Revenue Streams Audit Report – Security Deposits, Accident Claims, Development Charges, Performance Bonds, Tax Levy & Sales of Recyclables

April 2006

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1.0 Management Summary

Audit Services has completed an audit of the following six revenue streams: security deposits, accident claims, development charges, performance bonds, tax levy, and sales of recyclables.

The scope of the audit included:

- Identifying the various revenue streams within York Region (the Region);
- Meeting with applicable personnel to understand the level of risk associated with each stream; and,
- Performing a more detailed process analysis for the revenue streams identified as high risk.

Based on our discussions and assessment, six streams were identified as high risk and highlighted for our follow-up. Audit Services did identify other revenue streams as high risk, i.e. POA collections and Housing York Inc. rental income, however these were not included in this project because these streams have been, or will be, examined in a separate review as per Audit Services' three year audit plan.

Through the work performed, we noted process and reporting opportunities for improvement relating to:

Security Deposits

- Re-examination of the security deposits process to eliminate inefficient and ineffective steps and files.
- Using the Security Register in a more proactive method to administer security deposits.
- Allowing personnel from outside Finance to access the Security Register to increase monitoring and updating of the Security Register.
- Introducing administrative controls such as 'For Deposit Only' stamps to protect cheques against tampering, and numerical sequence controls for security deposit receipts at the Woodbine and Administrative Offices.
- Increasing the timeliness of Security Deposit deposits.
- Cross training of employees in the Security Register application.
- Resolving stale dated and zero-balance security deposits.
- Recording deficient security deposits into the Security Register to ensure timely follow-up and resolution, before work commences on projects with deficient security deposits.
- Administration of Transportation & Works (T&W) operational files related to security deposits.
- Implementing inventory control measures between the Security Register and actual files.

Accident Claims

- The inclusion of accident claim fees in the Service Fee By-law.

- More efficient and effective processing of accident claim recoverables.
- Resolution of Aging Summary concerns.
- Ensuring capture of accident claim recoverables through a periodic review of the T&W Dispatcher's Log.
- Purchasing Policy requirements relating to Vendor - Self Port Data Systems.

Performance Bonds

- Introduction of a corporate policy governing the proper use of performance bonds.
- Creation of procedures assigning the responsibility for, and tracking of, performance bonds.

Tax Levy

- Requesting an increase in supporting documentation from local municipalities.

A draft copy of this report has been discussed with Finance and T&W management, who have provided us with their comments and who have agreed to take the necessary action to implement the noted opportunities.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

We wish to thank the Commissioners, Directors, and staff in Finance and T&W for their co-operation and assistance in providing Audit Services with requested documentation and timely responses.

2.0 Introduction

As part of our Audit Plan, which accommodates various types of audit projects, consulting engagements, and follow up requests from the Audit Committee and Management, the Audit Services Branch performed an audit of high risk revenue streams.

The Audit Plan, approved by York Region's Audit Committee, is developed annually by the Audit Services Branch using a Risk Assessment Methodology. This approach helps to define the different risks associated with the various processes here at the Region. It is one tool that Audit Services uses in assessing where best to allocate audit resources.

Traditionally, expense control and cost cutting garners a fair amount of attention from Region management to help manage budget constraints. Just as important, however, is the necessity of ensuring the timely movement of funds into the Regional office.

Audit Services identified over twenty five reasonably different revenue streams within the Region. To determine which streams to review at a more detailed level, Audit Services considered the following issues:

- Had the revenue stream been audited recently under another audit?
- Was the stream scheduled to be audited in the timeline covered by the Audit Plan?
- How significant would the stream become over the next few years?
- How familiar were we with the stream and the processes behind it?

After consideration of these questions, Audit Services assessed the risks associated with each stream and assigned each a measure of high, medium, or low. The resulting selection of streams reviewed was:

Security Deposits – Security deposits consist of letters of credit (LoC) and certified cheques submitted to the Region by outside parties (applicants), to fulfill a contractual obligation. Security deposits help mitigate the risk of any loss to the Region, should the quality of work performed by the applicant not be adequate and requiring rectification by the Region. Security deposits can range from a $10,000 deposit for mud-tracking and builders' damage on regional roads, to a LoC over $1 million for subdivision development.

For December 31, 2005, the Finance Business Planning and Budgets Branch reported that the Region held over $131.5 million in security deposits; $121 million in letters of credit and $10.5 million in certified cheques.

Accident Claims – Accident claims represent payments to the Region, usually from insurance companies, for reimbursement for damage caused to regional property by the insurance company's client.

Invoices to responsible parties usually consist of time & material charges to repair the damage, plus a $150 administration fee. Prior to May 2003 the administration fee was 18% of the net invoice value. In 2003, the Region collected over $920,000 in reimbursements. With the increasing number of roads, and traffic on the roads, recoverable accident claims will continue to rise in the future.

Development Charges – Development charges are fees charged by the Region to individuals or organizations who wish to develop properties within the Region's boundaries. There are two types of development charges: residential and non-residential. The amounts charged represent the Region's cost of supplying the newly developed area with services such as water, sewer, roads, and transit.

In 2005, the Region collected approximately $142 million that will eventually be spent on capital infrastructure.

Performance Bonds – Performance bonds represent a potential source of revenue. Performance bonds are a financial instrument used by the Region to protect itself in cases where the work executed by the contracting party falls short of contractual obligations. Performance bonds can be up to 100% of the project cost, and are typically used for the more expensive projects.

Tax Levy – The tax levy, collected on behalf of the Region by the local municipalities as allowed by the Municipal Act, is driven annually by the budget process. For 2005 the Region's tax levy was $568 million, to be used in accomplishing the objectives of the $1.7 billion Regional budget.

The Net Tax levy adjustments by the local municipalities were estimated to be $20.3 million, almost 3.6% of the tax levy amount.

Sales of Recyclables – The Region collected over $5.7 million dollars in sales of recyclables in 2005. With the annual objective of increasing the percentage of waste being diverted to recycling, coupled with an increasing population base, this revenue source will continue to grow dramatically.

With the summer 2005 opening of the Bales Road Waste facility, more efficient and effective processing of waste should also help to increase sales.

3.0 Objectives and Scope

The objectives of this engagement were to:

- Identify and rank, based on risk, the revenue streams at the Region at a high level.
- To establish a risk & control matrix for identified high risk revenue streams.
- Highlight opportunities for improvement in the selected revenue streams.

The audit objectives were accomplished through:

1. Assigning a risk level for identified streams using budgeted and actual dollars, and a description of the revenue stream's sources.
2. Interviews with the individuals responsible for the following high risk revenue streams: Security Deposits (i.e. letters of credit), Accident Claims, Development Charges, Performance Bonds, Tax Levy and Sale of Recyclables.
3. A review of the necessary documentation and sufficient detail testing to satisfy objectives.

Note: As per discussion with the Manager, Operations Solid Waste, the processes for the sales of recyclables will be changing for the Bales Road recycling facility, and as such, were considered out of scope for this audit.

The Woodbine Office has since been moved to the new Bales Drive facility. The procedures for security deposits and accident claims, reviewed during the course of this audit, were those that existed at the Woodbine Office. Procedures at the Bales Drive facility have not been reviewed.

4.0 Detailed Observations and Recommendations – Security Deposits

4.1 Re-examination of Security Deposits Administration

Observation

The present process used by the Region to record, track, and retire security deposits contains a number of inefficient steps. For example:

- When a security deposit is received, there is an operational file for the project in T&W and a financial file is also created in Finance. Duplication of files requires administrative effort for ongoing daily operation, and additional administrative efforts to help ensure that the two file systems are synchronized with each other.
- For any action required on a security deposit, i.e. the Region needs to draw down or return a security deposit; T&W will create and send a form letter request to Finance from the Commissioner of T&W. This request will require Finance to create a form letter request from the Commissioner of Finance to the bank. A third letter is created for the client from the Commissioner of T&W. This increases the number of documents to support one transaction, and increases the possibility of transcription errors and timing delays.
- Security deposit funds received by outside locations are required to be brought into the Administration Office for bank deposit. Funds have been known to travel from the Woodbine Office to T&W Business Services to Finance before finally being deposited. The possibility of defalcation and possibility of loss increases as the number of individuals required to handle the funds increases. The process of depositing funds into the bank also becomes unnecessarily burdensome.
- With the opening of Bales Drive, T&W desires to create a ‘one stop shop’ at this location to handle customer requests and requirements, transporting deposit funds for bank deposit to the Administration Office becomes more inefficient than at present. First, the distance between Bales Drive and the Administration Office is greater than the distance between Woodbine Office and the Administration Office. Second, deposits currently received by T&W at the Administration Office will now be received at the Bales Office and delivered to the Administration Office.

  In the interest of saving time, and perhaps processing fees, security deposits are sometimes held back from being deposited for projects that will be outstanding for short periods of time (one to two weeks). This creates an incomplete transaction trail that negatively impacts on the Region’s ability to rely on management’s internal controls structure for permits and security deposits handling.

Recommendation

T&W and Finance management re-examine the most efficient location for the administration of security deposits. As a minimum, the duplication of processes and systems should be eliminated.

Management Response

Director Business Planning & Budgets

Following our recent internal review of the processes associated with this subject, we will meet with T&W to address the most efficient location for the administration of security deposits. In addition, we will address with T&W potential remedies to any duplication of processes and systems, based on your observations. It is anticipated that this follow-up will be completed by the end of Q4, recognizing summer vacations and the 2006 budget cycle.

4.2 Security Register Application

Observation

We noted the following opportunities for improvement relating to the Security Register application:

1. Incomplete or incorrect information - Some of the data, i.e. dates, did not convert correctly when the new application was implemented. The dates are highlighted as defaulting to December 31, 1899. The conversion errors were never corrected.

   Other data, i.e. relating to the type of security and auto renewal, was keyed in incorrectly and has not been corrected.

   Incomplete and inaccurate management reports increases the risk of incorrect management decisions being made when the faulty reports are used.

2. Edit listings are not produced and used to help ensure that changes made to the securities database is correct, complete and accurate.

   This increases the risk of errors being introduced into, and unauthorized changes made to, the securities database.

3. Currently there is no employee that is cross trained on the security deposit application that can act as a back up. The employee who is cross trained is on maternity leave.

   Without a back up, the risk of errors being introduced into, and unauthorized changes made to, the securities database increases if the current administrator cannot perform their function.

Recommendation

Finance Treasury Management should ensure that:

1. The security register is complete and accurate. Errors should be corrected.
2. All changes to the security register database should be highlighted on an edit listing for review and sign off by management.
3. A second individual who is present in the office should be cross trained on the application.

Management Response

Manager Capital & Development Financing

- Conversion errors have all been corrected. Done.
- Will print out edit list and attach to monthly reconciliation for review by Manager. Procedure now in place.
- Senior Business Analyst and Financial Analyst have been trained on system as well as Manager. Formal procedures drafted and currently being reviewed. Formal procedures document to be submitted for approval Q3 2006.

4.3 Security Register Listings of Stale Dated Cheques Totaling $5,150

Observation

Sixteen stale dated cheques, ranging from 15 to 24 years old and totaling $5,150, reside on the Security Deposits Register. The Region has attempted to return these deposits to the applicants, however the cheques were returned to the Region as undeliverable. The Region has been unable to contact the applicants.

The list below highlights these cheques:

Receipt #	Receipt date	Amount
6041S	19-Jun-86	$ 200.00
6304S	22-Dec-86	$ 900.00
6161S	05-Sep-86	$ 200.00
6150S	28-Aug-86	$ 300.00
6784S	22-Jun-87	$ 200.00
6689S	04-Jun-87	$ 300.00
6663S	28-May-87	$ 300.00
6659S	26-May-87	$ 400.00
6652S	22-May-87	$ 300.00
6874S	11-Sep-87	$ 300.00
7168S	21-Apr-88	$ 300.00
7078S	22-Mar-88	$ 300.00
7013S	28-Jan-88	$ 350.00
8311S	02-Jun-88	$ 300.00
8834S	15-Nov-88	$ 200.00
9121S	22-Aug-89	$ 300.00
		$ 5,150.00

'Housing keeping' of paper and electronic records, when not performed regularly, can result in out of date and irrelevant management information that is carried in perpetuity.

Recommendation

To help ensure that the Security Register is kept free of out dated and irrelevant information, a last attempt should be made to render reimbursement to applicants. If the cheques become stale dated or returned once again, the relating file should be made inactive on the Security Register. The funds represented should be taken into income. All documents pertaining to the stale dated cheques should be preserved and stored as per records management procedures relating to security deposit files.

Should repayment of these security deposits become necessary in the future, paper documents can be retrieved to support the claim.

Management Response

Manager Capital & Development Financing

We have previously received an opinion from our Legal Department that, as we are bound by certain rules pertaining to the use of security deposits, we cannot simply remove the outstanding securities from the register and take the funds into income. We will work with Legal to re-assess the current policy.

Associate Counsel Construction Law

Legal is in agreement that we should review the prior opinion and re-assess the Region's current policy on this matter in light of recent changes to statutory limitation periods in Ontario.

Target date for review and re assessment: Q2 2006.

4.4 Security Register Listings of $0 Security Deposits

Observation

There were approximately 35 active security deposits on the Security Register with a $0 balance. The deposit had been drawn upon by the Region to perform work that should have otherwise been performed by the applicant. Eight of the 35 deposits are over five years old.

Receipt #	Receipt date
11572A	31-Mar-97
11573A	31-Mar-97
11575A	31-Mar-97
12570	02-Jun-99
12573	02-Jun-99
12601	09-Jul-99
12626	03-Aug-99
12676	15-Sep-99

As per our discussion with Finance Business Planning and Budgets:

- No action is taken to close these accounts unless instructed, usually by T&W Operations.
- Periodic meetings are not held with T&W to update the status of the $0 balance projects.

'Housing keeping' of paper and electronic records, when not performed regularly, can result in out of date and irrelevant management information that is carried in perpetuity.

Recommendation

Finance Business Planning and Budgets should meet with T&W periodically to determine the status of $0 deposits. The Security Register should be updated accordingly.

Management Response

Manager Capital & Development Financing

- Majority of these securities have now been reclassified as inactive.
- In future, any securities that are drawn / reduced to zero will be made inactive.

4.5 Periodic Verification of Security Register Deposit Information to Source Files

Observation

A periodic comparison of Security Deposit Register information to T&W operational files has never been performed. We estimate that approximately 1,500 projects are currently listed on the Security Deposit Register.

The Security Deposit Register contains an inventory listing of active and inactive capital and operational projects. This 'book inventory' should be verified periodically to help ensure that information is complete and accurate.

Finance & T&W do not have the required documentation to determine if a $25,000 security deposit, thought to have been paid back to the applicant in 1991, was actually refunded. The applicant has called the Region and requested a refund the deposit.

Recommendation

Finance Business Planning and Budgets & T&W management should help ensure that inventory is reflected accurately and completely in our security deposits records through periodic verification. A cyclical inventory process would help to ensure that the entire inventory is verified annually.

The Region may be required to refund the applicant $25,000, if it cannot prove that the reimbursement was already made. Payment records must be located to help ensure that the Region is not refunding the deposit for a second time.

Management Response

Manager Capital & Development Financing

- T&W is commencing a record verification process as part of their move to the Bales Drive facility. Business Planning & Budgets will coordinate efforts with them to help to ensure the accuracy and completeness of Finance security deposit records inventory. Completion of this project will be dependant upon the timing of the T&W verification process. Will contact T&W to determine status of verification process.
- Procedures document will outline what documentation is required for each Finance security deposit file. Document requirements will be revisited with involved staff. Done.

4.6 Comparison of Finance Security Deposits Register to T&W Project Files

Observation

Files relating to projects with security deposits could not be easily located in T&W Roads Transportation. As a result, 17 of the 32 project files selected for testing, or 53%, were reviewed. In discussion with T&W Roads Transportation personnel relating to file maintenance and monitoring, we noted the following opportunities for greater file control:

1. There is no formal requirement or procedure to send closed files to storage on a periodic basis.

   Without formal procedures relating to preparing and sending closed files to storage, employees lack guidance on the accepted method of performing this function.

2. Closed files are not physically segregated from the active files, nor are they tracked. When a file is closed, it is physically stamped as 'closed' and returned to the general file population.

   Not physically segregating closed project files results in repetitive steps to relocate files for archiving.

3. Hard copy files are not periodically reviewed and compared to a master listing to help ensure that all files are present. Numerous file listing are available for past periods, however it may be difficult to ensure the various lists are complete and accurate.

   Without an accurate and complete master listing of all files, there is an increased the risk that some files will be misplaced and become permanently lost.

4. T&W Roads Transportation operates on a reactive basis relating to the administration of the projects with securities. Security deposits are not Region funds and it is the responsibility of the owner to request a return of funds. If the funds are not requested, the Region suffers no loss.

   Administering to files on a reactive basis may result in the ongoing administration of some files in perpetuity. As files get older it will become more difficult and time consuming to identify the rightful owners of the funds and how much of the deposit to reimburse. A lengthy amount of time may be required to locate files and documentation, assuming they can eventually be found. This not an efficient nor ineffective method of operations

5. Files are divided between three inspectors who are assigned a geographic area of the Region. Based on an estimate of 1,500 active files with security deposits, this equates to approximately 500 projects per inspector, not including files without security deposits. Familiarity with every project becomes difficult at this point. As a result, questions regarding the status of a specific file could not easily be answered. It is possible that some files may never be reviewed by the responsible inspector if issues relating to the project never arise, and the project takes years to accomplish.

   Time gaps between regular file review and follow-up increases the risk that physical files are lost, and project records become too old for proper follow up. For example, inquiry relating to one security deposit revealed that it would be difficult to locate the related T&W Roads Transportation. Information on the Security Register was incomplete and the hard copy T&W Roads Transportation had been placed into storage. The project has been active since 1985 and a $3,000 security deposit was submitted to the Region. We could not determine if the project was complete, or if the funds had been withdrawn or paid back to the applicant.

6. T&W Roads Transportation could not provide an exact number of active files on hand. This was due to a number of reasons:

   a. The status of closed files is not noted as ‘closed’ in T&W Roads Transportation electronic file records until periodic collection of files for archiving.

   b. Prior to January 1, 2000, a listing of files was kept using an MS Excel spreadsheet. This spreadsheet was replaced when new tracking software was introduced; however older records were not transferred into the new application.

   Without a complete and accurate database of current and closed files, T&W ID&C management cannot ensure that project files have been administered properly.

7. The Finance Security Deposits Register is not used to perform a comparison of that listing to actual files on hand.

   Periodic comparison between Finance and T&W records helps to reduce the risk of discrepancies that could indicate concerns relating to security deposits. For example, security deposits being held in perpetuity, when they could be taken into income.

8. Files do not appear to have a logical build up, i.e. a table of contents and sections, into which file documents can be organized in an understandable sequence. There are two parts to a T&W Roads Transportation hard copy file: one part will consist of project drawings, and the second part (created by the inspectors) consists of inspector notes and other project file correspondence. This file may or may not hold agreements, drawings, emails and letters, hand written notes, pictures, etc. Two of the 17 files reviewed raised questions with respect the Region’s requests for the developer to perform required work. If not performed by the developer, the Region would perform it and invoice the developer for the costs. It appears that the work was performed; however it could not be determined who performed the work, when it was performed, and if the developer needed to be invoiced for the cost of the work.

Without consistent file documentation, management cannot ensure due diligence of project administration. Proper file documentation should provide ready, pertinent information to help ensure due diligence of project administration.

9. One misfiled document was found in the file related to CR12531. The document belonged to T&W approval V.01.99 and V02.99, residential subdivision 19T-97V38.

   Misfiled documents could result in important information relating to a project not being found when needed and lead to a liability for the Region.

Recommendation

To become more proactive in file maintenance and preparation:

1. A formal process should be developed for proper filing requirements and file contents. This will also help to reduce inconsistencies when different employees handle the same project file over the life of the project.

   This would also help in ensuring file contents and status indicate due diligence.

2. Closed files should continue to be marked as closed and then physically segregated until they are boxed for archiving. This would help eliminate time spent collecting closed files for storage and still leave the file available for reference until archived. Finance Business Planning and Budgets should be immediately notified of closed projects. Electronic records should be updated accordingly, when the project file is closed.

3. A complete listing of project files should be created and periodically compared to the Finance Security Deposits Register for accuracy and completeness of information.

   This would help ensure the Security Deposit Register is maintained in balance with T&W Roads Transportation related files.

4. A review of all files should be scheduled, starting from the oldest. The review should encompass verifying file contents and the current status of the project, and, noting any questions that need to be followed up. The review of older files, and subsequent actions should be documented for potential future reference.

   This would help to ensure the T&W Roads Transportation records and Finance Business Planning and Budgets Security Deposit Register is up to date.

5. In some cases older files may not be resolvable, i.e. people and / or companies cannot be located. In these cases, the Region should document the steps it took to update the file and take the security deposit into income. Should the funds become payable at a future date, the Region can process the request and issue a cheque to the owner.

   This would help to ensure that the Region is not administering out of date files.

Management Response

Manager Development Approvals

T&W Roads Transportation is in general agreement with the observations of the above audit and has been taking steps to improve the file management system over the last number of years. It is realized by T&W Roads Transportation that a lot of work is still needed to make further improvements to the file management system.

Examples of areas where improvements have already been made in recent years include:

a. Staff has been in the process of registering hardcopy files on the Region's Versatile filing data base system. Almost every active hard copy file has been registered. The intent is to complete the task prior to the move to the new facility in the summer of this year. Completed in August 2005.

b. An electronic filing system, called the Development Tracking System was created to track files and certain important features of their contents.

c. A system of placing a red folder indicating hardcopy files that have been removed from the filing cabinets and who removed them was initiated.

d. Electronic spreadsheet lists of approved construction files and hardcopy maps of their locations were created to assist in file access and management.

e. Guidelines for staff were established that dealt with some procedures for file management.

f. Other electronic lists were developed, including a 'Fees Received List' and the Finance Department's 'Securities Register' and 'Financial Securities Deficiency List'.

The above improvements have dramatically reduced incidents of missing files, and have dramatically increased the speed of locating the appropriate files. However, more improvements are still required.

The above audit report lists 5 recommendations. Below is T&W Roads Transportation response to each recommendation in the same numerical order as listed in the above report:

1. A formal process will be developed, through staff consultation, and documented in the Development Approvals Guidelines, by the end of March 2005, that deals with the issues stated below. Completed March 2005.

2. T&W Roads Transportation management will attempt to achieve through staff consultation, buy-in, from the affected staff, regarding the segregation of closed files until they become inactive and are then archived. Implementation of the above is intended by the end of April 2005. Completed April 2005. T&W Roads Transportation has already been notifying the Finance Department's Capital and Development Financing Section and the Insurance and Risk Section whenever a security is released. This is the trigger that closes a file. However, T&W Roads Transportation typically needs to hold onto the closed file for a period, approximately a year, before considering it inactive and then archiving it, because documents may continue to trickle in, for filing, during that period. The versatile data base is already currently being updated whenever a file is archived. Some of the other electronic lists have been updated when files are closed. However, not all of the lists have been updated. A student employee has been dedicated to update the remaining lists and data bases regarding the status of closed files. It is intended that all electronic lists will be updated as to the status of closed files, by the end of the summer 2005. Completed on time.

3. A student employee has been dedicated to undertake a comparison between the files in T&W Roads Transportation and the Securities Register in the Finance Department. Any missing information in the T&W Roads Transportation electronic files is being updated based on information in the securities register. Also, T&W Roads Transportation will

compile a list of files that do not appear in the securities register. This will be provided to the Finance Department in order to update their securities register. The completion of the comparison between the two files, updating the T&W Roads Transportation files and providing a deficiency list to the Finance Department, is anticipated by the end of the summer 2005. Completed in time. It is also recommended by T&W Roads Transportation management that a meeting be organized between T&W Roads Transportation and the Finance Department, before the end of March, 2005, to develop a formal process dealing with the better handling of deficient securities with the aim of prevention of the approval of the development proposals prior to the confirmation from the Finance Department that the securities are satisfactory. In addition to the above, prior to the move to the new facility in the summer, an additional temporary clerical staffing assignment has been dedicated to go through every hardcopy file and check for closed files to be archived, check for misfiled and missing files and to check for unapproved files without securities, that have been dormant for more than 5 years, in which case they are to be archived. Completed April 2005.

4. T&W Roads Transportation management agrees that files that have been dormant for a long time yet still considered active, should be reviewed starting from the oldest. This is a task that requires significant inspector time to accomplish. Files need to be properly documented and acted upon. This will require file review, checking for unresolved invoices, contacting applicants, conducting site visits and inspections, sending correspondence, awaiting a response or construction work or other action to be completed by the applicant within a reasonable deadline, then either releasing the financial security, if the applicants have met their obligations, or cashing the financial security and then making arrangements for other parties to carry out the work, or if that is not possible, then depositing the monies as Regional income. All of this must be properly documented in case the applicant issues a claim in the future. Currently staffing resources are not available to accomplish this task, and T&W Roads Transportation requires the support of the T&W BSS to assist in determining unresolved invoices and the support of the Finance and Legal Departments with respect to the suggested approach of depositing old securities as Regional income. T&W Roads Transportation suggests that meetings with the Legal and Finance Departments be held to assess the feasibility of depositing old securities as income. If a positive outcome is reached from these discussions, then arrangements to seek the financing of the needed additional staffing may be pursued by dedicating the future income generated from the above mentioned depositing of the securities, towards the hiring of inspection staff to perform the task at hand. If, on the other hand, the outcome of the discussions is negative, then the current staff will be asked to undertake the task by starting with the oldest file and moving forward, to the best of their ability. In this case unresolvable files may continue to remain active indefinitely. The Region is currently holding approximately $1.3 M in securities that are between 10 to 35 years old. It is estimated that a 2-3 year contract for an inspector will accomplish the task of clearing up the old securities, however, a temporary contract position will not be sufficient to maintain an uncluttered inventory of old securities beyond the expiry date of the contract. Therefore, T&W Roads Transportation management will endeavour to seek approval for a permanent staff member to commit to the continual maintenance of an up-to-date securities inventory as well as to relieve the Development Approvals Section of T&W Roads Transportation, of other pressures that it is currently facing, due to the enormous growth at the Region and the continual complexity of development procedures and processes, over recent years, with no additional resources having been dedicated to this section in over four years.

Status is ongoing: Attempted to hire a permanent staff member, but, it was not approved. However, a student was hired to assist inspection staff to carry out work. A student's effectiveness is limited, but a process has been put in motion to resolve old securities, and as a result, we now have acted upon many old securities and we also have a new list that shows all the securities that we have acted on. It is an ongoing process but it may take a number of years to complete.

5. This was addressed in number 4 above.

4.7 Review of Issued Security Deposits Receipts at the Woodbine Office

Observation

We reviewed 44 security deposit receipts issued by the Woodbine Office for a nine month period in 2004 and noted the following:

- There were 21 security deposits, 48% of those reviewed, where the name, date, or name & date on the receipt were different than the Finance Security Deposits Register. The date used in the Security Deposit Register is the date the receipt was keyed into the Register, and not the receipt date. Name differences occur when the applicant's name differs from the name on the cheque.
- Four of the receipts, or 9%, could not be found in the Security Deposit Register. Follow-up determined that the receipts had not been sent to the Administrative Office for deposit, but had been held at the Woodbine Office pending completion of the work. It was anticipated that the work would be performed prior to the cheque being deposited, and allowed for a more timely reimbursement of funds.
- Three receipt numbers, or 7%, were noted as missing from the receipt books: #026855, #049976 & #049977. These receipts appeared not to have been used and were thrown into the garbage because of errors made in the receipt.

Management controls are weakened when all transactions cannot be verified to be valid due to a broken audit trail. An incomplete audit trails make it very difficult to rebuild the transaction should it become necessary. Weak controls over transaction validity no longer help ensure the Region and the employee are protected should the transaction come into question.

Recommendation

- The date that should be keyed into the Security Register should be the date payment was received and the receipt issued. This can be accomplished by allowing Woodbine Office access to the Security Deposits Register. Control over the register can be maintained by Finance through the use of edit listing. This would help to ensure a more complete and accurate audit trail.
- Finance Business Planning and Budgets management should consider decentralizing input access to the Security Deposit Register to the Woodbine Office. Control over new entries can be maintained through edit listings printed in Finance Business Planning and Budgets.

- All security deposits must be deposited into the Region's bank account. The deposit and subsequent reimbursement provides a complete audit trail for the transaction.
- T&W Business Support Services should investigate the feasibility of allowing the Woodbine Office to make deposits into the Region's deposit account. This would help eliminate the need to deliver security deposit funds to the Administrative Office, provide for more timely deposits, and reduce the risks associated with cash & cheques handling.
- To further reduce risks associated with cash & cheques handling, consideration should also be given to allowing the use of credit cards and INTERAC.
- All copies of receipts from the receipts book should be accounted for. If an error is made when completing a receipt, the receipt should be voided and remain in the receipts book.

Management Response

Manager Financial Services – T&W

T&W has addressed the noted issues as follows:

1. Security deposits will not be held in the future. To resolve the length of time for processing deposits, T&W and Finance are exploring the use of credit cards and INTERAC. These vehicles for payment would allow for immediate payment and improve the process time which is expected to grow in volume as the Region grows. Done.
2. In the future, any voided receipts will not be destroyed. This issue was discussed with staff and the numerical controls over receipts have been reviewed. Done.
3. Extending the ability to access and update the Security Deposit Register by the Woodbine Office would assist T&W in managing the process more efficiently, minimize the duplication of effort, and allow for more timely input. We are awaiting Business Planning & Budgeting to determine if the granting of this access is viable.

Director Business Planning & Budgets

Following our recent internal review of the processes associated with this subject, we will meet with T&W to address the most efficient location for the administration of security deposits. In addition, we will address with T&W potential remedies to any duplication of processes and systems, based on your observations. It is anticipated that this follow-up will be completed by the end of Q4, recognizing summer vacations and the 2006 budget cycle.

4.8 Review of Security Deposit Procedures at the Woodbine and Administration Offices

Observation

Internal controls can be improved in the following areas:

Overall:

1. Cheques received for payment of security deposit requirements are not immediately stamped 'For Deposit Only' when received from the applicant. Cheque payee information could be altered and misappropriated.

2. Funds collected for security deposits are forwarded to the Administration Office for deposit. On occasion, cheques have also been collected on behalf of T&W Roads Transportation, forwarded to T&W Roads Transportation, and then forwarded to Finance for deposit. This was noted for receipts # 056561 & #056562.

   Funds that require handling by various parties increases the risk of funds being misappropriated. For example, we noted that T&W is attempting to locate a $600 security deposit that was delivered to the Administrative Office at the beginning of October 2004. We do not have a record of the deposit being received at the Administrative Office.

3. Woodbine Office does not have access to the Security Deposits Register application to update records as new security deposits are received. Updating of records is performed by Finance Business Planning and Budgets at the Administrative Office. Duplicate supporting documentation records (applicant's cheque, receipt form, and permit application) are made before documents are sent to the Administration Office.

   This process can result in security deposit information not being current, and management reports being out of date. The Region can deposit funds and not yet have the liability recorded. This is also an inefficient use of the Security Register Application. Duplicate supporting documentation records require additional resources to ensure they are kept up-to-date, complete, and accurate.

4. Unused receipt books are not numerically controlled through a master log book to note the delivery of new receipt books into the Branch.

Woodbine Office

5. Applicant cheques are stored in a petty cash box that does not lock, and maintained in an empty office which cannot be monitored due to partitions and cabinets. This increases the risk that cash and applicant cheques are stolen, and cheque payee information being altered and misappropriated.

Recommendation

1. To help to ensure that the cheque can only be deposited and not cashed, received cheques should be stamped 'For Deposit Only' immediately upon receipt.

2. All cheques should be deposited into the Region's bank account as soon as possible. Finance and T&W management should consider allowing the Woodbine Office to deposit funds directly into the Region's bank account. This will help to ensure a timely, complete and accurate audit trail of the associated transaction.

3. Finance Business Planning and Budgets and T&W management should consider security deposit register update through the Woodbine Office. Source documents could be kept at the Woodbine Office for periodic verification by Finance Business Planning and Budgets, and forwarded for closure of the file.

4. Unused receipt books should be entered into a master log book when received, and signed out for use.

5. To help reduce the possibility of misplaced cheques, all funds should be stored in a secured manner throughout the day and deposited at a minimum on a weekly basis.

Management Response

Director Business Planning & Budgets

Following our recent internal review of the processes associated with this subject, we will meet with T&W to address the most efficient location for the administration of security deposits. In addition, we will address with T&W potential remedies to any duplication of processes and systems, based on your observations. It is anticipated that this follow-up will be completed by the end of Q4, recognizing summer vacations and the 2006 budget cycle.

Manager Financial Services - T&W

T&W has addressed the noted issues as follows:

1. T&W has obtained a "For Deposit Only' stamp and applies it to cheques received. Done.
2. This has been discussed with Finance. An assessment is underway.
3. We are awaiting Business Planning & Budgeting to determine if the granting of this access is viable.
4. Receipt books are currently signed out from Finance Department. In use receipt books held at Woodbine are locked in the desk of the Permit Technician. Unused books are locked in the Woodbine safe and managed by the Senior Financial Analyst. Done
5. The old petty cash box kept in the Senior Financial Analysts Office has been replaced with a new locking box. The Senior Financial Analyst's office was vacant due to staff turnover when the audit was under way. The new Senior Financial Analyst started in November after the audit and the petty cash box has subsequently been moved to the safe. Done.

4.9 Review of the Security Deposits Deficiency Listing

Observation

1. Finance and T&W personnel responsible for the resolution of deficient security deposits do not meet periodically to determine the status of efforts being made to finalize them.
2. Work on projects involving deficient security deposits have been known to proceed.
3. Deficient security deposits are not listed on the Security Deposits Register.

Security deposits are determined to be unacceptable due to additional information required (T&W related), or acknowledgements or bank amendments requirements (Finance related). For August 31, 2004, security deposits worth approximately $1.95 million had been identified as 'deficient' and had yet to be entered into the Security Deposits Register for tracking.

Ramifications could be:

a) Without periodic meetings T&W and Finance cannot ensure that they are in sync with the current status of deficient security deposits. Deficient security deposits may take a few years to resolve.

b) The Region may not have the necessary funds available to repair damage caused by applicants. Projects may be completed, and the security returned before they ever become acceptable and entered in the security register

c) Region is not tracking deposited funds appropriately.

Recommendation

To help to ensure proper tracking of the deposit for management reports, all security deposits should be entered in the Security Deposit Register immediately. Deficient security deposits can be recorded at $0 current value until resolved.

Resolution of security deposits deemed 'deficient' should be timelier and more proactive.

Management Response

Manager Capital & Development Financing

Director Business Planning & Budgets

Following our recent internal review of the processes associated with this subject, we will meet with T&W to address the most efficient location for the administration of security deposits. In addition, we will address with T&W potential remedies to any duplication of processes and systems, based on your observations. It is anticipated that this follow-up will be completed by the end of Q4, recognizing summer vacations and the 2006 budget cycle.

Manager Financial Services – T&W

T&W and Capital & Development Financing will meet to discuss improving the current system taking into consideration the above recommendation.

4.10 Petty Cash Procedures at the Woodbine Office

Observation

Petty cash procedures at the Woodbine Office were reviewed as a result of our examination of how that office temporarily stores security deposit cheques & cash before submission to the Administration Office. Security deposit funds are temporarily stored in the petty cash box.

Audit Services noted a number of opportunities to further strengthen petty cash controls and discussed these opportunities with T&W Finance.

Recommendation

1. T&W Finance should re assess whether Woodbine Office continues to require a petty cash balance.
2. If Woodbine Office requires a petty cash balance, management should ensure that proper petty cash handling procedures are supplied to the petty cash custodian for reference.

Management Response

Manager Financial Services – T&W

1. Petty cash fund procedures for Woodbine Operation Center have been supplied to the custodian. Done.
2. Eliminating petty cash will be analyzed early in 2005 upon the completion of our Region Purchasing Card review. Possible expansion of their use to those who need to make work related purchases will be considered. Done.

5.0 Detailed Observations and Recommendations – Accident Claims

5.1 Administration Fee for Accident Claims

Observation

The administration fee being charged on accident claims has not been authorized by Regional Council. As of May 2004 this fee was fixed at $150 per claim, replacing the original 18% administrative fee charged pre-May 2004.

By-law No. A-197-96-62, which addresses fees and charges for services and activities provided by the Transportation and Works Department, does not address administrative fees for accident claims. Fees and charges authorized by this by-law must be as a result of a "person making a request for a service or an activity". Accident claims do not fall within this requirement.

Recommendation

T&W management should obtain Regional Council approval to charge an administrative relating to accident claims.

Management Response

Manager Financial Services – T&W

T&W BSS staff will review all T & W Fees & Charges and prepare a Regional Council report to amend or add new charges in May 2006. Done.

5.2 Accident Claims Processing Review

Observation

A review of accident claims processing steps revealed that the process can be made more efficient and effective through elimination or streamlining of:

- Manual steps; more reliance placed on automation.
- Reactive nature of current process; increased pro activity.
- Repetitive steps; to rebuild the process so that it moves in one direction.

Seven months are required, on average, from the date of an accident to payment being received by the Region. Approximately six months are required from the date of the incident to the creation and billing of the invoice.

Audit Services is currently working with T&W Finance to modify the process to achieve a more efficient and effective structure.

Recommendation

T&W Roads should review the accident claims process to achieve a more efficient and effective structure.

Management Response

Manager Financial Services – T&W

A revised process was developed and put into place April 2005. Done.

5.3 Aging Summary Review

Observation

A review of the Accounts Aging Summary for Accident Claims for August 2004 revealed:

- The City of Vaughan is listed as having $10,054 currently payable to the Region. As per discussion with Finance Accounting management, it appears that incorrect invoice codes were used on the invoice that caused it to appear on this report. There is a credit balance of $3,198 for another an insurance company. It was felt that this amount is an unallocated payment.
- The Motor Vehicles Accident Claims account, which shows $14,318 as outstanding greater than 120 days, is actually $38,403 outstanding greater than 120 days. A portion of the $38.403 amount was invoiced to the provincial fund. The remaining amount was originally invoiced to individuals and subsequently submitted to the Province for consideration for reimbursement to the Region, but was not invoiced to the Province. The latter amount fell outside the conditions required for payment as stipulated by provincial regulations.
- A copy of the Aging Summary for accident claims is not available to T&W Finance for accounts receivables management. T&W Finance management has requested that they receive a copy of the summary on a regular basis.
- Based on the Aging Summary, approximately 56% of the total outstanding balance is greater than 120 days.

Incomplete or inaccurate information on management reports could cause poor management decisions. The potential for collecting on a receivable diminishes the longer it remains outstanding.

Recommendation

- The Aging Summary should be corrected for all noted errors and made available to T&W Business Support Services on a regular basis.

- An assessment of the receivables listed be performed to isolate, and if necessary write-off, those that are felt will not be received.
- Recovery of the funds is pursued through the provincial fund for accident claims and / or small claims court.

Management Response

Supervisor, Revenue and Expenditure Control
Manager General Accounting

1. Done.
2. Done.
3. Done.

5.4 Reconciliation of Invoice Requests to the Dispatcher's Log

Observation

Under the current process for accident claims, the dispatcher's log is not periodically reviewed to help ensure that all accident claims have been identified and billed to the responsible party for restitution.

This could result in a missed recoverable accident claim.

A test tracing six accidents from the dispatcher's log to accounts receivable revealed that one accident had not been processed for recovery. This incident was brought to the attention of T&W Business Support Services, and the incident was billed on Sept. 22, 2004 for restitution of $3,232.69.

Recommendation

A periodic review of the dispatcher's log by T&W Business Support Services should be performed to help ensure that all recoverable accidents have been processed.

Management Response

Manager Financial Services – T&W

1. T&W is now reviewing the dispatchers log to ensure accidents are recovered weekly.
2. The Department strongly feel the best check to ensure all accidents are recovered is to ensure all Police Incident Accident Reports are investigated for recoveries. This process will continue in addition to monitoring the Dispatcher's log.

5.5 MS Access Database Security

Observation

Changes to the MS Access database developed to help track accident claims for the purpose of creating invoice requests cannot be captured. The database is stored in a directory on the local area network to help ensure that the database is backed up daily. However the database is also accessible to other individuals who have access to the directory.

Inappropriate changes and deletions to recoverable accident information could be made and go unnoticed, resulting in otherwise recoverable claims not being recovered.

Recommendation

Transportation & Works management should ensure that the database remains on the LAN and in a directory with restricted access. This would help to ensure unauthorized changes to the database.

Management Response

Manager Financial Services – T&W

T&W has addressed the noted issues as follows:

- Added a password to the MVA ACCESS Database to restrict access. Done.
- Made a request to relocate MVA ACCESS Database to a secured Network on the LAN. Done.

5.6 Southport Data Systems

Observation

Southport Data Systems, used by T&W Roads - Traffic & Safety to scan Motor Vehicle Accident Reports for further analysis, is being paid on a monthly basis without having a contract with the Region.

From May 2002 to September 2004, Southport has been paid $43,580. This does not include a February 2003 payment of $27,248, paid for work performed under contract B7624.

The relationship with Southport Data appears to be ongoing. Region payments to this vendor are quickly approaching $50,000. As per the Purchasing By-law:

Purchases between $50,001 and $100,000

- *Purchases that have a total cost of between $50,001 and $100,000 may be authorized by the respective Commissioner or the CAO, provided that:*

1. *The Director of Supplies and Services has solicited at least three written quotations or proposals from alternative sources; and*
2. *The lowest quotation or proposal meeting the Region's requirements is selected.*

Not following the Purchasing By-law is a violation of a Regional Council directive.

Recommendation

The life of this project and anticipated cost should be estimated, and if necessary, proceed with going to market with a request for quote, through Finance Supplies and Services.

Management Response

Director Transportation Operations

This will confirm that prior to 2005, this contract was sole sourced as at the time we were aware of only one vendor available to do this work. In 2005, and again this year we invited quotes from available vendors in accordance with the purchasing by-law.

In addition, we do recognize the sensitivity of the information on the collision report. The vendor has a confidentiality agreement for this purpose. This same vendor does this work for other municipalities as well. Done.

Manager Financial Services – T&W

T&W will follow the purchasing procedure for 2005. This is apparently a sole source purchase. We will look into it to see if we can solicit competitive bids.

6.0 Detailed Observations and Recommendations – Performance Bonds

6.1 Policy and Procedures for Performance Bonds

Observation

1. There is no corporate policy that dictates the proper use of performance bonds.
2. There are no procedures to guide the recording and monitoring of performance bonds.
3. Responsibility and accountability for performance bonds has not been formally assigned.

This increases the risk that poor vendor work / service is not evaluated prior to a performance bond expiring, thus requiring the Region to rectify the work / service by spending additional resources.

Performance bonds are used by the Region to help mitigate the risk of poor materials / workmanship by the contractor. The bonds, guaranteed by a third party, expire two years after the end of a project.

Where the Legal Department is involved in the contract development, they will collect the performance bond. Otherwise, Supplies & Services will collect the bond. In both cases, the bond becomes part of the contract document and is filed with the contract package.

Recommendation

Finance and Corporate Services Legal Departments should ensure that:

1. A corporate policy is developed to formalize the proper use of performance bonds.
2. Operational procedures are developed to assign responsibility and accountability for the recording and monitoring of 'live' bonds at a central location.

Management Response

Associate Counsel Construction Law
Manager Insurance and Risk

A presentation will be made by Legal to the Senior Management Group (SMG) in their June 2006 meeting regarding all bond types in use by the Region. The objective of the presentation is to obtain direction from the SMG as to accountabilities and responsibilities for each bond type. Performance bonds will be one type of bond discussed.

7.0 Detailed Observations and Recommendations – Tax Levy

7.1 Lower Tier Municipalities Not Providing Sufficient Supporting Documentation for Changes to Tax Levy Billed Amounts

Observation

Lower tier municipalities are:

1. Not supplying a sufficient level of supporting documentation to support tax levy adjustments they have processed.
2. Descriptive categories presently provided are not consistent between municipalities.

The regional share of the tax levy adjustments processed by the nine local municipalities for 2003 is estimated at ($8) million.

The Commissioner Finance has made requests for increased supporting documentation and improved reporting.

As a result, the Region cannot be confident that the tax levy adjustments processed by the lower tiers:

1. Have been accurately tracked and reported.
2. Involved Council or other government mandated programs where the Region was a required participant.
3. Accurately reflects an agreed upon interpretation of the tax legislation.
4. Are reasonable given the current economic environment – i.e. tax adjustments involving new constructions.

Recommendation

To help ensure the Region's portion of the tax levy adjustments processed and reported by the lower tier municipalities are accurate and complete, the Commissioner Finance should renew efforts to garner cooperation in establishing a more adequate level of reporting and documentation.

Management Response

Director Financial Services

As part of the year end process the area municipalities are provided with a "Summary of Tax Adjustments" template that itemizes the adjustments that they are required to report on. Adjustments are based on formulae determined by provincial legislation; consequently, there are no other guidelines issued by the region.

The Commissioner of Finance tables this issue at Area Treasurers meetings at the appropriate time and will continue that practice.

The region's auditor, KPMG has raised this issue verbally in the past. Since a number of area municipalities use this same audit firm, region staff will discuss with KPMG the potential for engaging them in assisting staff in securing the required information and documentation in a timely manner.

Original Signed by

Lloyd Russell
Commissioner Finance

Original Signed by

Ken Hill
Director, Financial Services &
Deputy Treasurer

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