



Office of the City Auditor

1200, Scotia Place, Tower 1
10060 Jasper Avenue
Edmonton, Alberta T5J 3R8

edmonton.ca/auditor



Current Planning Reserve Audit

April 3, 2018

The Office of the City Auditor conducted this
project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

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Executive Summary

The objective of this audit was to determine if the design, governance, and management of the Current Planning Reserve is effective at supporting the long-term financial sustainability of planning operations in the Current Planning Branch – now known as the Development Services Branch. We conclude that the Current Planning Reserve is unsustainable without changes to oversight and management.

Key findings include:

- Governing and operational documents did not appropriately identify roles and responsibilities. As a result, it is not clear who had the responsibility to make decisions to address the known risks to the Reserve. Without this clarity, oversight was ineffective.
- There was insufficient information in policies and a lack of operational procedures to support management decisions. This helped to create an operational environment where there were not appropriate controls over Reserve spending.
- Reserve funds were used for expenses that were insufficiently documented, or did not provide appropriate value for money.
- Service levels for issuing permits and reviewing engineering drawings did not improve over recent years as expenses increased.

We make three recommendations in this audit to address these issues.

Recommendation 1: To identify and document the roles and responsibilities associated with oversight and decision-making related to the Current Planning Reserve.

Recommendation 2: To revise the relevant policies and develop operational procedures to identify and define management practices for the associated revenues and expenses.

Recommendation 3: To review and assess expenses related to service levels and adopt strategies to increase the value for money provided by the City.

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Current Planning Reserve Audit

1 Introduction and Background

The City processes applications and permits for the development, construction, and use of all commercial, industrial, institutional or residential properties and buildings.

Applications and permits vary in complexity from a deck, to a neighbourhood plan, to a large-scale industrial development. Prior to 2010, fees paid by developers and builders to the Current Planning Branch for services like development applications and building permits were used to fund related expenses. Any excess of revenue over expenses went to the City's general revenue and any shortfall of revenue to cover expenses was funded through the tax levy.

In times of economic slowdown or recession, tax levy-funded services can face funding reductions. Funding reductions can result in service level reductions. In the Current Planning Branch, this affects builders, developers, and ultimately homeowners, as they wait for permits, inspections, and other services.

In 2010, Council approved an enterprise business model for the Current Planning Branch to address this risk. The intent of the enterprise business model was to financially separate the Current Planning Branch from tax-supported operations and make it self-sustaining. The Current Planning Reserve was set up to retain all Branch revenue that was in excess of what was needed for the year. If the Branch needed additional funds to maintain operational service levels, they could draw the needed funds from the Reserve.

In 2012, the Reserve balance reached the annual target balance of \$26 million. However, at the end of 2017, the Reserve balance was \$6 million and the annual target balance was \$47 million. Administration identified to Council this low balance as a high risk to City planning operations and indicated that they have been working to mitigate the risks.

In response to this risk, the Office of the City Auditor 2017 Annual Work Plan included an audit of the Current Planning Reserve. The objective of this audit was to determine if the design, governance, and management of the Current Planning Reserve is effective at supporting the long-term financial sustainability of planning operations in the Current Planning Branch – now known as the Development Services Branch.¹

A summary of the audit objective, scope, and methodology is provided in Appendix 1.

2 Observations

2.1 Reserve Oversight

To assess if there was effective oversight of the Current Planning Reserve, we reviewed the decision-making authority for the Reserve. We also examined the reporting provided to Council between 2012 and 2017. We found that roles and responsibilities for the Reserve were insufficiently documented. As such, it is not clear who had the responsibility to address Reserve risks.

Background

The Current Planning Reserve was officially established in 2012 with the approval of policy C570, *Current Planning Reserve*. This policy does not explicitly define and document accountability for the Reserve, nor did we identify any operational documents that identified accountability. However, the Municipal Government Act (MGA) and the corporate Delegation of Authority could be interpreted to provide authority to the General Manager, Sustainable Development and the Branch Manager, Current Planning.²

Between 2012 and 2015, Administration reported on the balance and status of the Reserve to Council in the annual Current Planning Branch budget documents. Beginning

¹ This report uses both branch names, Current Planning Branch and Development Services Branch, depending upon the year and/or subject matter under discussion.

² The Municipal Government Act delegates specific powers, duties and functions needed to operate a municipality. The Delegations of Authority instruments enable employees by giving them authority for powers, duties, and functions from the City Administration Bylaw and other bylaws and legislation.

in 2015, Administration provided additional reports to Council. The reports and accompanying presentations in 2015, 2016, and 2017 included information on the Reserve balance, the risks associated with the balance, and a high-level breakdown of expenses.

2.1.1 Decision-making authority is unclear

Although the MGA and Delegation of Authority could be interpreted as providing decision-making authority to the Branch Manager, Current Planning, this was not explicitly documented. Additionally, the policies did not effectively define oversight responsibilities and decision-making roles.

The Reserve supports operations across the organization, and funds a variety of functions in multiple departments and branches. Because authority for the Reserve is not clearly defined, there is a risk that unauthorized individuals may make decisions affecting the sustainability of the Reserve.

Recommendation 1 – Document Roles and Responsibilities

The Office of the City Auditor recommends that the Deputy City Manager, Urban Form and Corporate Strategic Development identify and document the roles and responsibilities associated with oversight and decision-making related to the Current Planning Reserve.

Management Response

Accepted

Action Plan:

Administration will identify and document the roles and responsibilities associated with oversight and decision-making related to the Current Planning Reserve.

Planned Implementation Date: December 31, 2018

Responsible Party: Deputy City Manager, Urban Form and Corporate Strategic Development

2.1.2 Reserve Management

To review the management of the Reserve, we examined Branch and Reserve revenues and expenses from 2013 to 2017. We found that guidance provided in the policies was insufficient and there were no documented procedures to support consistent management of the Reserve. This has resulted in an operational environment where there are not appropriate controls over Reserve expenses. Consequently, we found a number of issues including consistent growth in expenses, expenses that should not have been paid from Reserve funds, expenses that were inadequately documented, and expenses that did not provide adequate value for money.

The continued growth in expenses and new programs is a key factor contributing to the unsustainability of the Current Planning Reserve. In order for the Reserve to achieve the target balance, there needs to be effective management of revenues and expenses.

Background

Administration has indicated that they have three main business levers to manage costs associated with development: personnel, fees, and process improvements. They noted that prior to 2010 when the enterprise business model was implemented, the following actions would be considered to manage a shortfall of revenue during an economic slowdown or recession:

- significant draws on tax levy to continue operations
- reduced service levels
- increase fees to cover the cost of other city services
- potential staff reductions
- process improvements to reduce costs associated with reviewing applications

In 2010, Council approved policy C557 *Current Planning Branch - Revised Business Model*. The stated purpose of this policy is to:

Formalize the fiscal management and operating principles of the Current Planning Enterprise Model to ensure long-term viability, growth, and stability within the City of Edmonton.

This policy also indicates that one of the purposes of implementing the enterprise business model is to “fully recover all Current Planning costs including direct, indirect, capital, and service reinvestment costs.” By the end of 2012, Current Planning indicated that it had reached ‘full cost recovery’. This meant that Current Planning Branch revenue paid for all expenses associated with providing Current Planning Branch services.

In 2012, Council approved policy C570, *Current Planning Reserve*. The stated purpose of this policy is to:

Provide guidelines for a Reserve that will be used to support the long-term financial sustainability of Current Planning Branch operations by managing revenue risks, stabilizing operating and capital resources across extended periods of time and funding initiatives that enhance planning service and ensure accountability to permit applicants.

This policy also identifies some core operating practices of the Reserve. Any Current Planning Branch revenue surplus was to be placed in the Reserve and deficits were to be drawn from the Reserve. The policy established target and minimum balances for the Reserve. The target balance was set at 75 percent of annual operating expenses for the Current Planning Branch, and the minimum balance was set at 30 percent. If the Reserve balance exceeded the target, or was lower than the minimum, Administration was required to develop a plan to correct this and bring forward a recommendation to Council for any changes.

In 2016, the Current Planning Branch was renamed the Development Services Branch. However, policies *Current Planning Branch - Revised Business Model* policy (C557) and *Current Planning Reserve* policy (C570) specifically refer to the Current Planning Branch rather than the specific planning activities that the Branch performed. As a result, there is a risk that the organization cannot comply with the policy as written.

2.1.3 Insufficient documented guidance to support management decisions

To supplement approved policies, Administration can create operational procedures such as Administrative Directives and Procedures, or Standard Operating Procedures. These types of operational procedures provide more detailed direction to employees on how a policy should be implemented and maintained. They also help to ensure consistency in decision-making and operational practices. There were no operational procedures created for the Current Planning Reserve.

We found that there was no documented guidance provided for revenue decisions in either the policies or other documentation. To successfully build and maintain a Reserve balance at the target level, revenues received by the branch must exceed or equal the total cost of service.

$$\text{Contribution to Reserve} = \text{Revenue} - \text{Expenses}$$

The service costing approach communicated to Council when the Current Planning Branch made the recommendation to approve *Current Planning Revised Business Model* (C557) indicated that the fees charged for providing individual services (building permits, applications, etc.) would be based on the cost of providing that service. Prior to late 2017, we were unable to find any evidence that the Current Planning Branch or Development Services Branch had calculated the individual costs for providing services. Currently, revenue received for some services (such as building permits) subsidizes the cost of providing other services (such as development permits). This creates a risk of insufficient funding for all services if demand for the subsidizing services decline. It is also

inconsistent with the costing approach communicated to Council when they approved the business model.

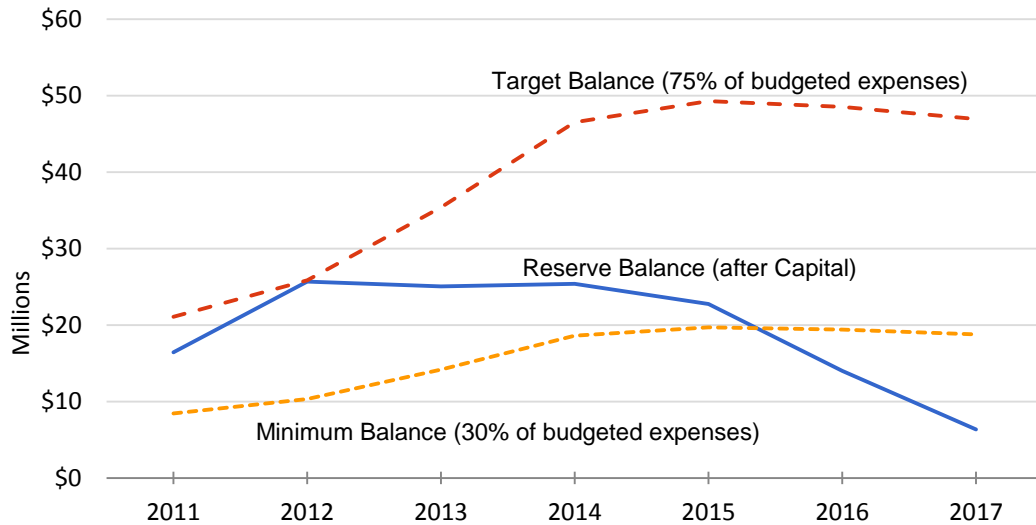
The criteria in the policies to guide expense decisions is so broad that it does not provide clear boundaries for what should be funded by the Reserve and what should not. For example, one purpose of the enterprise business model was to fully recover all Current Planning costs including direct, indirect capital and service investment costs. As there were no procedural documents to supplement the policy, definitions were not available to limit expenses like indirect costs. Additionally, there is no documented strategy for balancing the need to build and maintain the Reserve with the expenses related to providing services. This is required to guide management decisions and ensure that the outcomes of the policies are achieved.

2.1.4 Declining reserve balance

In 2012, the Reserve reached the target balance. As shown in Figure 1, between 2013 and 2015, the Reserve balance stayed above the minimum, but did not achieve the target balance. In 2016, the Reserve balance dropped below the minimum and continued to decline into 2017.

Figure 1: Current Planning Reserve Balance

In 2016, the Reserve balance **dropped below the minimum** and has continued to decline.

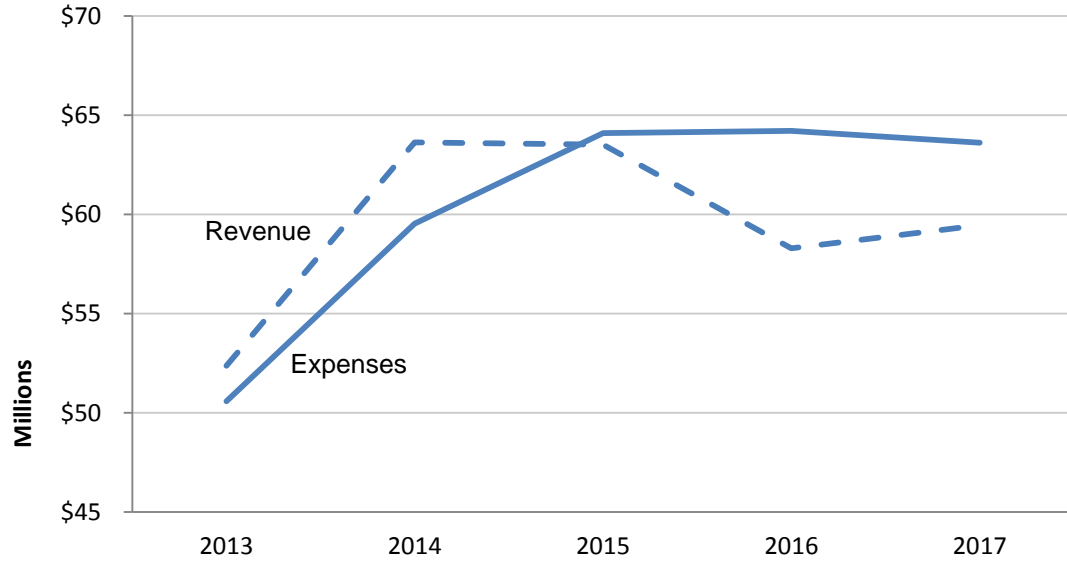


Source: City of Edmonton Financial Services, 2017

As shown in Figure 2, the continued decline in the Reserve balance was due to expenses continuing to increase and a decline in revenue in 2016 and 2017 associated with the economic slowdown.

Figure 2: Current Planning Branch Revenue & Expenses 2013-2017

After 2015, expenses exceeded revenue.



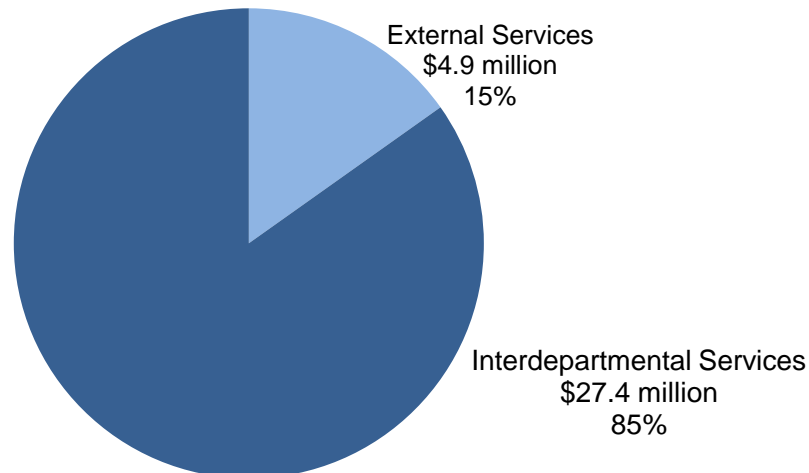
When we examined the expenses, we identified that in 2017 external and interdepartmental services expenses comprise 51 percent of all expenses.

As shown in Figure 3, services expenses include external services and interdepartmental services. In 2017, external services were approximately \$4.9 million and interdepartmental services were approximately \$27.4 million. External services equal approximately 15 percent of services expenses and include consulting, contract work, and other general services such as publicity, printing, postage, and land title searches.

Interdepartmental services equal approximately 85 percent of services expenses and include services provided to the Development Services Branch by other City departments or branches. This includes direct work required to support planning functions such as land development applications and servicing agreements. It also includes indirect support services.

Figure 3: Comparison 2017 External Services and Interdepartmental Services

Interdepartmental Services comprise 85% of Services expenses



2.1.5 Expenses lack documentation or should not be paid by the Reserve

In 2017, 41 percent (\$11.2 million) of interdepartmental services expenses are shared services costs. These expenses are calculated based on a documented methodology and allocate costs of support services to user-branches in the organization. Although shared services costs have consistently increased over the years, there is adequate documentation to explain how these charges are calculated.

The remaining \$16.2 million in interdepartmental charges for 2017 included the costs of approximately 118 employees working on planning functions or support services in other branches and departments combined with additional on-demand charges. On-demand charges are the costs for providing specific, requested services to one branch by another. These services should not overlap with those paid through shared services costs.

We reviewed the process associated with calculating and documenting these expenses and found that there was insufficient evidence to conclude on the appropriateness of some of these expenses. Some of the expenses appear to be clearly documented and appropriate. Examples include requests for staff support from Human Resources, and itemized printing costs from the Digital Print Centre.

However, we found that some on-demand expenses lack documentation to explain what work was done that was not captured within a

shared service expense or why the expense was paid by the Reserve rather than tax levy funds. Examples include a \$2.5 million annual transfer to the Urban Planning and Environment Branch initiated by a Council motion in 2013, and funding for FTE in various branches without clear documentation related to their scope of work.

In 2013, Council initiated a transfer from the Reserve of

\$2.5 million

This became an annual transfer.

Central Management expenses are allocated based on the shared services costing methodology. However, in addition to the shared services expense for Central

Prior to 2016, the Reserve paid an annual charge of

\$1.4 million

to Central Management without documented justification.

Management, Current Planning Branch paid an annual charge of \$1.4 million out of the Reserve for this purpose. Administration phased out this charge in 2016 and 2017; however, there is insufficient documentation to explain why this annual charge was originally established.

In conflict with an enterprise business model that requires that revenue equals or exceeds expenses to be sustainable, the Reserve has also funded compliance activities - some which generate revenue and some which do not. The revenue that is generated from these compliance activities through fines is not paid into the Reserve. Instead, it goes to the City's general revenues.

The Development Services Branch also provides an annual \$10 million transfer from business licensing revenue to general revenue. This \$10 million is derived from business licensing revenue in excess of the costs of administering the Business Licensing Program. When business licensing revenue exceeds the \$10 million commitment, the excess revenue is transferred to the Current Planning Reserve. When there is not enough business licensing revenue to meet the \$10 million commitment, the difference is paid to general revenue from the Reserve.

Between 2013 and 2017, the Reserve paid out \$3.8 million to meet this commitment. We were unable to identify any documented rationale for this arrangement.

From 2013-2017, the Reserve paid
\$3.8 million
to general revenue to cover a
shortfall from business
licensing revenue.

The lack of procedures to define applicable revenues and expenses, and insufficient documentation for expenses has increased the risk that the Reserve is funding work outside of its intended scope, or may be overpaying for the work that is being done in different areas of the organization.

Recommendation 2 – Revise Policies and Develop Operational Procedures
<p>The Office of the City Auditor recommends the Deputy City Manager, Urban Form and Corporate Strategic Development revise the relevant policies and develop operational procedures to identify and define management practices for associated revenues and expenses.</p>
Management Response
<p>Accepted</p> <p>Action Plan: Administration will revise the relevant policies and develop operational procedures to identify and define management practices for associated revenues and expenses.</p> <p>Planned Implementation Date: December 31, 2018</p> <p>Responsible Party: Deputy City Manager, Urban Form and Corporate Strategic Development</p>

2.1.6 Expenses did not provide adequate value for money

eServices

Between 2012 and 2015, the Current Planning Branch spent approximately \$8.5 million on an eServices project to enhance its IT infrastructure including investments in process redesign, software, hardware, and associated training. This was intended to augment the branch’s productivity, accountability, and communication. Due to poor project management, this eServices project produced limited benefits.

When we disclosed this audit finding to the current Deputy City Managers, they pursued additional information related to this project within the departments. They identified that in April 2015, Current Planning Branch management was concerned with progress on the project and had found perceived conflict of interest issues with the contracted project management staff. Contracts were terminated; however, neither Corporate Security nor the Office of the City Auditor were notified at the time and no external investigation into the conflict of interest allegations took place.

**Between 2012 & 2015
approximately
\$8.5 million
was spent on eServices.
This produced limited
benefits.**

In February 2018, when the current City Manager and Deputy City Managers became aware of the lack of external investigation, they reported it to the Office of the City Auditor. Currently, an external investigation by the Office of the City Auditor and Corporate Security is underway.

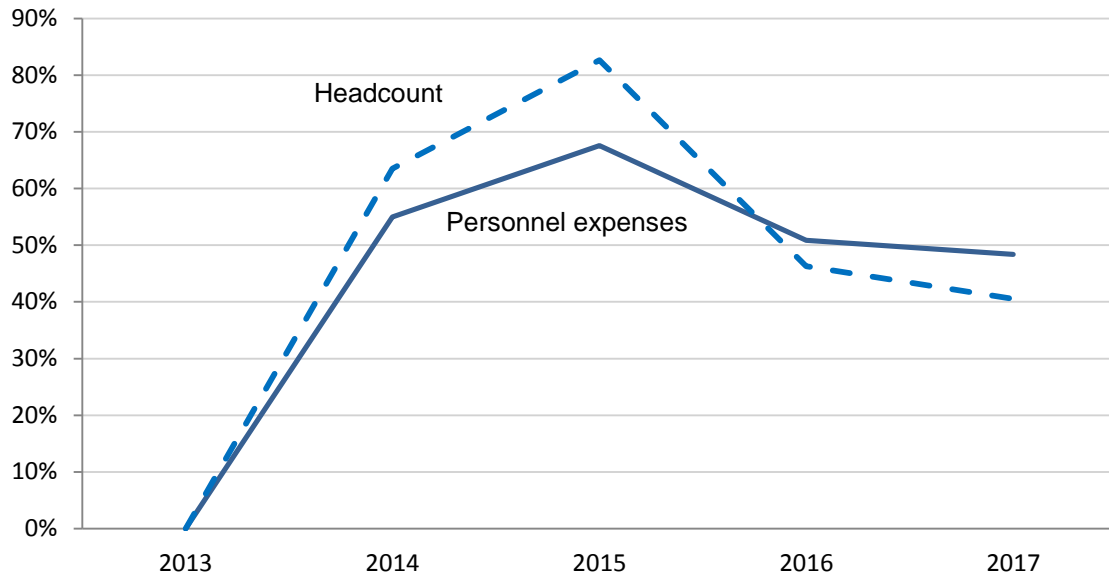
Since 2015, an additional \$5.3 million has been spent implementing online services that are functional and have produced benefits for public users and internal service provision.

Personnel Expenses and Service Levels

In 2017, personnel expenses comprised approximately 45 percent of all expenses and include wages, benefits, allowances, and overtime expenses. As shown in Figure 4, personnel expenses have increased over the years. We found that this was primarily due to increases in staffing.

Figure 4: Growth in Personnel Expenses and Headcount

Growth in the workforce was a **key factor** in the growth of personnel expenses



One of the purposes of the Reserve was to help stabilize revenue so that service levels were not significantly impacted in the case of an economic downturn. Additionally, the *Current Planning Reserve* policy indicated that Reserve funds could be spent to improve services. As such, we expected to see an improvement to service levels because of increased spending. As the Canadian Home Builders Association identified service timelines as an area of concern, we looked at two performance measures when assessing service levels: 1) permits issued within the service target timelines and 2) engineering drawings reviewed within the service target timeline.

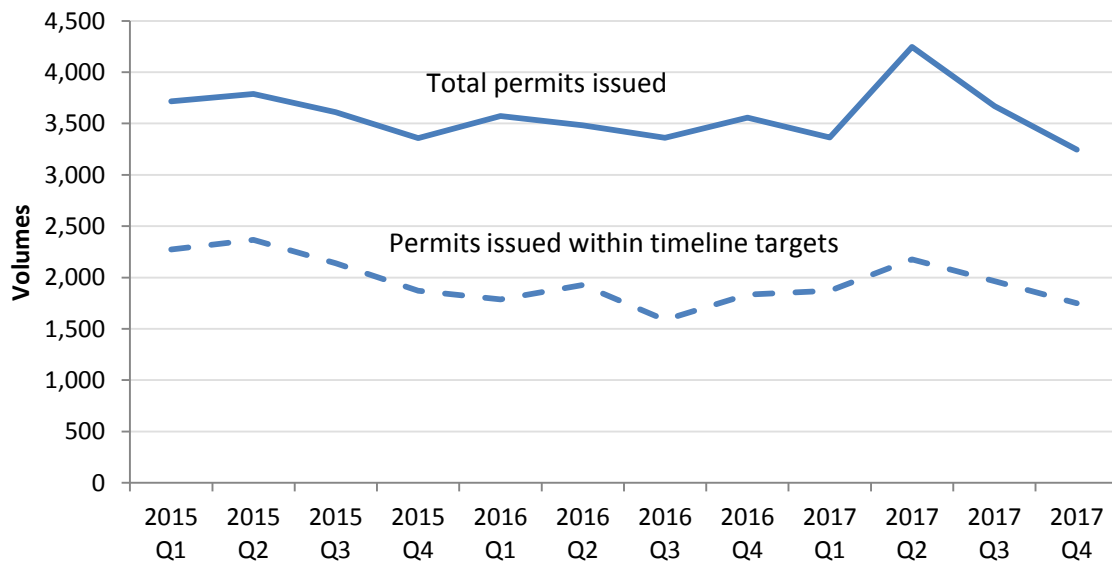
As shown in Figure 5, the volume of permits issued by the timeline target has declined as the volume of permits issued has declined and increased as the volume of permits issued increased. As such, between 56 percent and 60 percent of permits³ were issued within the service target timelines since 2015. The lack of improvement in the percentage of permits

³ Includes all types of building permits, business licences, combination permits, and development permits.

issued within timelines suggests that increased expenses by the Branch and Reserve have not improved service levels.

Figure 5: Permits Issued Within Target Timelines

The volume of permits issued within timeline targets **does not show consistent improvement.**



We also did not find consistent improvements over time when we looked at the service levels for engineering drawing reviews. As shown in Table 1, the percentage of engineering drawings reviewed within the service target timeline has fluctuated significantly from quarter to quarter and year to year. This fluctuation does not appear to be related to volume of reviews.

Table 1: Engineering Drawing Review DataService levels fluctuate and **do not appear related** to volume of reviews*.

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Number of Reviews	32	14	16	26	26	25	20	21	49	25
Reviews completed within 100 business days	13	5	6	12	9	6	5	12	29	19
% Reviews completed within 100 business days	41%	36%	38%	46%	35%	24%	25%	57%	59%	76%

*Combines complex & non-complex projects. No outliers have been removed from the data.

The fluctuating service levels for permits and engineering drawing reviews indicate that increased spending on personnel and internal services have not resulted in systematic service improvements in these areas. However, we have not conducted additional analysis to assess the impacts additional public consultation requirements, legislative changes or changes to the complexity of applications or requirements. Administration has indicated that these are all factors that can impact service levels.

Recommendation 3 – Review and Assess Service Level Performance

The Office of the City Auditor recommends the Deputy City Manager, Urban Form and Corporate Strategic Development reviews and assesses expenses related to service levels and adopt strategies to increase the value for money provided by the City.

Management Response**Accepted****Action Plan:**

Administration will continue with the Urban Form Business Transformation initiative.

The goal of the initiative is to analyze the end to end planning and development processes, in collaboration with city builders, with the specific objectives of:

- Improving applicant experiences by establishing and meeting application processing timeline targets, increasing consistency of application outcomes, and enhancing transparency and predictability of application processes;
- Improving staff productivity by reducing rework, unnecessary work, errors and delays in application processing, as well as providing additional tools for staff to more easily complete their work; and
- Improving integration across the relevant City branches and departments

Planned Implementation Date: December 31, 2019

Responsible Party: Deputy City Manager, Urban Form and Corporate Strategic Development

3 Conclusion

The objective of this audit was to determine if the design, governance, and management of the Current Planning Reserve is effective at supporting the long-term financial sustainability of planning operations in the Current Planning Branch – now known as the Development Services Branch. We conclude that the Current Planning Reserve is unsustainable without changes to oversight and management practices.

We found that because roles and responsibilities were not appropriately documented, it is not clear who had the responsibility to make decisions to address the known risks to the Reserve. Without this clarity, oversight was ineffective.

Because of the unclear roles and responsibilities and insufficient management guidance provided by policies and operational procedures, there were inadequate controls over Reserve expenses. This materialized in the Reserve paying for expenses that were insufficiently documented, did not provide appropriate value for money, or should not have paid using Reserve funds.

We have made three recommendations related to the oversight and management of the Current Planning Reserve. Implementing these recommendations will help improve the sustainability of the Reserve.

We would like to thank the Urban Form and Corporate Strategic Development Department, Corporate Strategy Branch, and Financial Strategies and Budget Branch for their active assistance with this audit.

Appendix 1 - Audit Objective, Scope, and Methodology

Objective

The objective of this audit was to determine if the design, governance, and management of the Current Planning Reserve is effective at supporting the long-term financial sustainability of planning operations in the Current Planning Branch – now known as the Development Services Branch.

Scope

The Current Planning Reserve does not directly pay for operating expenses. Instead, transfers are made to and from the Reserve in response to Current Planning/Development Service Branch expenses and revenues. Because of this relationship, the scope of this audit includes branch operations between 2010 and 2017.

This includes:

- Branch expenses
- Branch revenues
- Service levels
- Capital projects

Methodology

The findings in this audit are based upon the following:

- Interviews with management, employees, and subject matter experts
- Document review of policies, procedures, financial data, annual reports, business plans, historical emails, reports to City Council, operating budget documents, and capital budget documents
- Reviews and discussions of presentations provided by employees and subject matter experts
- Review of relevant external documents and documented best practices
- Meeting with Canadian Home Builders' Association members