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**TO:** FINANCE AND RESPONSIBLE GOVERNANCE COMMITTEE  
**SUBJECT:** 2024 Q1 INTERNAL AUDIT STATUS UPDATE  
**WARD:** ALL  
**PREPARED BY AND KEY CONTACT:** S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT, X5452  
**SUBMITTED BY:** S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT  
**GENERAL MANAGER APPROVAL:** N/A  
**CHIEF ADMINISTRATIVE OFFICER APPROVAL:** M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

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**RECOMMENDED MOTION**

1. That the 2024 Q1 Internal Audit Status Update be received as information.

**PURPOSE & BACKGROUND**

2. The purpose of this staff report is to provide the 2024 Q1 Internal Audit Status Update.
3. The following table summarizes Internal Audit activities performed from January to March 2024:

#	Project	Focus	Status
1	Wastewater Treatment Facility Upgrade IPD Billable Rates (from 2023)	Compliance	Complete
2	Payroll	Follow Up	Complete
3	Transit Contract Performance	Follow Up	Complete
4	Right of Way Activity (ROWA) Payment Handling	Follow Up	Complete
5	Fraud Prevention Month	Entity Level Controls	Complete
6	PCard and Expense Reimbursement	Compliance	In Progress
7	Fraud & Wrongdoing Program Oversight	Consulting	Ongoing

## **ANALYSIS**

### **INTEGRATED PROJECT DELIVERY (IPD) BILLABLE RATE AUDITS**

#### **Wastewater Treatment Facility Upgrade**

##### Background

4. On March 7, 2022, a Multi-Party Agreement (the "Agreement") was signed between the City of Barrie (the "City"), the Prime Consultant/Engineering Consultant, and General Contractor ("GC") for the upgrade and expansion of the Wastewater Treatment Facility (the "Project").
5. On May 31, 2023, an Amending Agreement was executed which updated the Project's allowable annual rate increases, audit and true up cycles from the Agreement.
6. An audit of billable hourly rates (the "Billable Rates") charged by the Vendors will be performed annually beginning with the 2022 Billable Rates, continuing in future years as outlined in the Amending Agreement.
7. During the Validation Phase, the Vendors submitted invoices to the Project and the Vendors' employees' (the "Team Members") hours were charged at Billable Rates.
8. Billable Rates are calculated by adding the following components:
  - Direct Salary Expense ("DSE"),
  - Direct Personnel Expense ("DPE"), and
  - Overhead.

##### Objective

9. To audit the Billable Rates charged by the Vendors during the Validation Phase of the Project to assess whether they are supported and to quantify any difference between actual, supported rates and rates charged to the Project in 2022.

##### Procedures Performed

10. The "Period of Review" was January 1, 2022 to December 31, 2022.
11. The following procedures were performed:
  - a) Reviewed the Agreement (including the Amending Agreement effective May 31, 2023) and applicable Exhibits;
  - b) Reviewed documentation provided by the Vendors to support the Billable Rates;
  - c) Performed an assessment of the Billable Rate components (DSE, DPE, Overhead) to determine whether the Total Billable Rate charged to the Project is supported by verifiable information;
  - d) Reviewed publicly available information for employer payroll remittance rates;
  - e) Discussions with the Vendors; and
  - f) Calculated the difference, if any, between rates charged to the Project for each Team Member and supported rates.



Conclusion

12. Based on the procedures performed, Total Billable Rates invoiced to the Project in 2022 were assessed to be fully supported for 52 of the 68 (76%) Team Members who billed hours to the Project, and partially supported for 16 Team Members.
13. Based on the actual, supported Total Billable Rates submitted by the Vendors and the total hours billed to the Project in 2022, it was determined that the Vendors underbilled to the Project in 2022. The underbilled portion accounted for 11% of the Total Billable Rates invoiced in 2022 for the Validation Phase.

Findings

Calculation of Billable Rates

14. The calculation of DSE is described in the Agreement. However, the method of calculating the DPE and Overhead is not specified in the Agreement apart from specifically unallowable/excluded items.
15. Each of the Vendors used different methods to calculate DPE and Overhead. Since the method of calculation is not specified in the Agreement, the method utilized by each of the Vendors was considered acceptable for the purposes of this review.
16. To assess whether the Overhead costs submitted by the Vendors were supported and included only allowable expenses (as outlined the Agreement), the expenses submitted were evaluated against the indirect costs listed in applicable Exhibits of the Agreement to verify that items specifically excluded from Overhead were not included.

Billable Rates Assessment

17. In the audit of supporting documentation for 2022 Billable Rates, assessments were made to categorize Total Billable Rates for the Vendors as follows:
  - Fully supported – documentation provided supports the dollar value of the Billable Rate or a greater amount.
  - Partially supported – documentation provided does not support the dollar value of the Billable Rate.
  - Unsupported – either no support was provided, or the documentation provided does not support any portion of the value for the Billable Rate. Note: None of the Billable Rates were assessed as Unsupported.

Summary of 2022 Assessed Total Billable Rates

18. The Total Billable Rates Assessed are summarized in the table below:

# Of Vendors Audited	# Of Team Members (Note 1)	# Of Fully Supported Billable Rates (Note 2)	# Of Partially Supported Billable Rates (Note 3)	% Underbilled (Note 4)
3	68	52	16	11%

Note 1. A total of 68 Team Members billed hours to the Project during the Validation Phase in 2022.



Note 2. Supporting documentation for the Total Billable Rates was equal to or greater than the rates charged by the Vendors in the Validation Phase for 52 of the 68 (76%) Team Members. As a result, 52 Team Members' Billable Rates were categorized as fully supported.

Note 3. Supporting documentation for the Total Billable Rates was less than the rates charged by the Vendors in the Validation Phase for 16 of the 68 (24%) Team Members. As a result, 16 Team Members' Billable were categorized as partially supported.

Note 4. Based on the total hours billed to the Project in 2022, the underbilled portion of Total Billable Rates accounted for 11% of the Total Billable Rates invoiced.

**FOLLOW UP PROJECTS**

- 19. At the conclusion of an audit project, findings and proposed recommendations are discussed with management. It is the responsibility of management to develop action plans to ensure the recommendations have been addressed, which is communicated through a management response.
- 20. Follow up on project recommendations ensures that appropriate actions have been effectively implemented by management to address recommendations and provides an opportunity to identify to management and Council the actions staff are taking to improve operations, strengthen controls, and manage risk.
- 21. The following table summarizes the updated status of the project recommendations from the Follow Up projects completed from January to March 2024:

#	Follow Up Project	Recommendation Status				Total
		Complete	Closed (Note 1)	In Progress	Not Started	
1	<b>Payroll</b> – To review the adequacy and effectiveness of internal controls related to payroll processing.	3	1	3	-	7
2	<b>Transit Contract Performance</b> – To provide consulting services related to a review of the collection and monitoring of performance in relation to the City's performance-based contract.	6	1	-	-	7
3	<b>ROWA Payment Handling</b> – To understand the sources of payments handled by ROWA and the procedures followed by staff to serve customer needs and safeguard City employees and assets.	1	6	-	-	7
<b>Total</b>		<b>10</b>	<b>8</b>	<b>3</b>	<b>0</b>	<b>21</b>

Note 1. If the project recommendation was no longer applicable due to changes in the underlying business or process, the recommendation was assessed as 'closed'.

22. Internal Audit will continue to monitor recommendations still in progress and report when they are complete.

### **FRAUD PREVENTION MONTH**

#### Background

23. The Canadian Fraud Prevention Forum designates March as Fraud Prevention Month in an annual campaign to help Canadians recognize, reject and report fraud. Fraud is a continuously evolving risk which organizations can mitigate with efforts such as increased fraud prevention training.
24. To communicate methods of fraud prevention to City staff, with the support of the City's Communications team, Internal Audit launched its annual campaign during the month of March to raise awareness of fraud and communicate practical methods of addressing fraud risks.

#### Objective

25. To provide education to City staff about fraud prevention.

#### Methodology

26. The following activities were performed:
- a) Prepared fraud prevention materials for use during the month of March;
  - b) Communicated fraud facts and prevention tips each week to City staff; and
  - c) Delivered fraud awareness sessions to City departments.

#### Outcome

27. Ongoing discussion about fraud prevention raises awareness of fraud risks and empowers staff to fight fraud. Fraud is a risk continuously monitored by businesses across the City and is incorporated into planning for each of Internal Audit's projects.

### **ENVIRONMENTAL AND CLIMATE CHANGE IMPACT MATTERS**

28. There are no environmental and/or climate change matters related to the recommendation.

### **ALTERNATIVES**

29. As this Staff Report is being presented for information purposes only, no alternatives are presented.

### **FINANCIAL**

30. There are no immediate financial implications for The Corporation related to this Staff Report.

### **LINKAGE TO 2022-2026 STRATEGIC PLAN**

31. The information and recommendation included in this Staff Report supports the following goal identified in the 2022-2026 Strategic Plan:
- Responsible Governance
32. Implementation of the recommendations identified in the Internal Audit projects will achieve enhanced processes and controls to protect the City's assets as well as find efficiencies in the delivery of services to improve financial stewardship.