

Report from Financial Management Services, Director

Date of Report: January 5, 2017

Date of Meeting: January 25, 2017

Report Number: FMS-B004-2017

File: 10.57.99

Subject: Internal Audit and Alternatives

Recommendation

That the Budget Standing Committee receive this report for information purposes.

Background

At the November 14, 2016 Budget Standing Committee the Committee passed a motion to receive information on the following.

1. That staff be directed to prepare a further report that addresses the first item requested at the August 29, 2016 meeting of the Budget Standing Committee, that being an evaluation of the alternatives for conducting a complete organizational effectiveness study combined with a core services review; and

August 29 - An evaluation of the alternatives for conducting a complete organizational effectiveness study combined with a core services review

2. That staff be directed to specifically look at the City of Mississauga and investigate if there are any other results from communities that have completed reviews and include their costs and savings; and

3. That staff be directed to include the Comprehensive Outline of Internal Operations Savings for the City of Guelph

Report

Organizational Effectiveness

Organizational effectiveness is the concept of how effective an organization is in achieving its intended or desired outcomes. This concept involves multiple factors, including leadership development, talent management, organization design, and technology. The way these various factors come together to meet the preferred objectives affect the level of organizational effectiveness for that organization. An organizational effectiveness study collects data to determine how well certain departments or areas perform. The study is closely related to business performance and profits, employees who work in business-related careers should have an

understanding of basic organizational effectiveness principles. This approach uses an external consultant to examine the inter-organizational relationships of a corporation while examining the structure and division of work.

The outcome is a plan that will align the various factors affecting organizational effectiveness to provide optimum customer service and flexibility for future growth and increased work demands. Another goal of the study is to create a productive workplace that fosters the use of those management practices such as delegation of responsibility and participation of all staff in order to promote teamwork, service, quality and individual accountability and ownership. Larger companies will often have specific groups, committees, or consultants devoted to measuring and improving organizational effectiveness.

Staff's research did not turn up any other municipalities who have pursued this particular method to stimulate cost savings. Similarly, we were not able to locate any research disclosing the amount of savings companies who have employed this method have retained.

Core Services Review

As mentioned in the initial FMS-B005-2016 report a core service review is a process where the primary focus is on "what" programs and services municipalities should or can afford to deliver and at "what" level or standard of service.

A program or service delivery review is primarily focused on "how" best to deliver a program or service. It is a systematic process for the collection, analysis, interpretation and presentation of information in order to make administrative and operational judgments about the effectiveness of the program and the efficiency of delivery.

Additional information on this can be found in the original report which has been attached as Appendix 1. The other previously reported alternatives to an Organizational Effectiveness study are found in BSC-018-2016, attached as Appendix 2. A list of the alternative approaches and where to find additional information is located in Chart 1.

Chart 1

<u>Alternative</u>	<u>Appendix</u>
Internal Auditor	Appendix 1 & 2
Auditor General	Appendix 1
Core Services Review / Alternate Service Delivery	Appendix 1
Service Delivery Review	Appendix 2
Scoping Report, Operational Review	Appendix 2
Service Delivery Review and Operational Review	Appendix 2
Continuous Improvement, Kaizen, Lean and Six Sigma	Appendix 1 & 2

City of Mississauga – Reviews and Savings

In 2015 City of Mississauga staff were asked to outline a method in which an independent, external service review could be conducted. It would explore efficiency opportunities, best practices and recommend ideas to save costs and generate revenue.

Staff reported back to Council on their extensive history of service reviews. The City underwent a Services Review in 2004, initiated an 'Efficiency, Effectiveness, and Economy' Program from 2007-2013, and introduced a 1% Budget Reduction program in 2009. The City further continued their saving initiatives by implementing continuous improvement procedures, including a Lean pilot program in 2013. It has been reported that these initiatives have resulted in cumulative savings in excess of \$40 million.

Mississauga councillors received the report and raised some concerns. They discussed that although it would be worthwhile to review the City's core services, the previous review included drastic reductions in service delivery of which many were re-instated in subsequent years. There was also support to continue with the internal continuous improvement programs and revisit the items from the 2004 review for applicable items to be acted upon.

It was further reported the annual costs of converting Lean from a pilot to permanent program would be approximately \$280,000 (includes permanent positions and staff training). The estimated annual cost for an external, core services review was \$1,500,000 which did not include the potential additional costs associated with implementing any of the recommendations.

The report was referred to the Budget Committee for deliberation, where it was determined that Lean was a good approach to evaluate City services and they would not be pursuing a core service review for 2016.

Ontario Communities and Service Review Experiences

As directed by the Committee, staff have also researched results from other communities who have engaged in external service reviews; the City of Hamilton, City of Guelph, City of Timmins and The Town of Whitby are varying examples of municipalities who have used an external consultant to complete a service delivery review. While the circumstances and resources differ for each municipality many of the reviews yielded the same end result; some of the recommendations can be implemented with ease, some are pending and others require further funding and studies.

In 2010 The City of Hamilton contracted external consultants to conduct a three phase service review that focused on service evaluation. A 2011 report on phase one was completed in 4 months and cost \$350,000. The same report estimated that the final two phases could cost up to \$10 million upon completion. Phase two identified 34

opportunities to explore for cost reduction and service improvement; staff were further directed to prioritize and develop business cases for 10 and Council approved two of these for further exploration and potential implementation. It was later reported the remaining opportunities would be addressed through continuous improvement initiatives.

Starting in 2011 and continuing in 2012 the City of Guelph hired external consultants to carry out a scoping report (Phase 1) that was followed by an integrated operational review (Phase 2). Each report and consultant cost approximately \$135,000. To implement the recommendations from the review, Guelph further contracted a program manager; initial costs estimated for the three year implementation plan were \$270,000 in operating and \$720,000 in capital. At the conclusion of their three-year implementation plan, the City of Guelph has not yet disclosed their savings from this program to the public. Further information on the depth and recommendations of this review can be found in Appendix 2.

In April 2015, the City of Timmins hired an external consultant for a service delivery and operational review. The consulting fees for the review were \$135,000 and generated a report with fifty opportunities for consideration, 28-30 of which could be achieved by the City within the year. The report did not quantify the amount required for implementation, nor have they projected any savings from the review. Further information on the depth and recommendations of this review can be found in Appendix 2.

The Town of Whitby engaged an external consultant in 2016 to conduct a service delivery review. The costs for the review were \$147,450 and the project was initiated in the spring with results being delivered in the fall. Closer to 100 opportunities were identified for the City, 18 of which were identified as a priority for improvements. Many of the recommendations came at a very high level and require a significant amount of staff and financial support for implementation. The Town of Whitby has not publicly reported any action or savings from the recommendations of their service delivery review. Further information on the depth and recommendations of this review can be found in Appendix 2.

Comprehensive Outline of Internal Operations – City of Guelph

In November 2016 we reached out to the City of Guelph to inquire about the results of their Comprehensive Outline of Internal Operations. Katherine Gray, Business Performance Specialist responded to our request and has advised the following;

In February 2016 Council put forth a resolution for staff to report back on options for internal operational savings. Staff have developed a Service Review Framework, that Council has approved, that will guide our review of all City Services (over time). These service reviews will provide a detailed look at the relevance, efficiency and effectiveness of our services and the appropriate levels of service. The first reviews will be undertaken in 2017/18.

This email is attached as Appendix 3.

Financial Implications

Based on the experiences of other municipalities to engage the services of an external consultant for an organizational effectiveness study, service review or operations review it would require approximately \$135,000 - \$150,000 to be budgeted. After this initial phase and based on the scope and number of recommendations provided for improvement, additional funds (capital or operating) would be required.

Relationship to Strategic Plan

An efficiency review, core services review and an operational review are three differing approaches that can be used to better understand the services and operations of a Corporation.

Each method relates to the Economic Sustainability section of the Council's strategic plan item 2.1 – update financial controls and debt management strategy to better manage escalating cost of city operations and services and 2.3 - instituting a core service review.

Conclusion

The costs and timeframes for completion of any service review varies greatly based on depth, number of recommendations and the will and available resources that are required to implement them.

An organizational efficiency study, as well as the review alternatives described in both Appendix 1 and 2 demonstrate that each listed approach has its own merits and deficiencies. The Cities of Mississauga, Hamilton, Guelph, Timmins and the Town of Whitby have all made specific choices to evaluate their services or operations that best reflect their current priorities, circumstances and available resources.

Submitted by:

Kristine Douglas, Director of FMS

Approved by:

Shelley Chemnitz, Corporate Services Commissioner

Attachments:

Appendix 1 – FMS-B005-2016

Appendix 2 – FMS-B018-2016

Appendix 3 – Email from Katherine Gray, Business Performance Specialist, City of Guelph

Report from Financial Management Services**Date of Report:** June 16, 2016**Date of Meeting:** July 18, 2016**Report Number:** FMS-B005-2016**File:** 10.57.99**Subject:** Internal Audit Function

Recommendation

That the report respecting the Internal Audit Function be received; and

That Staff continue to pursue the Business Improvement Program using the Lean, Kaizen and Six Sigma methodologies.

Summary

The Internal Audit role varies across the different municipalities of Ontario. An Auditor General model, an Internal Audit department and the use of an External Audit Firm to provide audit services are three commonly used options, each with their own regulations, advantages and disadvantages.

Seven of our ten comparator municipalities have an internal audit function, with one (Kingston) who performs periodic reviews and two who operate without. Although there is limited data on the value received from the internal audit function, recommendations for improvement in operations, cost savings and greater efficiencies and effectiveness are noted benefits the function provides.

There are other alternatives that would provide similar results to those experienced with the internal audit function. They are a core service review (including alternative service delivery), external full program/service review and business/continuous improvement. These alternatives will also be reviewed in this report.

Background

At its meeting of February 9, 2016, the BSC approved the following motion:

That staff report back to the Committee in June on what comparator communities have for Internal Audit positions, what value has been received by those communities who have an Internal Audit position, and include alternatives in municipal and private sectors; and

That staff, determine if the City is too small for an Internal Auditor function, and to identify the possibility of a commission-based core service review and the feasibility of an internal auditor position, and to budget for it over the next few years.

Report

This report reviews the role of audit in other Ontario municipalities and outlines alternatives for the City of St. Catharines. In particular it will review the following items related to the Internal Audit function.

- Various Audit Functions defined
- Comparison of audit functions
- Comparator Municipalities
- Alternatives for consideration

Various Audit Functions

External Audit

Under the Municipal Act, 2001, all municipalities are subject to attest audits (external financial statement audits). Attest audits provide an independent opinion on the municipality's financial statements in regards to their fairness and dependability. The reference to auditor in this case is the external auditor, a public accounting firm retained through a competitive process. Subsection 223.19(2) of the Municipal Act, 2001, prohibits the Auditor General from being the City's external auditor. The function of an Auditor General differs from that of the external auditor as external auditing focuses on the fairness and completeness of the financial statements.

Internal Audit

There is no legislated requirement for an Internal Auditor within the Municipal Act, 2001. An internal audit function is primarily a review of compliance with policy and procedure based on risk. An Internal Auditor's duties may also include the ability to undertake value for money (VFM) audits which determines the efficiency and effectiveness of services provided by the Municipality. The level of responsibility of the Internal Auditor can differ in regard to the scope of work, as well as reporting structure. The scope of duties for the Internal Audit function are formally set out and often include a comprehensive statement of purpose, authority, responsibilities and the reporting relationships. This approach can be used to provide a degree of independence to the Internal Audit function.

Auditor General

The Municipal Act allows the municipality to "appoint an Auditor General who reports to Council and is responsible for assisting Council in holding itself and its administrators accountable for the quality of stewardship over public funds". A significant role of an Auditor General (AG) is to conduct value for money audits. These audits generally are

defined as compliance and operational reviews, combined with a component to assess whether or not the City has obtained benefit from the goods and services it acquires and provides.

Comparison of Audit Functions

This section focuses on distinctions between and Auditor General and Internal Auditor in the context of reporting and tenure, budget and work plans, authority and responsibility.

Function	Internal Auditor	Auditor General
Reporting and Tenure	Reports through Senior Staff to Council Typically permanent employees of the municipality	Reports directly to Council Typically fixed- term contract positions
Budget and Work Plan	Budget approval goes through the same administrative process as municipal departments. The work plan is based on independent risk assessment.	Budget is approved directly by Council and is set by by-law. The work plan is based on independent risk assessment.
Authority	Internal Auditors are able to conduct most of the same work as an Auditor General under the general powers granted to municipalities by the Municipal Act.	Subsection 223.19 (1.1) of Municipal Act, 2001 requires the Auditor General to perform his or her responsibilities in an independent manner. Council may add to the responsibilities specified within the above sections of the Act but may not reduce the responsibilities of the Auditor General.
Responsibilities	Focused mainly on the control environment and compliance reviews, but are not precluded from carrying out value for money audits	Focused mainly on value for money audits, but also undertakes compliance or financial control reviews.

Comparator Municipalities

This section compares the audit functions used by the City's comparator municipalities. As indicated in the chart below the majority of our comparators have an internal audit function.

Municipality	Audit Function	Annual Budget	Staff
Guelph	Internal Auditor - established in September, 2012	\$338,000 for 2016, but this has been revised downward	Employee- one staff member (occasionally using staff from finance department)
Oshawa	The City had an Auditor General from 2003 until 2013. From 2015 outsourced to KPMG	\$96,300 (for 2016 extra \$150,000 redirected from staff savings)	Outsourced
Windsor	Internal Audit department established in late 1990s and early 2000s. From 2008 until 2012 Auditor General office with 5 staff members. From 2012 outsourced to PWC for 3 years contract and recently Council has authorized a four years extension	\$300,000 per year	Outsourced
Kitchener	Internal Auditor- established in 2004	\$150,000 per year	Employee – 1 staff member - Occasionally using an outside contractor
Thunder Bay	Internal Audit department established in 2004	\$225,000 per year	Employees – 2 staff members (manager and analyst)
Cambridge	Internal Auditor – new position	No information available	Employee – 1 staff member, new position

Barrie	Internal Auditor – new position established in 2015	No information available	Employee – 1 staff member, new position
Kingston	No formal Internal Auditor/Audit department; however, they have a similar protocol developed internally for identifying and carrying out regular compliance reviews. Financial analysts perform most of the audit duties. Periodically, the City contracts an outside consultant for specific reviews		
Waterloo	No internal Auditor/Audit Department		
Niagara Falls	No Internal Auditor/Audit Department		

Out of the ten examined municipalities above, seven have an internal auditor/audit department, where two are newly established positions. The cost associated with this service varies from \$96,330 to \$338,000 per year. With the exception of Thunder Bay, five of the other municipalities have one dedicated staff position with the use of additional internal audit help within the Finance department or an outsourced contractor. Two municipalities outsource this function to a public accounting firm.

Types of audits completed and value received

Based on our review of our comparator municipalities, we have summarized the types of audits performed as well as the value received. We have identified the following types of audits:

- operational audit;
- control and compliance audits;
- business process review that includes effectiveness and efficiency;
- risk management; and
- follow-up audits.

Although there is limited data regarding the value received from the various types of audits conducted in those municipalities, recommendations were made for improvement in operation and control, cost savings, improved effectiveness and efficiency, and updated/facilitated training and procedures development.

When looking at an Internal Audit function, performed by hired staff or by a Professional firm through a competitive bid process, the role performs detailed procedural and control audits, as well as value for money and operational review type audits. The audit focuses strictly on procedures, controls, efficiency and value. The following chart compares the advantages of having internal audit function to outsourcing this function.

Consideration Items	Internal Audit Function	Outsource
Number of audits	With one or two internal staff the number of audits completed in year is limited	Many different audits can be taken on simultaneously
Knowledge	Finding one Auditor that has experience in performing audits in both the traditional financial areas and all the other operating type audits (value for money/operational reviews) will be difficult	Direct municipal experience of large firms provides base knowledge that would take an individual Auditors years to acquire.
Impact of sickness, vacations and turnover	With a department of one or two staff availability of staff is impacted with sickness, vacations or turnover	No interruption of audit work due to vacation, sickness or turnover
Flexibility	With a staff of one or two ability to take on additional audits not in the work plan would be extremely limited	Ability to take on ad hoc audits, as required, without having to postpone or interrupt ongoing audits

Alternatives for Consideration

1. Internal Audit Services
 - a. In-House
 - b. Share with another municipality
 - c. Outsourcing
2. Core Service Review (including Alternative Service Delivery)
3. External Full Program/Service Review
4. Business/Continuous Improvement Program

1. Internal Audit Services

Municipalities have three main internal audit sourcing strategies to choose from. The selection of a sourcing strategy will be driven by the model that best fits the City's requirements and meets its objectives. The models presented below are

based on leading corporate governance practices. Central to leading corporate governance practices is the requirement that management must retain responsibility for the system of internal controls and that Council must retain oversight of the internal audit function. In the Corporate World this occurs through the Audit Committee. This includes approval of the vision, values, strategic objectives, internal audit delivery structure, allocation of financial resources and the respective performance measurements.

The alternative sourcing strategies are:

a. In-House

Resources are provided by the City to achieve the strategic objectives of the Internal Audit Function. A key advantage of the In-House model is that it provides the arena for developing future leaders within the organization. Members of the internal audit department are trained on various functions within the organization and obtain a comprehensive understanding of the key risks and challenges that face the organization, enabling individuals to enhance their decision-making process. Other advantages include a higher level of ownership of the internal audit function and a better understanding of the organization's culture that permits internal auditors to master the relationship with various process owners.

The key disadvantage of the In-House strategy is the difficulties internal auditors face in acquiring or maintaining the depth and breadth of specialized skills due to the high cost associated in investing in the skills required. Another drawback is the lack of flexibility to accommodate the increasing demands from oversight bodies to provide control assurance.

b. Share with another municipality

In this model, the City would approach another municipality or municipalities for the purpose of putting together a joint request for proposal (RFP) process for the audit services. This arrangement is considered to be more complex and difficult to coordinate. This option could restrict the City in the terms of the contract content in order to satisfy all municipalities involved. Also, this option would require the continuous investment in the in-house internal audit department with respect to training, recruitment and the technology used.

The main advantage of this option is the ability to cost-share the in-house audit department costs. This cost-sharing can potentially provide an increase in the depth and breadth of the specialized skills of the internal audit department staff and improved diversification of staff competencies.

c. Outsourcing

Resources are entirely provided by a third party provider of services to the City in order to achieve the strategic objectives of the Internal Audit Function. The key benefit of a fully outsourced internal audit service model is that many audits could be undertaken simultaneously. The City has the ability to request proficient and qualified staff with core competencies from the service provider in the pursuit of adding value to the organization. Large audit firms have the capacity to do all levels of audits from traditional to value for money audits. The service provider bears the investment costs for training, tools, technology and the Intellectual Capital required and internal auditors are able to maintain financial independence.

The main drawback of this option is that expertise does not reside in-house and accordingly, there is an evident limitation on the ability to transfer knowledge and build the capabilities of the internal audit function within the City.

2. Core Service Review (including Alternative Service Delivery)

Many municipalities have already completed or anticipate conducting some form of service delivery review in the very near future. These reviews are known by a variety of different names but in practice tend to be very similar. To help clarify the differences, the following explanations are provided:

A core service review is a process where the primary focus is on "what" programs and services municipalities should or can afford to deliver and at "what" level or standard of service. This type of review may result in some programs/services being discontinued or service levels being adjusted. In contrast, a program or service delivery review is primarily focused on "how" best to deliver a program or service. It is a systematic process for the collection, analysis, interpretation and presentation of information in order to make administrative and operational judgments about the effectiveness of the program and the efficiency of delivery.

An assessment of alternative service delivery (ASD) opportunities may complement either type of review. ASD is a process of public sector restructuring to improve the delivery of programs/services to citizens. On one hand, a municipality may choose to continue to offer a program/service but contract out the service delivery or enter into a partnership. On the other hand, a municipality may choose to discontinue a program/service altogether where there is low public interest in the service, or where the service is or could be provided by the private, other public, non-for-profit, or volunteer sector.

Municipalities that assess "what" and "how" they deliver programs/services understand the need to find more sustainable approaches to managing expenditures. They understand that the public is looking for governments to make choices about "what" and "how" programs/services are delivered based on good information and sound analysis.

The goal of the service delivery review is to find long-term, sustainable solutions to ongoing budget challenges and provide quality, affordable municipal programs/services in the most efficient and effective manner while maintaining responsible taxation.

3. External Full Program/Service Review

This option is a review of a large number of programs/services including an ASD analysis. This option would be undertaken partially or completely by an external consultant, typically a management accounting firm. While this approach might ensure the objectivity of the analysis, it is very costly. It would bring the expertise of skilled consultants and additional resources to the City recognizing that administration has limited time and resources to devote to this exercise. One major disadvantage of this option is that the consultant does not work day to day in the City's business providing services. Although municipalities provide very similar services, "how" these services are delivered can vary greatly. Therefore this type of review can lead to solutions that are impractical or too costly to implement.

4. Business/Continuous Improvement Program

The objective of this program is to find efficiencies and improve effectiveness as part of doing business. The approach looks at a selected number of services which are thought to contain the potential for savings rather than taking a comprehensive review of the entire operation. In this way, the approach is less coordinated and may not achieve as much as a more rigorous review.

In support of the continuous improvement program, a framework would be developed to provide more formal oversight and foster a more coordinated and integrated approach to continuous improvement across the organization. The framework would be comprised of a governance model and a set of principles that the program would operate under. Implementation of the framework can help ensure the most effective approach is taken in the delivery of City programs/services and the best outcomes for the City are achieved, maximizing the return on taxpayer dollars. The program can also provide coordination across departments, stronger performance management, and change management practices. Opportunities to utilize lean methodologies for process and program reviews to help eliminate "waste" from the system can also be recognized. A continuous improvement program is an ongoing process and may take many years to achieve the desired outcomes. This option more concretely

puts a process in place to build upon Senior Management's current practice. This is the approach taken by the City of St. Catharines.

Research has shown that there is not a one size fits all solution for municipalities reviewing programs and service delivery. Most often, Councils prefer to retain existing programs/services but deliver them at reduced costs through acceptable service level adjustments and improved efficiencies. This is the approach that is currently occurring in the City of St. Catharines with the Business Improvement Team performing formal and informal lean reviews. This is coupled with the use of zero-based budgeting, with the movement towards service level budgeting, where departments are responsible for developing decision-packages to represent the various services and projects that they would like funded. Overall the City of St. Catharines' Business Process Improvement program with the knowledge of existing system continues with the focus on the effectiveness and efficiency of City services.

Financial Implications

The City does not have a separate department for Internal Audit Services or Business Improvement Services. Business Improvement Services are part of the Financial Management Services (FMS) annual operating budget.

If the City were to move to an Internal Audit Function, provided internally or externally, additional operating budget dollars would be required as these costs are not part of the City's annual operating budget. Looking at the budgets for the internal audit function of our comparator municipalities the average annual budget is \$222,000. A one-percent tax increase is approximately \$958,000. Therefore the impact to start an internal audit function would be approximately 0.23%.

Relationship to Strategic Plan

The City's Economic Sustainability is enhanced by being an affordable city for young people, families and retired older adults. An internal audit function, continuous improvement program, core service reviews and service level budgeting are all tools that can be utilized to better understand the costs of city operations and services. In addition these tools allow staff to identify ways to manage costs and to work towards achieving a budgetary tax rate increase at or below the rate of inflation by 2018.

Prepared and Submitted by:

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Approved by:

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Commissioner of Corporate Services

Report from Financial Management Services/Director

Date of Report: October 24, 2016

Date of Meeting: November 14, 2016

Report Number: FMS-B018-2016

File: 10.57.99

Subject: Internal Audit Function - Further Information

Recommendation

That the report respecting the alternatives for an internal audit function be received for information and consideration.

Summary

Service Delivery and Operational Reviews allow for the community, Council and staff to make informed strategic choices regarding current services and their delivery approach. They identify potential changes to service levels, delivery methods and processing procedures to improve efficiency and effectiveness.

This report will discuss the various processes used by the Town of Whitby, City of Guelph and City of Timmins to improve their understanding of currently provided City services and operational procedures. It further evaluates these alternatives for conducting a complete organizational effectiveness study and demonstrates how they compare to an Internal Audit Function and Continuous Improvement / Lean and Six Sigma strategies and practices.

Background

At its meeting of February 9, 2016, the Budget Standing Committee requested that staff report back to the Committee in June on what comparator communities have for Internal Audit positions, what value has been received by those communities who have an Internal Audit position, and include alternatives in municipal and private sectors.

Additionally if staff determine that the City of St. Catharines is too small for an Internal Auditor function, to identify the possibility of a commission-based core service review and the feasibility of an internal auditor position, and to budget for it over the next few years.

At its meeting of August 29, 2016 the BSC considered this report (Appendix 1) and requested additional information including;

- An evaluation of the alternatives for conducting a complete organizational effectiveness study combined with a core services review
- A review of the alternatives for retaining experts that could fund their work from identified sustainable savings that do not negatively impact required core services
- Further, that the report include a placeholder in the 2017 budget for an internal auditor.

Report

It is important to note that although the examples identified in this report are not our municipal comparators the costs, methodology and recommendations are similar to what the City of St. Catharines would go through should that option be pursued.

Alternatives for Organizational Review

External Consultant for Service Delivery Review – Town of Whitby

The overall goal of a services delivery review is to better understand the services provided by the Town and to assist council in making better informed, strategic choices regarding those services. Service delivery reviews examine the current services that are being delivered and to what level they are provided; they also identify whether there are opportunities to change these levels or delivery methods.

An external Consultant was engaged by the Town of Whitby in 2016 to assess and identify opportunities to improve the quality, efficiency and management of delivering services to its residents. In February an RFP was awarded for \$147,450 and the project was initiated on March 18, 2016.

For Whitby, the review is being used to carry out a variety of functions. It is used as a tangible resource for benchmarking, to provide key endorsements for developing a service delivery strategy, as an engagement strategy for employees, and to provide recommendations and priorities for next steps. The report was requested to deliver information on the following:

- Describe and evaluate the Town's operation, structure and service levels;
- Identify the service as mandatory, essential, discretionary or otherwise;
- Identify similar services that are being provided elsewhere in the Region
- Identify service objectives
- Establish service levels and key performance indicators (KPI)
- Benchmark Town services and operations in comparison to those in similar communities across Ontario with an emphasis placed on identifying those who are regarded as employing best practices; and

- Provide option for maintaining adequate service levels while allowing long-term sustainable budget objectives to be met.

Close to 100 opportunities were identified for the Town of Whitby to improve quality, efficiency and management of delivering services. The consultant recommended 18 top opportunities for both internal and external improvements of the Town which can be found in Appendix 2.

The recommended opportunities are very high level and require a significant amount of staff and financial support for effective implementation. The City of St. Catharines has pursued many of these opportunities including an updated zoning by-law, establishing centralized customer service, and developing an IT strategy which includes improving and expanding on our online services. These types of recommended initiatives all require considerable time-lines for further research, resources and funding prior to implementation. Establishing and formalizing services levels as well as updating Human Resources policies were two other possibilities for improvement for Whitby. The Business Improvement Team of the City of St. Catharines also recognizes these opportunities and works continuously with Managers across the Corporation to achieve success.

The opportunities determined from an external consultant through a Service Delivery Review are valuable, impartial and abundant. From our own experiences executing similar action items at the City of St. Catharines we know an effective implementation plan requires further priority setting, staff, financial resources and alignment to Council's Strategic Plan and existing corporate priorities.

External Consultant with Scoping Report, Operational Review and Contract Program Manager – City of Guelph

An operational / organizational design review focuses on whether an organization is correctly structured to efficiently and effectively deliver the municipality's services at the required service level.

This City of Guelph initiated an Integrated Operational Review with a specific concentration on improving processes, approaches and systems dealing with development/business inquiries and development review. This meant that the review only examined the roles of Planning, Building and Enterprise (Economic Development, Downtown Renewal and Community Energy Initiative) Services.

They began this process by engaging GLP Inc. to conduct an 'issues scoping' exercise looking at operational related key issues, challenges, opportunities and initial ideas on how to address them. This initial phase began by exploring client-related issues such as perceptions of client-City staff interaction, factors influencing client-City staff relationships and the perceived alignment between various departments. The scoping report was released in August 2011 and in August 2012

Guelph retained GGA Management Consultants and IBI Group to conduct the operational review of the current development review processes and the related roles of their services. The explicit objectives of the Integrated Operational Review were:

- To review the current development review processes and the roles of Planning, Building, Engineering and Enterprise (Economic Development, Downtown Renewal and Community Energy Initiative) Services.
- To assess organization, management and operating structures, processes, service delivery, resources and approaches to conflict resolution
- To identify opportunities for improved service delivery effectiveness, efficiency and customer service
- To make recommendations for improvement with an implementation plan

The assessment identified 23 operational improvement opportunities to address the administrative and organizational problems (Appendix 3). These are all summarized through the establishment of an improved service delivery model. Implementing this type of model is based on recommendations that fall into four categories:

- Building a more adaptive learning organization
- Improve management direction, engagement and coordination
- Improve development review processes with better coordination, information management and communication with stake holders
- Improve communications interdepartmentally and with stake holders

Specific recommendations included suggestions for succession planning, mentorship and training, establishing mission statements and committees as well as clarifying roles and consolidating responsibilities amongst staff. Recognizing that to put these suggestions into operation Guelph developed a three year implementation plan.

In 2013 they externally contracted a Program Manager for 2+ years. This position works directly with an Integrated Operations Review Governance Committee while positively engaging staff, completing budget tracking and reporting, establishing key performance indicators and measuring, monitoring and reporting on the recommendations. To implement the plan over three years the preliminary budget estimated the necessary costs at \$270,000 in operating and \$720,000 in capital. The plan is currently in its third year of implementation and Guelph has reported their improvements are either completed or on track to be completed by the end of 2016.

External Consultant for Service Delivery Review and Operational Review – City of Timmins

This detailed, combination review evaluates both the services and organizational structure of the City with the intention of identifying potential opportunities for efficiency while balancing services and service levels with affordability concerns. The benefits of this type of review is that the identified opportunities would achieve a greater efficiency

in municipal operations, while reducing operating costs and establishing long-term sustainability.

An external consultant was engaged by the City of Timmins in April 2015 to undertake the review at a cost of \$135,000. The final report was requested to deliver information on the following:

- To prepare an inventory of services currently being provided by the City and identify which services are mandatory, discretionary or established over time;
- To evaluate these services with the needs, wants and financial capacity of the City. That is, what businesses the City should be in and how these services should be delivered.
- To review the current organizational structure of the municipality, current procedures and systems, and the resources allocated to the departments and organizations with regard to the operational requirements and objectives that have been assigned.
- To determine the most cost-effective and strategic way to structure City operations to meet current and future needs taking into account other stakeholder partnerships that exist or could be created within the community.
- To recommend practical, achievable and realistic alternative structures and resources through which the City could partner with other local stakeholders to leverage its investments in a strategic manner.
- Recommend cost savings and identify opportunities for new revenue sources
- Ensure City services are effectively aligned with the City's strategic plan.

The review identified almost 50 opportunities that could be considered by the City of Timmins and presented 30 as a priority. Listed in Appendix 4, the recommendations are organized by the type opportunity they present to the City. The categories are:

- Operating efficiencies (changes to the city's processes to maximize outcomes and minimize resources)
- Service level reductions (discontinuance of the City's involvement in a non-core service; or a reduction in the level of service provided)
- Alternate service delivery (changing the City's delivery model – internal vs. contract)
- Revenue generation (identifying alternate means of funding municipal services through user fees / cost recovery models)

Many of the practical recommendations Timmins received are current City of St. Catharines practices. The use of procurement cards, budget-to-actual monitoring, a uniform system for water billings and full cost recovery for services are all processes the City is working on or has completed.

Timmins was looking for the consultant to report back on feasible and achievable revisions and adjustments that could be made to the overall organizational structure of the City. The consultant delivered and concluded that 28 to 30 of the recommendations

could be achieved within the next calendar year (however it did not specify the necessary financial resources required for implementation).

Lean and Six Sigma / Continuous Improvement

Continuous improvement refers to an organization's ongoing efforts to improve products, services and/or processes in order to increase efficiency and reduce costs. Lean and Six Sigma and Kaizen are process review methodologies that when practiced and implemented achieve continuous improvement. They can be used separately or together to find efficiencies and improve effectiveness as a part of doing business; they do not focus on cost-cutting, however this may be a by-product of implementation.

These process review strategies focus on the customer and look to eliminate waste or non-value added activities in processes. Lean doesn't focus on cost reduction but rather the outcome of increased capacity to take on new initiatives. Results are achieved through cross-collaborative work teams where departments work with one another in order to identify where synergies can be created and defects can be corrected - improving organizational communication.

Implementing this type of program does not require an external consultant but rather trains current staff members to become experts (or 'Black Belts') in the methodology. This training then filters down amongst staff which facilitates an environment for best practices and helps to formalize documents, procedures and work instructions. It fosters an empowering environment for staff to find efficiencies amongst the processes they understand in the municipality they know.

American cities such as Grand Rapids, Michigan, Irving, Texas and Erie County, New York have all been studied for their great successes with the methodology. The City of Kawartha Lakes reported \$3 million in savings from their initial Lean Six Sigma projects between 2013 and 2014. The City of St. Catharines demonstrated our current success with continuous improvement in a report to Council this past June.

The report noted that since December 2014 more than 115 employees have participated in nine formal Kaizen events/reviews, which included Lean training. In addition, 26 informal reviews have been completed in the same time period, involving an additional 100 employees. Out of the 35 reviews, implementation has been completed on 24, with 11 still in various stages of completion. These reviews have resulted in close to 2,700 hours in labour savings to date, meaning City staff in the areas subject to review now have additional capacity to dedicate to other projects or tasks. The reviews have also resulted in almost \$250,000 in financial savings and more than \$18,000 in additional revenues.

This approach differs significantly from the previous reviews as it does not look at the Corporation comprehensively, but rather examines a selected number of services or procedures. Although it may not identify all potential areas for improvements at one-

time, like a full corporate review, it is still an action-driven approach with continuous improvement benefits that demonstrate its value in the workplace. It encourages a corporate culture that grows organically as staff are trained and experience the advantages to their day to day tasks of waste reduction or elimination.

In all of our research continuous improvement is the only alternative that allowed for an expert (the in house, trained staff member) to identify sustainable savings that does not negatively affect operating costs.

Internal Audit Function

An internal audit function provides independent, unbiased assurance that an organization's internal control processes, governance and risk management are operating effectively. The role of an Internal Auditor is to carry out this function and help both Council and management to perform their responsibilities while advising on risk management and compliance with policy and procedures. The creation of an internal audit function may also focus on the efficiency and effectiveness of services provided by the Municipality.

As approved by the Budget Standing Committee on August 29, 2016, an amount of \$222,000 has been included in the 2017 draft operating budget and further information about the particulars of the internal auditor function is found in Appendix 1.

Similar to hiring an external consultant for a service review, an internal auditor provides an impartial, objective view and reports all findings to Council. Comparable to a Lean Six Sigma leader, an internal auditor can complete and report back on multiple reviews per year and continue year to year; whereas, a services review is a one fee, one-time report on the current state of municipal operations.

The internal audit function is a useful identification resource and seven out of ten of our municipal comparators have an internal auditor / audit department. As discussed at the August 29 budget committee meeting, Appendix 1, compares the differences between the various audit functions a municipality could undertake to achieve their desired results. It has been attached here for ease of referencing.

To compare with the logistics of undertaking a service or operational review listed below are the necessary steps required to create an internal audit function within a corporation.

1.	Establish the authority of internal audit
2.	Interview leadership (leaders, senior managers, audit committee members)
3.	Review the audit committee charter
4.	Understand benchmarking needs
5.	Review policies and procedures

6.	Discuss control issues
7.	Develop the “audit universe” – all auditable entities
8.	Map major processes / operations
9.	Develop risk assessment
10.	Develop charter for internal audit
11.	Build the budget
12.	Develop an audit plan
13.	Hire staff and develop a training plan
14.	Ensure Complete Cooperation
15.	Establish best-practice reporting relationships
16.	Establish a quality assurance program

The internal audit function differs significantly from what a service delivery review, operational review or a core services review would carry out. The fundamental difference separating it from the previously listed alternatives is that it is not process driven and does not offer the specific solutions, recommendations or opportunities for improvement that an operational, service or lean six sigma review can.

Financial Implications

Based on the experiences of other municipalities, to engage the services of an external consultant for an operations or service delivery review approximately \$135,000 - \$150,000 would need to be budgeted. After this initial phase and based on the experiences with the City of Guelph, annual operating budget impacts of \$105,000 - \$165,000 and \$210,000-\$280,000 for capital improvements would be required in subsequent years for implementation.

The internal audit range costs identified in Appendix 1 demonstrate that the average annual budget amongst our comparators for this function is \$222,000. A one-percent tax increase is approximately \$958,000. Therefore the impact to start an internal audit function would be approximately 0.23%.

As previously noted Business Improvement Services (Continuous Improvement) are not a separate department and function under Corporate Services and are included in the Financial Management Services (FMS) annual operating budget.

Relationship to Strategic Plan

A services review, a continuous improvement program and the internal audit function, are all approaches that can be used to better understand the costs of city operations and services. The information presented on the service reviews at the Town of Whitby, City of Guelph and City of Timmins are related to the Economic Sustainability section of the Council’s strategic plan item 2.1 – update financial controls and debt management

strategy to better manage escalating cost of city operations and services and 2.3 - instituting a core service review.

Conclusion

A service delivery review, operational review, continuous improvement program and an internal audit function are four approaches commonly used in Municipalities to identify opportunities for improvement and efficiency.

Service and operational reviews deliver a multitude of impartial, specialized opportunities for improvement in a structured amount of time. The shortcoming of this methodology is that the review is only the first step towards change and requires both financial and staff resources to implement the recommendations.

The continuous improvement approach conducts process reviews over a long period of time and occurs at no additional staffing costs to the Corporation. While it may not yield immediate, cohesive results for a Municipality it trains staff in lean thinking and how to apply those techniques in everyday job functions.

The internal audit function is a great resource identification tool and is used to advise on risk management, compliance and program / service delivery. Its limitation is that it is not as process driven as the other alternatives and may not necessarily offer specific recommendations for improvement.

This evaluation of the alternatives for conducting a complete organizational effectiveness study has demonstrated that each approach has its own merits, drawbacks and associated costs. It also reveals that continuous improvement is the strongest alternative available to municipalities to develop knowledgeable experts using funds that do not negatively impact the operating budget or core services.

Prepared and Submitted by:

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Director of Financial Management Services

Approved by:

Shelley Chemnitz, CPA, CA
Commissioner of Corporate Services

The result of the Town of Whitby review is that close to 100 opportunities to improve quality, efficiency and management of delivering services were found. The firm recommended 18 top opportunities for both internal and external improvements of the City.

Internal Recommendations	External Recommendations	Internal / External Recommendations
Implement lean process re-engineering	Review future implications of solid waste collection	Develop a corporate strategic plan
Develop strategic workforce plan	Update and create comprehensive zoning bylaw	Develop communications strategy addressing both internal and external parties
Conduct an organizational design review	Establish policy / MOU with alternate providers and strengthen partnerships	Streamline development application review and approval process
Review and update Human Resources policies	Implement 311 centralized customer service and begin process with education session on leading practice considerations	Establish and formalize services levels
Develop IT strategy	Develop corporate branding strategy	Develop digital strategy to improve and expand online services
Implement an ERP system and begin process with education session on leading practice considerations	Review tiered response protocols for fire services	Move forward with a new or expanded Town Hall and begin process with education session on leading practice considerations in developing a long term accommodation strategy

The City of Guelph Integrated Operational Review had 23 recommendations which fell into four categories.

Category	Recommendations
Build an Adaptive Learning Organization	<ul style="list-style-type: none"> • Re-establish Planner II positions over time and implement a team organization within planning and initiate organization development process
	<ul style="list-style-type: none"> • Establish a Human Resources Staffing and succession plan to address management and skills requirement now and in the future
	<ul style="list-style-type: none"> • Integrate and orient new employees and provide mentorship and training opportunities for existing and new staff in all departments
Improve Management Direction, Engagement and Communications	<ul style="list-style-type: none"> • Clarify roles and responsibilities of all manager positions in Planning, Engineering, Building and Enterprise Services Departments Relative to their direction and involvement in the development review process
	<ul style="list-style-type: none"> • Establish a manager-level interdepartmental management committee for development to better manage development review processes
	<ul style="list-style-type: none"> • Planning and engineering general managers should review, track and monitor application processing, project issues and timelines on a bi-weekly basis and report to IMCD monthly
Improve Development Review Processes with better coordination, information management and communications with stakeholders	<ul style="list-style-type: none"> • Develop a business services centre in conjunction with the information services area on the main floor of City Hall
	<ul style="list-style-type: none"> • Establish a new position of “Business Facilitator” to assist City Businesses, including the development industry to access City Services and the assistance they need
	<ul style="list-style-type: none"> • Establish gold star protocol for new development proposals which would have major benefits to the City-Gold star program
	<ul style="list-style-type: none"> • Implement a mandatory pre-consultation process for all development applications
	<ul style="list-style-type: none"> • Establish a development review committee with regularly scheduled meetings
	<ul style="list-style-type: none"> • Implement a revised site plan review process with updated urban design guidelines
	<ul style="list-style-type: none"> • Reinstate one stop engineering review and comments process

	<ul style="list-style-type: none"> • Expand the use of and improve management information systems and performance measurement to support development application processing and to improve customer service with the assistance of City's information technology department
	<ul style="list-style-type: none"> • Review the City's comprehensive Zoning-By-law relative to allowable uses
	<ul style="list-style-type: none"> • Consolidate enforcement of all property-related by-laws within one department
	<ul style="list-style-type: none"> • Improve the management, coordination and review of the City's capital projects
	<ul style="list-style-type: none"> • Enterprise Services departments should review new major economic development opportunities with employment and tax benefits and coordinate action to be taken relative to the development review process
	<ul style="list-style-type: none"> • Enterprise services departments should become more proactive in investment attraction and business retention
Improve Communications Interdepartmentally and with stakeholders	<ul style="list-style-type: none"> • Develop an overall communications strategy to support the development review process
	<ul style="list-style-type: none"> • Establish a customer service mission statement in consultation with staff and provide customer service training
	<ul style="list-style-type: none"> • Revise City website to better support development
	<ul style="list-style-type: none"> • Encourage better interdepartmental communication and coordination amongst PBEE and Enterprise Services staff

The following is the results of the City of Timmins review. Although over 50 opportunities were recognized, KPMG offered the following 26 recommendations which are classified under four different types of opportunity.

Category / Opportunity Type	Recommendations
Operating Efficiencies	<ul style="list-style-type: none"> • Change system of council representation • Reduce IT services travel and training costs • Introduce virtual desktop environment • Formalize financial management policies • Introduce multi-functional printing • Introduce procurement cards • Implement budget-to-actual monitoring • Implement a consolidated fleet management system • Address process inefficiencies • Electrical efficiency measures • Introduce a consistent facility Work Order system • Reintroduce MMS • Establish a uniform system for water billings • Implement testing for water leaks • Establish load limits on Riverside / Algonquin
Service Level Reduction	<ul style="list-style-type: none"> • Eliminate grants to volunteer associations • Reduce winter roads maintenance in rural areas • Develop a vehicle and equipment strategy • Implement Master Recreation Plan recommendations • Rationalize low volume transit routes • Eliminate duplicate waste options
Alternate Service Delivery	<ul style="list-style-type: none"> • Establish in-house legal Council • Review public works contracts
Revenue Generation	<ul style="list-style-type: none"> • Implement charges for false fire alarms • Full cost recovery for building services • Introduce cost recovery for Transit services • Increase user fees for water / waste water • Increase fees for recreation • Discontinue City assistance for events at no cost • Increase focus on occupancy permit issuance

From: [REDACTED]
To: [Ertelt, Robyn](#)
Cc: [REDACTED]
Subject: RE: City of St. Catharines - Information Request
Date: Tuesday, November 22, 2016 4:06:38 PM
Attachments: [image001.png](#)
[image002.png](#)
[image003.png](#)
[image004.png](#)
[image005.png](#)

Robyn

Please see my responses to your questions below:

- What was the outcome, or may I please request a copy of your final document for the *Comprehensive Outline of Internal Operations Savings* that Guelph undertook?

In February 2016 Council put forth a resolution for staff to report back on options for internal operational savings. Staff have developed a Service Review Framework, that Council has approved, that will guide our review of all City Services (over time). These service reviews will provide a detailed look at the relevance, efficiency and effectiveness of our services and the appropriate levels of service. The first reviews will be undertaken in 2017/18.

- We are also interested in reporting the dollar figure(s) of savings that Guelph has had since implementing the Integrated Operational Review vs. the internal auditor that you also currently employ and effectiveness of each different strategy.

The Integrated Operating Review was focused on our planning and development processes and primarily around service improvements.

Feel free to contact me if you have any further questions.

Thanks,

Katherine Gray | Business Performance Specialist
City of Guelph

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