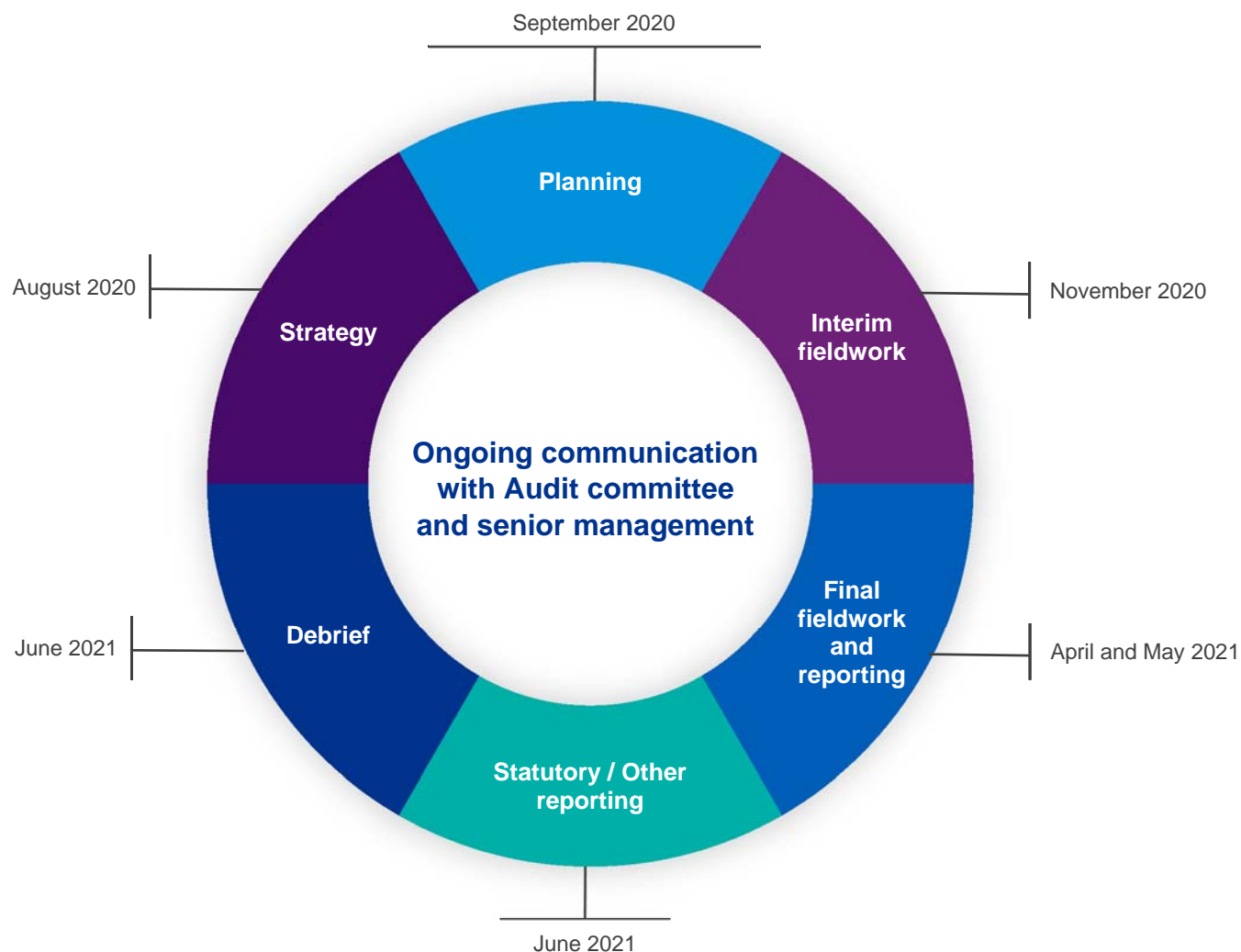
We believe that it is not just about reaching the right opinion, but how we reach that opinion.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls, and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics, and integrity**.

Our AQ Framework summarises how we deliver AQ. Visit our [Audit Quality Resources page](#) for more information including access to our [Audit Quality and Transparency report](#).

Key deliverables and milestones



New audit standards

New auditing standards that are effective for the current year are as follows:

Standard	Key observations	Reference
CAS 540, Auditing Accounting Estimates and Related Disclosures Effective for audits of Entities with year-ends on or after December 15, 2020	Expected impact on the audit: <ul style="list-style-type: none">— more emphasis on the need for exercising professional skepticism— more granular risk assessment to address each of the components in an estimate (method, data, assumptions)— more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions)— more focus on how we respond to levels of estimation uncertainty— more emphasis on auditing disclosures related to accounting estimates— more detailed written representations required from management	CPA Canada Client Briefing

Independence Matters



Proposed fees

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fee analysis has been reviewed with and agreed upon by management.

Our fees are estimated as follows:

	Current period (budget)	Prior period (actual)
Audit of the financial statements – City of Greater Sudbury	\$98,660	\$95,790
Audit of component financial statements and special reports	\$23,860	\$23,175

Appendices

Content

Appendix 1: Required communications

Appendix 2: Audit and Assurance Insights

Appendix 1: Required communications

Report	Engagement terms
<p>A draft report will be provided at the completion of the audit.</p>	<p>Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter and any subsequent amendments as provided by management.</p>
Reports to the Audit Committee	Representations of management
<p>At the completion of the audit, we will provide our findings report to the Audit Committee.</p>	<p>We will obtain from management certain representations at the completion of the audit.</p>
Matters pertaining to independence	Internal control deficiencies
<p>At the completion of our audit, we will confirm our independence with the Audit Committee.</p>	<p>Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency will be communicated to management.</p>
Required inquiries	Audit Quality
<p>Professional standards require that during the planning of our audit we obtain your views on the identification and assessment of risks of material misstatement, whether due to fraud or error, your oversight over such risk assessment, identification of suspected, alleged or actual fraudulent behaviour, and any significant unusual transactions during the period.</p>	<p>The following links are external audit quality reports for referral by the Audit Committee:</p> <ul style="list-style-type: none"> • CPAB Audit Quality Insights Report: 2019 Annual Inspections Results • CPAB Audit Quality Insights Report: 2019 Fall Inspection Results

Appendix 2: Audit and Assurance Insights

Our latest thinking on the issues that matter most to Audit Committees, Boards and Management.

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada	<u>Learn more</u>
The business implications of coronavirus (COVID 19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	<u>Learn more</u>
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	<u>Learn more</u>
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center	<u>Learn more</u>
Accelerate 2019/20	Perspective on the key issues driving the Audit Committee agenda	<u>Learn more</u>
IFRS Breaking News	A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.	<u>Learn more</u>
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	<u>Sign-up now</u>
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US	<u>Learn more</u>
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	<u>Learn more</u>



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Presented To:	Audit Committee
Presented:	Tuesday, Sep 15, 2020
Report Date	Tuesday, Sep 01, 2020
Type:	Managers' Reports

Request for Decision

Performance Audit of Fleet Services

Resolution

THAT the City of Greater Sudbury approves the recommendations as outlined in the report entitled "Performance Audit of Fleet Services" from the Auditor General's Office, presented at the Audit Committee meeting on September 15, 2020.

Signed By

Auditor General
Ron Foster
Auditor General
Digitally Signed Sep 1, 20

Relationship to the Strategic Plan / Health Impact Assessment

This report supports the strategic goal of asset management and service excellence as well as the following supporting initiatives:

1. Optimizing Asset Service Life Through the Establishment of Maintenance Plans;
2. Establishing Sustainable Asset Service Levels to Assess Results from Maintenance and Renewal Efforts; and
3. Demonstrating Innovation and Cost-Effective Service Delivery.

Report Summary

In addition to the positive steps taken since 2016, this audit identified further opportunities to improve value for money in the operations of Fleet Services. We encourage management to continue to implement practices to align Fleet Services with the City's Enterprise Asset Management Policy.

Financial Implications

No Financial Implications.

Performance Audit of Fleet Services

September 1, 2020

Final Report



OBJECTIVE

To assess the extent of regard for economy, efficiency and effectiveness within the operations of Fleet Services.

BACKGROUND

Fleet Services is a section of the Finance, Assets and Fleet Services Division and is responsible for the maintenance of over 800 vehicles and pieces of equipment. It is also responsible for the acquisition and disposal of the general fleet (excluding transit buses and emergency vehicles) as well as supply of fuel and maintenance of six fueling stations. The section has 54 staff that provide maintenance services at the main garage on Lorne Street and another four mechanics that work from regional depots. Financial results for the section are shown below.

	2016		2017		2018*		2019	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Revenues \$(000s)	(528)	(863)	(686)	(605)	(625)	(859)	(999)	(971)
Salaries & Benefits	3,946	4,087	4,098	3,962	5,743	5,589	5,394	5,143
Purchased Materials	3,900	4,855	4,062	4,811	5,691	6,824	6,285	8,337
Energy Costs	27	32	30	33	22	29	26	25
Prof. Dev. & Train.	12	14	0	0	0	0	0	0
Purchased Services	0	0	0	17	3	18	3	25
Financial Expenses	0	66	0	30	0	19	0	10
Reserve & Capital	2,585	2,680	2,710	2,605	2,752	2,840	3,207	3,290
Internal Recoveries	(9,424)	(9,470)	(9,714)	(9,671)	(13,263)	(13,272)	(13,707)	(13,717)
Net Expenses \$(000s)	518	1,401	500	1,183	323	1,188	209	2,142
Net Recovery	90.0%	80.7%	89.1%	84.4%	97.6%	91.8%	98.5%	86.5%

**Responsibilities for maintenance of the transit fleet and ambulances for Manitoulin-Sudbury District were added in 2018.*

METHODOLOGY & SCOPE

This audit included interviews of staff, analysis of policies, procedures, reports and data, and tests of controls for January 1, 2016 to December 31, 2019. It also included a review of a report from Notiform Inc. which was engaged to conduct a business process review of the Fleet Services section in 2019. This audit excluded the acquisition and disposition of the City's transit, fire and paramedics fleet which are responsibilities of divisional staff.

EXECUTIVE SUMMARY

In addition to the positive steps taken since 2016, this audit identified further opportunities to improve value for money in the operations of Fleet Services. We encourage management to continue to implement practices to align Fleet Services with the City's Enterprise Asset Management Policy.

AUDIT STANDARDS

We conducted our audit in accordance with Generally Accepted Government Auditing Standards which require that we adequately plan audits; properly supervise staff; obtain sufficient, appropriate evidence to provide a reasonable basis for audit findings and conclusions; and document audits. For further information regarding this report, please contact Ron Foster at the City of Greater Sudbury at 705-674-4455 extension 4402 or via email at ron.foster@greatersudbury.ca

OBSERVATIONS AND ACTION PLANS

A. Mandate of Fleet Services

Fleet Services maintains the fleet and equipment used to deliver municipal services. While its mandate also includes the assessment, acquisition and disposal of fleet and equipment, its authority to manage fleet and equipment as a corporate asset is presently unclear.

Fleet services has lead responsibility for enabling service delivery through the provision of vehicles and equipment and maintaining them to maximize uptime and to support efficiency and productivity in municipal operations. Operating departments have the lead responsibility for assessing the need and suitability of fleet and equipment that are required to meet the service expectations expressed by Council.

Observations:

Fleet Services staff have persuaded some users to rationalize and reduce their level of fleet when units came due for replacement. These efforts have resulted in higher utilization of existing units and lower charges for fleet to users such as By-law Services. This audit determined that at least one operational division has been leasing vehicles in recent years rather than purchasing them. Fleet Services staff presently have no involvement in long term rental or lease decisions which may not give adequate consideration to all relevant costs to the corporation.

Recommendation:

1. Establish a policy to clearly establish Fleet Services as having lead accountability for all vehicle and equipment acquisitions, maintenance and disposals;
2. Develop a formal replacement policy for fleet to ensure that all relevant factors such as age, condition, utilization, need, suitability and lifecycle costs are consistently considered during replacement decisions; and
3. Develop a formal policy requiring all proposed long-term leases to be submitted to the Director of Assets and Fleet Services for formal approval prior to being executed to ensure these decisions are supported by a business case that considers all relevant costs to the corporation.

Management response and action plan:

Agreed. Management have implemented business processes that define the acquisition and disposal of vehicles and equipment. These business processes consistently consider all relevant factors when replacing vehicles and equipment. Although the business processes have been implemented, they have not been formalized in a policy. Management will produce an Acquisition and Replacement policy that reflects the business processes performed and addresses these recommendations.

B. Asset Management

Regulation 588/17 requires municipalities to develop Asset Management Plans (AMPs) for their infrastructure assets, to manage their life cycle costs and to communicate the service levels for these assets to residents. In April 2018, staff presented an Enterprise Asset Management Policy to, among other things:

- Establish full life-cycle costing principles aligned with asset management strategies that minimize ownership costs over the asset's service life;
- Maintain assets in order to deliver defined levels of service that meet legislative requirements and customer expectations; and
- Establish clear connections to the long-term financial plan and related financial policies.

Observations:

Since 2016, the City has spent \$16 million replacing its general fleet and \$8 million on its transit fleet compared to the \$28 million for general fleet and \$15.5 million for transit fleet recommended by KPMG to renew fleet assets that were at or near the end of their useful lives in 2016. As less than \$300,000 of uncommitted funds were available in the City's reserves for the renewal of fleet at the end of December 2019, it is unlikely that much progress will be made updating the City's aging fleet in the near future unless more funding becomes available from the upper tiers of government¹ or additional funds are directed to capital budgets. As a result, staff will continue to have to operate fleet and equipment that are at or near the end of their useful lives with high maintenance costs unless more funding becomes available or steps are taken to rationalize the City's fleet and equipment.

Benchmarking reports indicate that the City has more general fleet on a per capita basis and on a full-time equivalent basis than our municipal peers in Hamilton, London, Windsor and Thunder Bay as well as Chatham-Kent. Some, but not all of these differences can be explained by the fact that the City of Greater Sudbury is much larger geographically than its peers.

Recommendations:

To reduce the City's investment in fleet to a more sustainable level and to lower its lifecycle costs:

1. Review the level of fleet with users such as Linear Infrastructure Services to rationalize their fleet by identifying opportunities to reduce spare units or to share units with other divisions;
2. Review the level and condition of the transit fleet to reduce spare units and to prioritize older units with high mileage for replacement; and
3. Work with operating departments to update the custodial use policy to reduce the personal use of City vehicles for travel to and from work. Operating departments should review policies with the goal of reducing the amount of custodial use of City vehicles for employees who are not on-call or who have low annual usage.

Management response and action plan:

Agreed, however management views the need for vehicles and equipment from the perspective of service delivery and not on a per capita basis. Consideration for geography, number of services delivered, scope of assets serviced and service levels need to be taken into account when defining an optimal level of vehicles and equipment. Fleet management reviews and will continue to review the level of usage with operating departments with an aim to providing service in an economical fashion. Through this process Linear Infrastructure Services and Transit Services have reduced their fleet by one heavy vehicle and one bus respectively in coordination with Fleet Services and will continue to look for further opportunities to optimize the fleet footprint without compromising service. As with all departments, Fleet management will continue to provide condition information to Transit management for their bus replacement decisions. Management will work with Human Resources and operating departments to update the Custodial Use Policy in an attempt to optimize the custodial use of City vehicles.

C. Cost Recovery

Fleet services estimates the amount of costs to be recovered for each item of fleet used by departments at the time of acquisition. For the general fleet, this estimate is based on the original capital cost, inflation, repairs, insurance and licensing during the unit's expected useful life. The overall recovery rate is currently set with the objective of recovering 85% of capital costs from user departments. As transit acquires its own fleet, they are only charged for maintenance costs on the transit fleet that are invoiced to the transit cost center. Fire services is charged for three maintenance staff and actual costs for maintenance on the fire

¹ Ten transit buses will be replaced later this year under the Investing in Canada Infrastructure Program.

trucks since it also acquires its own fleet. Paramedic services also purchases its own vehicles, so is presently charged based on a rolling average of work order costs for its vehicles over the last two years.

Observations:

While the net recovery rate for Fleet Services improved from 80.7% to 86.5% between 2016 and 2019, almost \$6 million of costs were not recovered from user departments during this period. Cost recoveries declined from a high of 91.8% in 2018 to 86.5% in 2019 due to higher than expected maintenance costs on aging transit buses and higher than anticipated repairs on winter maintenance vehicles from record levels of snow in 2019.

Recommendation:

1. To ensure service delivery is accurately costed and programs are treated equitably, perform a rate review to maximize the accuracy of the charges to divisions such as Linear Infrastructure Services and to provide a more homogeneous rate structure for all divisions serviced including EMS, Fire and Transit; and
2. To ensure that programs that are cost-shared with the province reflect all relevant charges to maintain the City's fleet, update the rates to fully recover all eligible program costs.

Management response and action plan:

Agreed. Management periodically performs a rate review for all classes of units that are acquired and maintained by Fleet Services. The last rate review for these units was performed in 2018. Management will undertake a review of the rates for the various classes of equipment in 2021 and reflect any adjustments in the 2022 budget. Emergency Medical Services is the only division that receives upper level government funding and will be reviewed as part of the rate review.

D. Maintenance of Vehicles and Supply of Parts

In 2019, Notiform Inc. was engaged to conduct a business process review to document the current processes for the maintenance of the City's fleet and supply of parts, to benchmark these processes against existing industry standards and best practices, to identify gaps and issues and to recommend improvements. The recommendations from Notiform Inc. were reviewed during the planning and conducting phases of this audit.

Observations:

While most staff work out of the Lorne Street garage, four mechanics were assigned to work from public works depots across the City in 2019 to improve the timeliness of maintenance on snow plow trucks and to increase the availability of these trucks for service.

Fleet Services staff employs mainly senior technicians to perform maintenance functions and contracts out some functions during peak periods and when there is staff turnover. This audit determined that opportunities exist to improve the economy of maintenance services by changing the mix of staff and contractors for routine maintenance functions.

The responsibility for maintenance of the transit fleet was transferred to Fleet Services in 2018. While "running repairs" are now done outside of peak service periods for the transit fleet, opportunities exist to optimize the timing of repairs to maximize the number of buses available for service.

Fleet Services also employs three staff that work in the Parts department. In the last two years, a number of changes have been implemented to improve the purchase, handling and storage of inventory. Notwithstanding, the level of staffing in Parts is insufficient to support timely maintenance of the fleet.

Recommendations:

1. Review the mix of staff and contractors to identify opportunities to reduce the cost of routine maintenance;
2. Prepare a business case for a part-time helper in Parts to support timely maintenance of the fleet; and
3. Coordinate with Human Resources and Organizational Development staff to negotiate changes to schedules for maintenance staff to maximize the number of transit buses available for service during peak periods to allow management to reduce the number of spare buses.

Management response and action plan:

Partially Agree. Management has made changes to permanent job classifications, employed apprentices, changed shift schedules and reporting locations in an attempt to increase efficiencies and optimize service delivery. Similarly, management has identified particular pieces of work which are more economically attained by contracting out. Management will continue to review the mix of contracted work, unlicensed employees, apprentices and licensed technicians in the future. Similarly, management will continue to monitor service demand as it relates to technician availability and adjust accordingly. Management recently completed a business process review that provides guidance on the allocation of human resources and alternatives to increasing the overall compliment by employing technology and vendor managed inventory solutions. Management will prioritize the need for the part-time helper recommendation and will include in the 2021 budget process if necessary.

E. Overall Management

Notiform Inc. recommended that Fleet Services replace its current work order system which has limited functionality. We agree that the current system does not allow Fleet Services staff to effectively measure and manage the cost drivers for maintenance services.

Recommendations:

1. Develop key performance measures to measure the efficiency, effectiveness and economy of the overall Fleet Services function as well as the maintenance and parts activities; and
2. In conjunction with staff from the Information Technology Services and Finance Services Divisions, identify information systems options which will more effectively meet the requirements of Fleet Services staff.

Management response and action plan:

Agreed. As part of the recently completed Fleet Business Process Review, it was determined that a new fleet work management system would be required. Current systems on the market allow for more vibrant data capture and reporting that will allow Fleet management to develop more robust performance measures in order to more actively monitor and manage the work processes. Management will be including this project in the 2021 Capital Budget.

Table 1 – Summary of Significant Risks

Risk	Total No. of Risks	Risks Before Controls			Residual Risks After Controls		
		High (15 to 25)	Med (9 to 14.99)	Low (1 to 8.99)	High (15 to 25)	Med (9 to 14.99)	Low (1 to 8.99)
Reputation	0	0	0	0	0	0	0
Operational	11	11	0	0	2	8	1
Financial	11	11	0	0	2	8	1
Legal	0	0	0	0	0	0	0
TOTAL	22	22	0	0	4	16	2

Table 2 – Significant Risks

Risk	Risk Description	Risks Before Controls	Residual Risks* After Controls
F1/O1	Insufficient capital funds may be available to replace aging vehicles and equipment to manage their lifecycle costs effectively	25	15
F2/O2	Fleet replacements decisions may not be supported by assessments of need and suitability for service	25	15
F3/O3	Fleet replacement decisions may not be supported by assessments of age, condition, usage, and risks of failure	25	10
F4/O4	Business cases may not be required to support leases or longer term rentals	17.5	12
F5/O5	Vehicles and equipment may not be repaired during non-peak service periods	20	12
F6/O6	Vehicles and equipment may not be repaired efficiently	17.5	10
F7/O7	Vehicles and equipment may not be repaired effectively	20	8
F8/O8	Vehicles and equipment may not be repaired economically	17.5	10
F9/O9	Controls over parts, supplies and fuel may not be effective	17.5	10
F10/O10	Parts may not be supplied in a manner that supports the timely delivery of maintenance services	20	12
F11/O11	Cost recovery for fleet services may be insufficient and distort the costs for other programs in the City	20	14.5

* We recommend taking action to reduce residual risks that are higher than 10.

Appendix 1 – Risk Assessment Criteria

Impact	Services	Technology	People	Strategic	Legal/Reputational	Financial
Very Minor (1)	<ul style="list-style-type: none"> Less than 90% of service objectives achieved. 	<ul style="list-style-type: none"> Minor disruptions of secondary systems or data loss or corruption. 	<ul style="list-style-type: none"> Minor reportable employee injury. Increase in number of union grievances. 	<ul style="list-style-type: none"> Minor instances of actions that are at odds with strategic priorities. 	<ul style="list-style-type: none"> Small amount of negative media coverage or complaints to City. Non-lasting damage or no reputational damage Theft or Fraud under \$1,000. 	<ul style="list-style-type: none"> Uninsured loss, cost overruns or fines < \$10K Insured loss < \$100K Loss of replaceable asset.
Minor (2)	<ul style="list-style-type: none"> Less than 75% of service objectives achieved. Unable to perform non-essential service. 	<ul style="list-style-type: none"> Disruptions of systems or data loss or corruption Disclosure of non-confidential but embarrassing information. 	<ul style="list-style-type: none"> Reportable employee injury. Loss of key staff but able to recruit competent replacements Significant increase (>10%) in number of union grievances. 	<ul style="list-style-type: none"> Instances of actions at odds with strategic priorities. 	<ul style="list-style-type: none"> Complaints elevated to the Director level. Short-term repairable damage to City's reputation Public outcry for discipline of employee. Moderate amount of negative media coverage Theft or Fraud of \$1,000 to \$10,000. 	<ul style="list-style-type: none"> Uninsured loss, cost overruns or fines of \$10K to \$100K Insured loss < \$100K - \$1M Inefficient processes City's actions result in reduced economic development.
Moderate (3)	<ul style="list-style-type: none"> Less than 60% of service objectives achieved. Unable to perform essential service but alternatives exist. 	<ul style="list-style-type: none"> Disruptions of significant systems or data loss or corruption Recoverable loss from important system. 	<ul style="list-style-type: none"> Multiple employee injuries or long-term disability from one incident. Inability to retain or attract competent staff. Increase in stress leave, sick leave or WCB claims. Work-to-rule union disagreement or short-term strike. 	<ul style="list-style-type: none"> Numerous actions are at odds with strategic priorities. 	<ul style="list-style-type: none"> Public/media outcry for removal of management Long-term damage to City's reputation Citizen satisfaction survey indicates unacceptable performance. Complaints elevated to Council level. Results inconsistent with commitments made to citizens Theft or Fraud under \$100,000. 	<ul style="list-style-type: none"> Uninsured loss, cost overruns or fines of >\$100K to \$1M Insured loss >\$1M to \$10M Having to delay payments to contractors/suppliers. >20% current demands cannot be services with existing and approved infrastructure. City's actions results in lost revenue for significant number of City businesses.

Impact	Services	Technology	People	Strategic	Legal/Reputational	Financial
Major (4)	<ul style="list-style-type: none"> Less than 45% of service objectives achieved. Unable to perform an essential service where no alternative exists. 	<ul style="list-style-type: none"> Unrecoverable loss of information from important system. External exposure of important information Unavailability of significant systems or data loss or corruption. 	<ul style="list-style-type: none"> Serious injury of one or more employees Legal judgment against the City in workplace matter. Turnover of key employees Sustained strike of services. 	<ul style="list-style-type: none"> Numerous actions are significantly at odds with the strategic priorities. 	<ul style="list-style-type: none"> Public/media outcry for change in CAO or Council Public or senior officials charged or convicted Legal judgment against the City in a workplace matter Integrity breach resulting in decreased trust in City Council or Administration. Theft or Fraud >\$100,000 	<ul style="list-style-type: none"> Uninsured loss, cost overruns or fines of >\$1M - \$10M Insured loss of >\$10M - \$100M Unable to pay employees and contractors on a time. Failure to maintain financial capacity to support current demands. City's actions impair local economic conditions.
Extreme (5)	<ul style="list-style-type: none"> Less than 30% of service objectives achieved. Unable to perform several essential services where no alternatives exist. 	<ul style="list-style-type: none"> Unrecoverable loss of information from critical system. External exposure of confidential information Unavailability of critical systems or data loss or corruption. 	<ul style="list-style-type: none"> Death of an employee Major legal judgment against the City in workplace matter. Significant turnover of key employees with ELT Sustained strike of key services 	<ul style="list-style-type: none"> Many actions are significantly at odds with the strategic priorities. 	<ul style="list-style-type: none"> Public/media outcry for change in CAO or Council Senior officials criminally charged or convicted Severe legal judgment against the City in a workplace matter Major integrity breach resulting in complete loss of trust in City Council or Administration. Theft/Fraud >\$1,000,000 	<ul style="list-style-type: none"> Uninsured loss, cost overruns or fines >\$10 M Insured loss > \$100M File for bankruptcy Failure to maintain financial capacity to support current demands. City's actions significantly impair local economic conditions.

Likelihood	Unlikely (1)	Possible (2)	Probable (3)	Likely (4)	Very Likely (5)
	Less than 20%	>20% but < 40%	>40% but < 60%	>60% but < 80%	80% or more
	Less frequent than every 10 years	May occur in the next 2 years	Will occur this year or next year at least once	May occur regularly this year	Will occur within a matter of months may reoccur often