

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF FEBRUARY 17, 2015**

Item 2, Report No. 5, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on February 17, 2015.

## **2      INTERNAL AUDIT ADVISORY REPORT – INTERNAL INFRASTRUCTURE FUNDING**

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the Director of Internal Audit, dated February 9, 2015, be approved; and
- 2) That the presentation by the Director of Internal Audit and Communication C13, presentation material entitled “*Internal Infrastructure Funding*” dated February 9, 2015, be received.

### **Recommendation**

The Director of Internal Audit recommends:

1. THAT the Internal Audit Advisory Report – Internal Infrastructure Funding Budget be received.

### **Contribution to Sustainability**

Internal Audit activities and subsequent reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the effective delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

### **Economic Impact**

There are no direct economic impacts associated with this report.

### **Communications Plan**

Not applicable.

### **Purpose**

To present to the Finance, Administration and Audit Committee advice on the issues and risks facing the City with respect to existing internal business processes and why investing in internal infrastructure may be beneficial.

### **Background - Analysis and Options**

As outlined in the January 23<sup>rd</sup> Finance, Administration and Audit Committee meeting, Vaughan has experienced ten-fold growth between 1981 and 2011. As the City seeks to achieve its overall goals, the City faces challenges to achieving a balanced budget and maintaining service levels.

Maintaining service levels is one obvious goal but, in addition, the City needs to invest in the future. There are a number of factors the City needs to address in supporting growth, while at the same time recognizing that eventually assets age and will need to be replaced.

While the focus has been on the ageing of physical infrastructure, one overlooked risk is the aging of internal services or internal infrastructure.

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF FEBRUARY 17, 2015**

#### **Item 2, Finance Report No. 5 – Page 2**

Supporting the delivery of citizen focused programs and services are business processes and functions. Governance and accountability mechanisms, in turn, oversee all aspects of the City's business. This is what can be best described as internal infrastructure.

For example, all departments need financial, human resources, information technology and other corporate support while delivering their programs and services to the public. This is all done under the umbrella of the City's values, strategic planning (City priorities), accountability mechanisms and risk management. Each commission and department has accountability for all of these but policy and support is usually the responsibility of senior management and internal service providers.

Internal services at the City of Vaughan have aged and, in some cases, are obsolete. Processes are manual and paper driven, requiring more staff to handle the ever increasing volume of work.

It should be noted that this is not an issue that relates strictly to the City of Vaughan. Municipalities across the greater GTA struggle between balancing funding to citizen focused services and supporting the improvement of internal services.

#### **Current and Emerging Risks in the Local Government Sector**

Local government, municipalities in particular, have a number of significant challenges and risks facing them in the future. Aside from aging infrastructure and asset replacement, the following risks, relating to internal services, were identified in a survey done by Zurich Municipal/IPSOS in 2011.

- Workforce Planning Issues – Balancing taxpayer expectations while developing and maintaining an engaged workforce [supporting training and development, succession planning and employee.
- Internal Control Failure – the inability to maintain old and ineffective systems leading to the risk of more errors and possible misappropriation of assets.
- Organizational/Business Transformation Program Changes – the inability to implement business transformation initiatives because of funding gaps or the absence of human capacity. This also related to the inability to properly integrate technology into improved and more effective business processes.
- Purchasing Breakdowns – Maintaining open and transparent vendor relationships that balance availability with quality and price. The inability to manage vendor and partnership relationships due to the absence of human capacity.

#### **High Profile Issues in other Municipalities**

On January 26<sup>th</sup>, the Interim Auditor General of Brampton issued a financial review on the City of Brampton. The report was very careful in identifying issues that not only affected Brampton but all municipalities in the greater GTA region. The issues of growth, potential funding gaps and planning for the future were all identified as emerging issues for municipalities. This, in itself, is not new and management at the City of Vaughan has been actively communicating this to Council during current and past budget deliberations.

Management has also been communicating the need for better systems and processes to support more effective service delivery. Internal Audit supports the need for better systems and processes because they, in turn, support better control and stewardship.

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF FEBRUARY 17, 2015**

#### **Item 2, Finance Report No. 5 – Page 3**

The report by the Interim Auditor General of Brampton does not specifically identify the need for better internal infrastructure. He does touch on the need to manage operating costs and more modern systems and processes can yield benefits that in the medium to long term better manage operating costs.

What the Interim Auditor General does imply in his ending reflections is that there is a need to better plan and fund for the future. He also suggests that on a go forward basis this be considered as an earlier rather than a later strategy.

Internal Audit supports this view not only for physical infrastructure but for internal infrastructure as well.

#### **Themes from Previous Audits**

Most of the underlying issues emerging from previous audit reports have had their cause related to the manual, paper intensive processes and systems. Making changes to internal processes requires investment usually requiring a better integration of technology, streamlined processes and staff engaged in the change management process. When considering this investment, there always has to be balance between maintaining existing citizen service levels and invest for the future based on a resourcing strategy acceptable to Council

#### **Term of Council Internal Audit Risk Based Work Plan for 2015 to 2018**

In developing the upcoming Term of Council Internal Audit Risk Based Work Plan, Internal Audit has included the above issues and risks. In doing the audits outlined in the Plan, it is likely that recommendations will properly come forward suggesting changes to existing internal business processes. While this can help improve overall operations, it must be remembered that additional controls to better manage existing processes cost money and time. Effective internal control works better when it addresses systemic or underlying issues.

Investing in internal systems and processes provides the opportunity for Internal Audit to be proactive and provide advice when new and improved business processes are being implemented. It provides better value to the organization and helps support long term financial and operational sustainability.

#### **Relationship to Vaughan Vision 2020/Strategic Plan**

This report supports the strategic objective of management excellence through ensuring financial stability and promoting effective governance.

#### **Regional Implications**

Not applicable.

#### **Conclusion**

With the continued growth in the City, the current systems and processes supporting the delivery of citizen focused services are being stretched. Council will need to consider the trade-offs between investing in internal infrastructure now or at a later time. From a risk and control perspective, Internal Audit advises it be dealt with in the short term so that longer term benefits can be realized.

#### **Report prepared by**

Paul Wallis CPA, CMA CIA CISA CRMA  
Director, Internal Audit

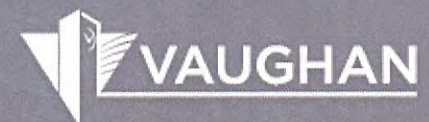
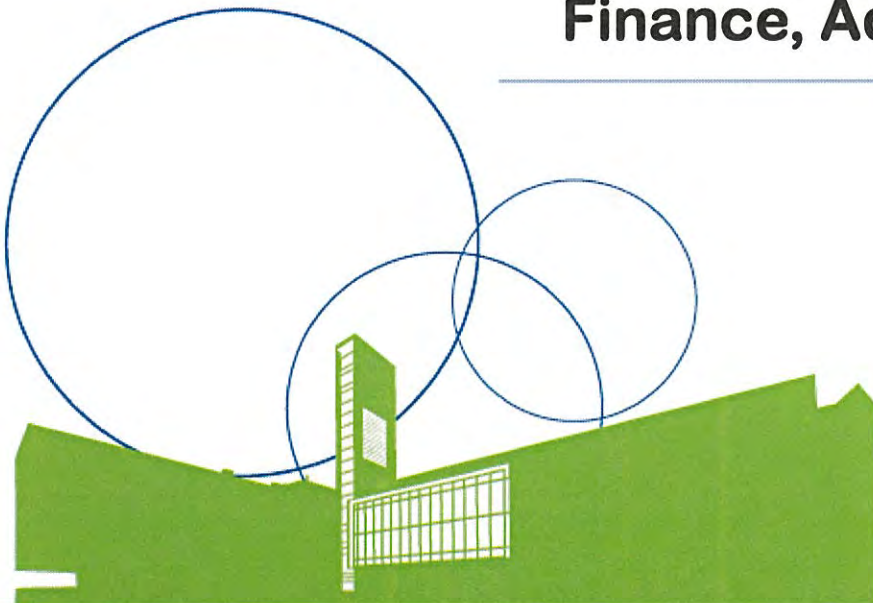
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# Internal Infrastructure Funding

## Finance, Administration and Audit Committee

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Monday February 9<sup>th</sup> 2015



# Agenda

- Infrastructure – External [Physical] Versus Internal
- Emerging Internal Infrastructure Issues
- High Profile Issues - Municipalities
- Internal Audit Themes and Planning
- Conclusion



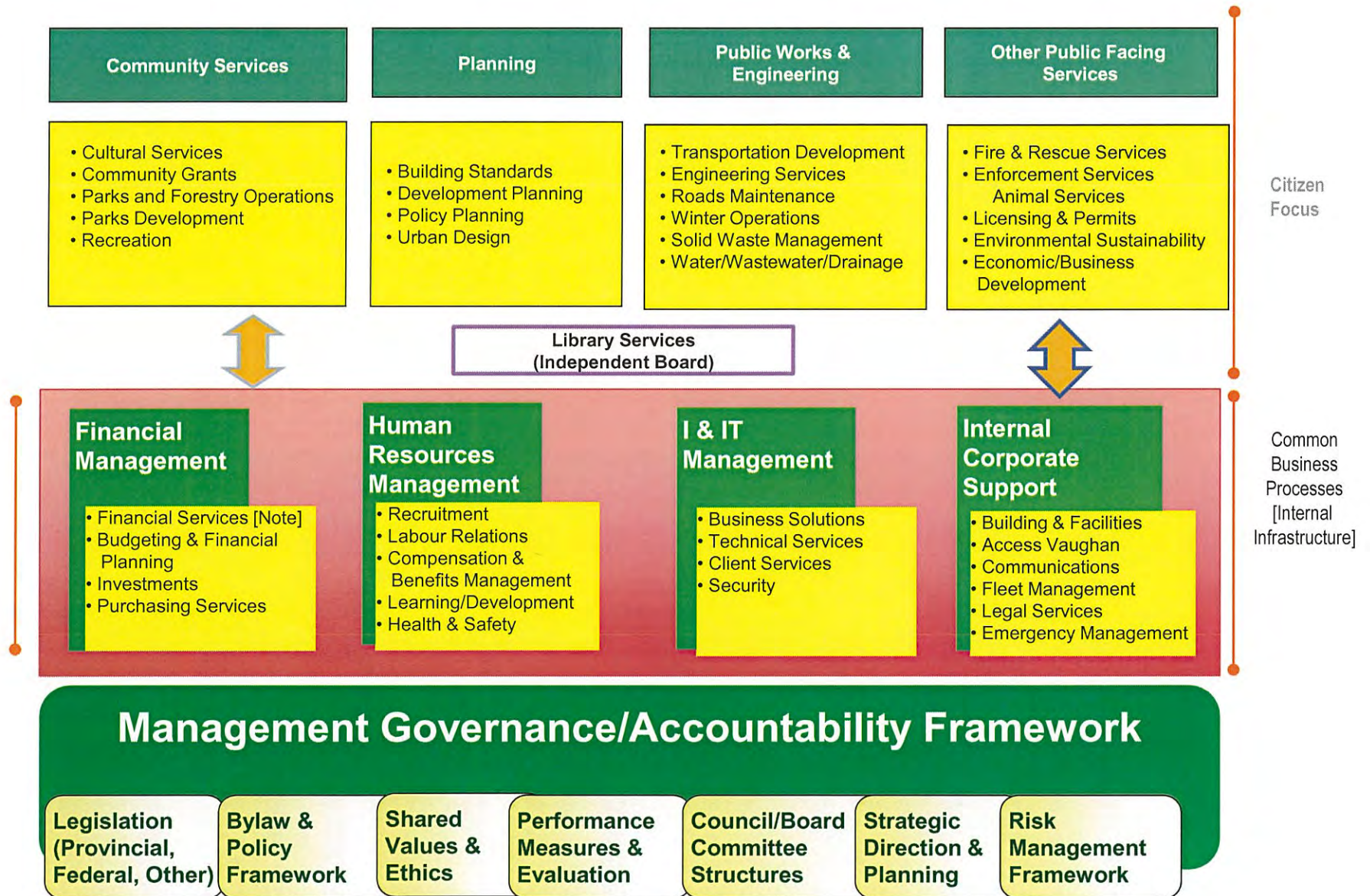
# Infrastructure – External [Physical] Versus Internal

- External [Physical] Infrastructure
  - Direct Client Focused Services
  - Usually Observable
  - Buildings, Roads, Bridges, Water/Sewer Mains
- Internal Infrastructure
  - Focuses on the Internal Client
  - Back Office – Not Directly Observable to the Direct Client
  - Internal Processes – Business Systems, Processes, the “Inner Mechanisms”





## Service Model



[Note: Includes Property Tax, Accounts Receivable, Accounts Payable and Financial Reporting]

# Emerging Internal Infrastructure Issues

## Survey – Zurich Municipal/IPSOS MORI 2011 – Different Perspectives on Long Term Risks Facing Local Governments

- Workforce Planning – Training/Development, Succession Planning, Recruitment
- Internal Control Failure – Breakdown of Old/Ineffective Systems/Workforce Capacity
- Organizational/Business Transformation – Technology Integration/Change Management and Workforce Capacity
- Purchasing Breakdowns – Vendor/Third Party Management, Strategic Sourcing, Workforce Capacity





# High Profile Issues - Municipalities

## Financial Review of the City of Brampton – Interim Auditor General, City of Brampton

- Issues of Growth/Funding Gaps a Concern for Municipalities
- S&P Report- Most Municipalities are Facing Aging Infrastructure Pressures
- Need to Better Manage Operating Costs – Leveraging Technology, Improving Systems and Processes [Not Stated but a Component of Managing Future Costs]
- Increasing Revenue Options [Either by Taxes or Other Sources] – Probably Better to do it Earlier Rather than Later!



# Internal Audit Themes and Planning

- Underlying Audit Issues – Most Linked to Paper Based, Manual Intensive Issues
- Dealing with Symptoms [Fixing Existing Processes] – Increases Costs and does not Deal with Underlying Causes
- Future Audits, More than Likely, will Identify Causes Linked Back to Old, Obsolete Systems and Intensive Paper Based Processes
- Audit Plan will be Focused on Identifying Issues Related to Enterprise-Wide Processes and Systems [Internal Infrastructure]





# Conclusion

- Current Internal Infrastructure [Internal Systems and Processes] is being Stretched
- Investment in Better Internal Processes is Needed to Better Realize Longer Term Efficiency Opportunities
- Investment Decisions Need to be Based on a Combination and Balance of Maintaining Existing Services Recognizing the Need for Both Physical and Internal Infrastructure Investments
- Internal Audit Supports Investment in Internal Infrastructure as it Helps Reduce Risk and Improve Overall Organizational Control



## **FINANCE, ADMINISTRATION AND AUDIT COMMITTEE – FEBRUARY 9, 2015**

### **INTERNAL AUDIT ADVISORY REPORT – INTERNAL INFRASTRUCTURE FUNDING**

#### **Recommendation**

The Director of Internal Audit recommends:

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Paul Wallis CPA, CMA CIA CISA CRMA  
Director, Internal Audit