



City of Markham

Development Charges Audit – Follow up

November 30, 2020

PREPARED BY :

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Mayor and Members of Council,

Pursuant to MNP LLP's appointment to provide Auditor General Services, I am pleased to present the Development Charges Audit Follow-Up Report ("Follow-Up Report") of the Auditor General for the City of Markham ("City"). This Follow-Up Report provides a status update on management's remediation of the observations and recommendations made in the Development Charges Audit issued on September 4, 2018.

As reported in the September 4, 2018 audit report, the City had sufficient and effective processes and controls in place over the issuance, collection, and remittance of development charges. Noted areas of strength include having documented and defined processes, multiple levels of documentation review, and reconciliation of development charge collections and remittances.

The results of the audit identified one medium priority observation and one low priority observation which included opportunities for improvement with respect to consistency between the City's Development Charge Borrowing Policy and Investment Interest Allocation Policy and the presentation of development charge borrowing balances to Council.

As part of the Auditor General's audit plan, we conducted follow-up procedures to determine the status and evaluation of the effectiveness of management's activities to remediate the two observations identified in the September 4, 2018 audit report. This Follow-Up Report also provides any additional recommendations, if necessary.

This Follow-Up Report was discussed with the City's management, who have reviewed and provided their responses within, as applicable.

This Follow-Up Report will be posted on the City's website and made available to the public after tabling to Council.

Sincerely,

A handwritten signature in black ink, appearing to read 'Geoff Rodrigues', written over a light blue horizontal line.

Geoff Rodrigues, CPA, CA, CIA, CRMA, ORMP

Auditor General, City of Markham

REMEDIATION STATUS

#	Observations & Recommendations (from September 4, 2018 Audit Report)	Initial Rating	Remediation Overview and Further Auditor General Recommendations	Status
1	<p><u>Development Charge Reserve Borrowing Interest Rate</u></p> <p>The City has two policies which address reserves and interest rates:</p> <ul style="list-style-type: none"> • Development Charge Borrowing Policy; and, • Investment Interest Allocation Policy. <p>The Development Charge Borrowing Policy, 2015, states:</p> <p><i>"Internal Borrowing Interest Rate - The internal borrowing rate will be based on the York Region debenture rate for a similar term as the internal borrowing is estimated to be required."</i></p> <p>The Investment Interest Allocation Policy, 2015 states:</p> <p><i>"Interest Bearing Reserves and Reserve Funds - Interest is calculated and allocated monthly. The amount of interest is determined by applying the average money market rate earned by the City in a given month to the previous month's ending reserve balance. Any reserves or reserve funds with negative balances will be charged at a rate of prime."</i></p> <p>As detailed in the 2018 First Quarter Investment Performance Review, an interest rate of 3.45% was applied to the approved \$20M internal borrowing to the Development Charge Reserves from the General Portfolio. The interest rate of 3.45% is the prime rate at the time of borrowing (February 22, 2018), which is appropriate given that some components of the Development Charge Reserve were in a negative balance at the time of borrowing. However, the prime rate differs from the York Region debenture rate, which is the interest rate listed in the Development Charge Borrowing Policy.</p>	M	<p>The City's Development Charge Borrowing Policy and the Investment Interest Allocation Policy have been updated to reflect the same guidance - that all internal lending to the Development Charges Reserve will be at the Prime Rate for borrowing deemed to be less than 5 years in duration, and at the York Region debenture rate when borrowing is deemed to be over five years in duration.</p> <p>Both policies were updated in May 2019.</p> <p><u>Further Auditor General Recommendations</u></p> <p>None.</p>	Complete

#	Observations & Recommendations (from September 4, 2018 Audit Report)	Initial Rating	Remediation Overview and Further Auditor General Recommendations	Status
	<p><u>Recommendation</u></p> <p>The City should update the Development Charge Borrowing Policy to ensure consistency with the Investment Interest Allocation Policy and reflect current practice.</p> <p><i>Management Timeline: Q1 2019</i></p>			
2	<p><u>Presentation of Development Charge Borrowing Balance</u></p> <p>On a quarterly basis, City staff present the balance of internal borrowing between the Development Charge Reserves and the General Portfolio to General Committee of Council, as required by the Development Charge Borrowing Policy.</p> <p>Upon review of the 2018 First Quarter Investment Performance Review – Exhibit 3: Investment Terms, presented to General Committee, \$20M borrowed on February 22, 2018 is combined with \$20M borrowed on January 6, 2016 to show a single balance of \$40M with one borrowing term and one transaction date. Individual internal borrowing transactions for the Development Charge Reserves are not itemized, but rather summed into a single balance.</p> <p><u>Recommendation</u></p> <p>The City should include a footnote that clarifies that the single balance representing Development Charge Reserves lending is comprised of multiple transactions, when applicable, for full transparency and details of the City's internal borrowing to Council.</p> <p><i>Management Timeline: Q4 2018</i></p>	L	<p>While the City has not incurred internal borrowing with regards to development charges since August 1, 2018, Management is committed to itemizing each internal borrowing transaction separately on its reports to Council related to Development Charge Reserves when such occurrences do take place in the future.</p> <p><u>Further Auditor General Recommendations</u></p> <p>None.</p>	Complete

RECOMMENDATION

The Auditor General recommends that:

- 1.The Development Charges Audit - Follow Up Report be received.

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are framed by a clear blue sky. The glass reflects the sky and other buildings, creating a sense of height and architectural scale. The perspective is from the street level looking up.

MNP