

City of Brampton Internal Audit – Development Charges
Private & Confidential

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| Audit Name | Development Charges | | |
| Sponsor(s) | Alex Milojevic – Commissioner, Corporate Support Services; Nash Damer – Treasurer; Maja Kuzmanov - Sr. Manager, Accounting Services and Deputy Treasurer; Martin Finnegan - Sr. Manager, Revenue; Raghuram Sanal Kumar - Manager, Capital Development & Finance | | |
| Business Unit(s) | Revenue Services and Accounting Services | Date Issued: | May 23, 2023 |

1.0 Executive Summary

Audit rating: Processes around Development Charges activities were rated as "Improvement Required" (See **Appendix 3** for the criteria for audit report rating).

Based on our review of processes, reports and sample testing, we observed the following strengths:

- In general, development charges are applied correctly and in accordance with relevant by-laws
- Development charge funds collected on behalf of the Region of Peel and the two school boards are remitted on a timely basis
- Processes and system controls are in place to ensure building permits are issued only after all development charges have been paid in full
- Funding activity from development charge reserves to capital projects is reviewed, approved and monitored

Internal Audit staff discussed the following improvement opportunities with Management:

- Processing invoices with frozen development charge rates is manual and inefficient
- System control to automatically apply current rates is not functioning when rates decrease
- Process for updating development charge rates in the system is incomplete
- Current certificates of insurance are not always on file
- Standard Operating Procedures are not reviewed and updated timely

Conclusion:

Overall, development charge processes are operating effectively, and proper oversight is in place through reviews, approvals and reconciliations. Nothing has come to our attention that indicates that development charges are applied incorrectly or contradict the development charges By-laws. However, we have noted the following combination of inefficiencies, control risks, and system limitations in the development charge billing process that could reduce billing accuracy:

- Inefficiency in processing invoices with frozen rates due to system limitations as described in finding number 1
- Lack of automatic adjustments to development charges when rates decrease due to system limitations as described in finding number 2
- Lack of comprehensive controls in the process of updating development charge rates in the system as described in finding number 3

Staff should implement IT enhancements and strengthen the rate update process to improve billing controls and efficiency.

Additionally, staff should improve the monitoring of insurance coverage to ensure that the City always has updated Certificates of Insurance on file for developments. This is described in finding number 4.

Acting on the recommendations below will improve the City's administration of development charges.

2.0 Background, Objectives, and Scope

Background

The Province enacted the Development Charges Act in 1997 which granted municipalities the authority to develop by-laws to impose development charges.

Development charges are applied to all new developments and redevelopments in the City (Residential, Industrial and Commercial). These charges are an important source of revenue for the City to finance the additional infrastructure needed to service growth.

The Development Charges Act requires that the City undertake a background study to identify infrastructure needs resulting from growth and the associated costs before adopting a by-law. The Act requires municipalities to adopt a development charges (DC) by-law every ten years, at a minimum. As a result, City conducts development charge studies every five years with the most recent background study completed in 2019.

The City of Brampton adopted the current development charges by-laws in 2019. The rates outlined in the by-laws were set based on the 2019 background study. There are 8 by-laws (129-General Government, 130-Library Services, 131-Recreation Services, 132-Fire Services, 133-Public Works, 134-Transit Services, 135-Roads and 136-Brampton West; North-South Transportation Corridor).

The *Development Charges Act* requires the municipality's Treasurer to provide City Council with a statement about each Reserve Fund established under the Act each year. The statement reflects the opening and closing balances of each year, the current year's distribution of the DC proceeds, any financing transfers and the interest earned on the fund.

Revenue collected for Development Charges over the last three years was \$66M (2020), \$86M (2021) and \$74M (2022).

In order to improve housing supply and affordability, the Province of Ontario introduced sweeping changes through two pieces of legislation - Bill 108 *More Homes, More Choice Act*, 2019 and Bill 23, the *More Homes Built Faster Act*, 2022. The provincial changes will create significant administrative and funding challenges for Ontario Municipalities including Brampton. The City is currently awaiting details on how the province will address the shortfall in infrastructure funding resulting from these Bills.

The development charges administration process is primarily the responsibility of the City's Development Finance Unit but also involves Accounting Services and Realty Services.

The Development Finance Unit, consisting of five employees, is responsible for ensuring that all financial conditions per the site plan or subdivision agreement are complete, indexing development charge rates as required, calculating development charges, invoicing developers and entering development charges data into the permit and compliance software (Amanda).

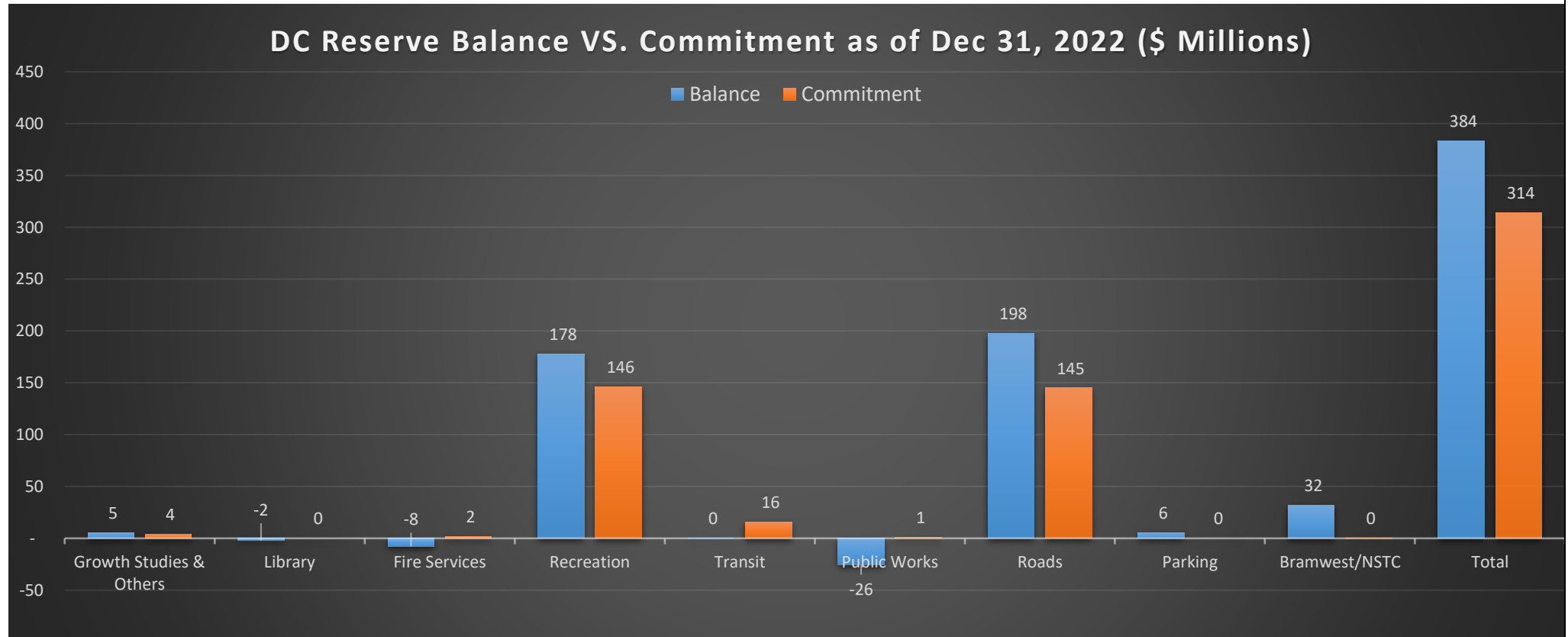
Accounting Services is responsible for recording development charge receipts in the financial statements, completing accounting entries related to capital projects and reporting on the development charge reserve funds.

For applications where the City elects that parkland requirements should be satisfied through a cash-in-lieu (CIL) of parkland payment, the value of the required payment is determined by Realty Services in response to a request from Park Planning & Development. CIL of parkland is the payment of funds equivalent to the value of land that the Developer would have been required to convey to the City for park purposes. The requirements for parkland dedication of new developments is defined in the Parkland Dedication By-law.

In most cases, development charges are payable and collected on the date that a building permit is issued, however, development charges for rental, institutional and non-profit housing projects are deferred to occupancy and payable in installments with interest in accordance with section 26.1 of the Development Charges Act. Cash in lieu of parkland must be paid prior to the developer receiving a building permit.

The City also collects development charges on behalf of Region of Peel, Peel District School board and Dufferin-Peel Catholic District School Board. The amounts and conditions of these charges are set out in their respective Development Charge By-laws. All funds collected for these organizations are transferred to them the following month.

As of December 31, 2022, the balance of Development Charges Reserve Funds is \$384 million and the commitments to capital projects from the Development Charges Reserve Funds is \$314 million meaning 81% of the Development Charges Reserve Funds balance has already been committed to capital projects.



In May 2023, the province announced that it will be auditing development charges and other funding sources of six Ontario Municipalities, including Brampton. The purpose of the audit is to understand any potential or perceived impacts of Bill 23 with regards to changes to development related fees and charges. It will also evaluate the accountability, effectiveness and efficiency of the activities and decisions that support investments in growth-related infrastructure.

Objectives

The objective of this engagement was to evaluate the effectiveness of processes and controls around Development Charges and ensure compliance to legislation, policies and procedures. The audit focused on assessing whether:

- Development charges are calculated in accordance with relevant by-laws, Development Charges Act and semi-annual rate updates based on the non-residential building construction price index
- Policies and procedures relevant to development charges are current and being followed
- Insurance certificate and letter of credit or security deposit are in place for each development and meet required standards
- Building permits are issued only after all required documents are in place and all charges have been collected, where applicable
- Process is in place to ensure that all development charges payments have been made for all applicable property developments
- Cash in lieu of parkland charges is supported and approved
- Development charges receipts are recorded in the applicable general ledger accounts
- Reserve funds are allocated into capital reserve fund categories in accordance with the City's development charges by-laws
- Reserve fund bank reconciliations are performed and approved on a monthly basis
- Interest earned from the reserve bank accounts is allocated appropriately to the capital expenditure reserve fund categories
- Development charges collected on behalf of the Region of Peel and the two school boards are accurate and transferred timely

Scope

Our audit focused on development charge activity from January 1, 2020, to December 31, 2022.

The following areas were **not** included in the scope of this audit:

- Assessment of the development charges background study
- Development user fees (Audited in 2022)
- Processes related to planning, design or construction of developments
- Information technology general controls ("ITGCs") within Development Finance's systems and databases

3.0 Detailed Audit Findings, Recommendations, and Proposed Management Actions

| Ref # | Findings | Rating | Recommendations | Management Action Plan, Responsible Person(s) and Due Date |
|-------|--|--------|--|---|
| 1 | <p>Processing invoices where development charge rates have been frozen is manual & inefficient</p> <p>In 2019, the “More Homes, More Choice Act” (Bill 108) was introduced which allows developers to “Freeze” development charge rates at an earlier stage of the development process. It also gives Municipalities the right to apply interest to any development charges that have been frozen. In 2020, a development charge interest rate policy was passed by the City which outlines that an interest rate of 5.5% will be applied to all developments with rate freezes.</p> <p>The Development Charge Team currently processes development charge invoices with frozen rates and the related interest charges manually. Staff enter the applicable rates and interest charges in each development charge category in AMANDA – approximately 20 data fields for each invoice.</p> <p>The above process is inefficient and prone to errors. We selected 25 samples for testing. One of the samples did not have the correct sub-total amount due to a manual keying error although the total amount of the invoice was correct.</p> | P2 | City Council requests that the Treasurer ensure system capabilities are expanded in order to automate the processing of development charges invoices where rates are frozen and interest is applied. | <p>Manager, Capital & Development Finance will consult with IT staff (AMANDA) to have the process automated by Q1 2024*.</p> <p><i>*Subject to availability of IT resources</i></p> |

| Ref # | Findings | Rating | Recommendations | Management Action Plan, Responsible Person(s) and Due Date |
|-------|---|--------|--|--|
| | <p>Potential Impact: Manually entering multiple fields for each invoice line is inefficient and increases the risk of incorrect development charge amounts being billed.</p> <p>Being able to select development charge rates from prior periods and the automatic allocation of interest to development charge funds will ensure the accuracy and efficiency of billing.</p> | | | |
| 2 | <p>System control to automatically apply current rates is not functioning when rates decrease</p> <p>When the City of Brampton or Region of Peel update their development charge rates, the new rates are manually entered in the system and amounts on existing invoices are automatically updated based on the new rates.</p> <p>Our discussion with staff and review of the process found the following:</p> <p>When rates increase, the system will automatically apply the new higher rate to existing invoices and notify the user that an additional amount or “Top Up” has been applied.</p> <p>When rates decrease, however, the system does not automatically apply the new lower rate to existing invoices and the user is not notified of the rate change.</p> <p>When Bill 23 passed on November 28th, 2022, certain services that used to be funded by</p> | P2 | <p>City Council requests the Treasurer to implement system controls to ensure invoices are automatically adjusted to account for both development charge rate increases and decreases.</p> | <p>Manager, Capital & Development Finance will consult with IT staff (AMANDA) to have the process automated by Q1 2024*. <i>*Subject to availability of IT resources</i></p> |

| Ref # | Findings | Rating | Recommendations | Management Action Plan, Responsible Person(s) and Due Date |
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| | <p>development charges were no longer eligible for funding. This resulted in an overall rate decrease of development charges applied by the Region of Peel.</p> <p>The new lower rates were updated in the system on Nov. 30, when there were nine unpaid invoices for four developers. However, the system did not automatically adjust the invoices with the new lower rates and overcharged the four developers by a total of \$288K. Prior to our audit, City staff was notified of the error by Region of Peel and processed credits to correct the overpayments in 2023.</p> <p>Enhancing system controls to automatically apply new rates for both rate increases and decreases will ensure billing accuracy.</p> <p>Potential Impact: The system's limitations to updating invoice amounts when rates are reduced increase the risk of billing inaccuracies.</p> | | | |
| 3 | <p>Development charges rate updates in the system are not properly vetted and approved</p> <p>On February 1 and August 1 of each year, development charge rates for the City of Brampton are adjusted based on Statistics Canada's non-residential building construction price index. Indexing rates helps to mitigate the impact of inflation on future growth-related construction costs. The new rates are entered into a spreadsheet before being manually entered into AMANDA.</p> | P2 | <p>City Council requests that the Treasurer ensure that all updates of development charge rates in the system are properly vetted and approved.</p> | <p>1. Manager, Capital & Development Finance will work with IT staff (Amanda) to produce a report from Amanda that will show the entered rates for comparison with the ones in the indexing spreadsheet by Q1 2024.</p> <p>2. Manager, Capital & Development Finance will develop or amend SOP to ensure Manager or designee approves rates and is</p> |

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| | <p>Our review of the rate update process found that within the current audit period rate updates were timely and accurate. The following however was also noted:</p> <p>1) After the updated rates have been manually entered in AMANDA, a second individual visually compares the rates in the spreadsheet with the rates in AMANDA to confirm accuracy.</p> <p>A report showing the rates in AMANDA is not available in excel format. Since rate updates require over 180 fields to be entered across 15 areas, a spreadsheet would allow staff to efficiently verify the accuracy of new rates line by line.</p> <p>2) Updated rates in AMANDA are not always approved by a Manager. For two of the last three updates, the rates were approved in the system by the same individual who entered the rates.</p> <p>It was verified that at the time of these rate changes the Manager did not have access to the system.</p> <p>When updating development charge rates, even small errors could have a significant impact on development charges so staff should implement comprehensive controls to ensure the accuracy of rate updates.</p> <p>Potential Impact: Incomplete reconciliations or approvals of rate updates can result in incorrect rates going undetected which can result in financial loss.</p> | | | <p>always a separate staff person as the one that inputs the rates by Q4, 2023.</p> |

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| 4 | <p>Current certificates of insurance are not always on file</p> <p>The Subdivision agreement (Residential) and site plan agreement (Non-residential) require developers to meet the minimum insurance coverage requirement and provide a current certificate of insurance (COI). An updated certificate of insurance needs to be submitted every year, at least 30 days prior to the expiry of the current policy.</p> <p>Our review found that 11 out of the 25 development charge samples did not have an updated certificate of insurance.</p> <p>Further, we also found that although staff review insurance coverage periodically, follow-up emails requesting proof of insurance renewals are sometimes sent months after the policy has expired.</p> <p><u>Potential Exposure</u> Not having a current Certificate of Insurance does not ensure that a developer's coverage is current or sufficient, increasing the liability risk to the City.</p> | P2 | City Council requests that the Treasurer ensure that developers meet the City's insurance coverage requirement and that staff follow up on expiring insurance policies timely, and ensure current certificates of insurance are always on file. | <p>Manager, Capital & Development Finance will ensure the following steps are taken for each development by Q4, 2023.</p> <ol style="list-style-type: none"> 1. Send reminder letters in all instances of expired insurance. 2. Maintain log and identify the defaulters. <p>Manager, Capital & Development Finance will also consult with Manager, Risk & Insurance to explore the options to have a legislative mechanism to enforce compliance by Q1, 2024.</p> |

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| 5 | <p>Standard Operating Procedures are not current</p> <p>There are a number of different processes within development finance including entering development information, preparing invoices, updating rates, collecting and applying cash receipts, monthly reconciliations and obtaining insurance and security among others.</p> <p>Currently, there are no standard operating procedures (SOPs) within Development Finance. There is a work instructions document that addresses all process areas, however, it is from 2016 and does not reflect current processes or systems.</p> <p>Updated procedures and work instructions can be a useful guide for current employees and is an important tool in the training and orientation of future employees.</p> <p>Potential Exposure Not having current SOPs in place can result in inconsistent or inappropriate execution of processes.</p> | P2 | City Council requests that the Treasurer ensure all development finance operating procedures are documented, reviewed and updated periodically. | Manager, Capital & Development Finance has already initiated the task to update SOP's and it will be completed by Q4, 2023. |

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