

Saskatoon Land Internal Audit - Administrative Response

Rec No.	Internal Auditor Recommendation	Administration's Response	Scheduled Impl. Date
1	<p><i>"IA recommends that Saskatoon Land, following its responsibilities in Section 4.1 of C09-006 to "recommend changes to this policy, when required, to City Council through the Standing Policy Committee on Finance", propose further definition to Section 3.4 to avoid the need for discretion to be exercised by formally contemplating such circumstances and the proper action(s) to be taken regarding interest when they arise. This would include the matter of when to begin charging interest and also the extension to 16 months."</i></p>	<p>Agree - Implemented.</p> <p>The Administration recommended amendments to Section 3.4 of Council Policy No. C09-006, Residential Lot Sales - General Policy, which were approved by City Council at its January 23, 2017 meeting. The approved amendments require the Administration to propose payment terms for each land sale request made to the Standing Policy Committee on Finance (Committee), including when to begin charging interest and the continued use of the extension to 16 months for lot payouts.</p>	<p>23-Jan-17 COMPLETE</p>
2	<p><i>"IA recommends that Saskatoon Land increase its diligence in ensuring that Council Policy C09-006 is adhered to regarding requirement to pay the minimum down-payment of 13% of the purchase price, together with all applicable taxes, at the time of purchase."</i></p>	<p>Agree. Ensuring the deposit is received and the Sale Agreement signed is a critical part of the lot purchase process.</p> <p>The occurrence of not receiving the required deposit in a timely manner noted by IA is rare; however, the Administration will increase diligence by recommending that 5 business days be given in order for builders to go to the Saskatoon Land office for payment of the deposit and execution of the Sale Agreement. Failure to meet this requirement will mean the purchase will not proceed, the lot will be returned to inventory, and a \$500 restocking fee will be applied.</p>	<p>30-May-17</p>
3	<p><i>"IA recommends that the internal procedure be further refined to avoid the need for discretion in these instances going-forward, and also so that there be a clear and formal record of decisions that have been made in the past so that future application of the rule is consistent and there is not inconsistency from one lot draw to the next. In general, one of the challenges with having a highly regulated and defined process is that exceptions to the rule can arise, in which case discretion is required to be applied. In this case, although IA does not necessarily challenge the logic applied to include the builder which fell short by 1 lot, it is inconsistent with the procedure as written."</i></p>	<p>Agree.</p> <p>Saskatoon Land's written internal procedures manual will be updated to reflect IA's comments on the calculation process to ensure there is documentation for future lot draws.</p> <p>Saskatoon Land will commit to document these decisions in the internal procedures manual as they occur and apply the procedures in a fair and equitable manner.</p>	<p>30-May-17</p>
4	<p><i>"IA recommends that the practice of allowing contractors to participate in lot draws based on telephone conversations and emails be discontinued, or alternatively that a more formal acknowledgement of the purchase be required from the contractor so that there is no room for dispute subsequent to the lot draw. Note that our review of other municipalities in Procedure 4 indicated that all other municipalities reviewed required purchasers to be physically present to register for and attend the lot draw, and some but not all allowed for an authorised representative to be physically present on the purchaser's behalf. Although the internal procedure at Saskatoon Land for lot draw appointments as currently written allows for builders to phone or email their selections, there is intended to be follow-up performed to confirm that the lot being processed is in fact their choice. In addition to the challenges posed by the instances noted above, it detracts from the lot draw process as a whole as lots are removed from availability that may have been purchased by another contractor. Obtaining signed sales agreements and deposits at the time of purchase, as required by policy, would rectify this issue, as well as address the other issue noted above regarding contractors not signing sales agreements. This echoes recommendations #1 and #2."</i></p>	<p>Agree. The Administration has always required that Eligible Contractors complete and submit a lot draw application form to participate in lot draw allocations.</p> <p>To address IA's recommendation that a formal acknowledgement of the purchase be required from contractors selecting lots by email or phone, the Administration will recommend that 5 business days be given in order for builders to go to the Saskatoon Land office for payment of the deposit and execution of the Sale Agreement.</p> <p>Failure to meet this requirement will mean the purchase will not proceed, the lot will be returned to inventory, and the contractor will be charged a \$500 restocking fee.</p>	<p>30-May-17</p>

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5	<p><i>IA recommends that Saskatoon Land, in accordance with 4.1(b) of C09-006, recommend changes to the policy to implement any needed changes to 3.7 with respect to cancellations. Saskatoon Land's responsibility under C09-006 is to "Administer the sale of City-owned residential lots in accordance with the terms and conditions set out in this policy". The instances of the allowances made above to initiate cancellations and negotiate fees and penalties are not addressed in policy and require significant discretion. A formal policy should be in place either disallowing these types of negotiations entirely or providing clear guidelines and approval limits if Saskatoon Land and the SPC on Finance wish to continue allowing exceptions to C09-006 3.7.</i></p>	<p>Agree.</p> <p>The Administration will recommend changes to Council Policy No. C09-006 that provides Saskatoon Land discretion in administering cancellations under Section 3.7, and the circumstances when the discretion can be used.</p>	28-Aug-17
6	<p><i>"IA recommends that the rationale for non-performance of a site inspection be clearly documented by the appropriate Saskatoon Land representative. We believe that the exercise of discretion in this area is appropriate and that the decision-making process and criteria need to be clearly reflected in the respective files."</i></p>	<p>Agree.</p> <p>The Administration will create a checklist form to be completed during the lot return process that identifies if a lot inspection needs to occur, or why it is not required if it does not occur.</p>	30-May-17
7	<p><i>"IA recommends that, prior to accepting any new hold or sale transactions on returned lots, Saskatoon Land staff ensures that the lot in question has been fully updated and posted on the website, at which point it is officially available for purchase by eligible contractors."</i></p>	<p>Agree. Further to the Administration's response to Recommendation 6, the checklist form will indicate that all processes of the lot return procedure have been completed and the lot can now be placed on Saskatoon Land's website for sale.</p> <p>Further changes to Saskatoon Land's website that link lot inventory to a live web-based mapping application will further aid in insuring only lots that have gone through the complete lot return process are showing as available for sale on the website.</p>	30-Jul-17
8	<p><i>"With the new non-manual system in place to track outstanding accounts, given current policy as written, IA recommends that Saskatoon Land adhere strictly to the requirements with respect to outstanding accounts and be diligent in suspending contractors from further purchases once the 16-month limit is reached, regardless of extenuating circumstances. Under current policy as written, our recommendations would be that no additional purchases be made without actual settlement of the outstanding account, as the commitment to settle an outstanding account is not equivalent to actual settlement of the account. If there is a level of discretion that the SPCF is comfortable having Saskatoon Land exercise with respect to allowing additional purchases to contractors with outstanding accounts at the time of the proposed purchase, IA recommends that this be incorporated into existing policy or, if full discretion is desired, that this requirement be removed from policy altogether."</i></p>	<p>Agree.</p> <p>The Administration will be diligent in suspending contractors from further purchases that are past the 16 month extension period for lot payouts.</p> <p>The Administration will bring forward a report for Committee's consideration that outlines possible policy changes to address the level of discretion required to manage outstanding accounts.</p>	30-Sep-17
9	<p><i>"IA recommends that an examination of the outstanding account procedure and the enforcement thereof be undertaken, as much for the sake of finances/operations as adherence to policy. Each month there is an average of 15 contractors on the AR suspension listing, and there are several contractors, including Category 1 contractors, in frequent violation. The exertion of more rigour with respect to enforcement the extensions as opposed to a rebuttal presumption that each contractor will take the full 16 months to pay will assist in this regard, as will more consistent application of the policy to suspend after 12 months as opposed to 16 months if the criteria for the 16-month extension is not met, including receipt of additional payments."</i></p>	<p>Agree.</p> <p>The Administration will undertake a review of the current outstanding account procedure and enforcement and report back to Committee.</p>	31-Dec-17

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10	<p><i>"IA recommends that Saskatoon Land, in accordance with 4.1 (b) of C09-006, recommend changes to the policy to implement any needed changes 3.9 with respect to the Time Frame to Build Requirement. Saskatoon Land's responsibility under C09-006 is to "Administer the sale of City-owned residential lots in accordance with the terms and conditions set out in this policy". The discretion required to be exercised regarding inspection dates indicates that further clarification is needed within policy to ensure fairness and consistency in application of the Time Frame to Build Requirement (i.e., to clearly define when a building is considered complete by Saskatoon Land, including any types of outstanding deficiencies that are acceptable for purposes of enforcing this requirement). IA also recommends that either additional coordination occur between Saskatoon Land and Building Inspections to ensure that there is proper application of policy with respect to "a clear Final Building Inspection" or that the responsibility for enforcing this requirement be removed from Saskatoon Land altogether and become the responsibility of the Building Inspection department."</i></p>	<p>Agree.</p> <p>Saskatoon Land will recommend changes to the Time Frame to Build Requirement in accordance with Section 4.1(b) of Council Policy No. C09-006.</p> <p>Coordination between Saskatoon Land and Building Standards will take place to ensure there is proper application of the policy requirement and responsibility of ensuring a clear final building inspection.</p>	30-Aug-17
11	<p><i>"IA recommends that Saskatoon Land implement a new procedure for monitoring and enforcing the Time Frame to Build Requirement. Based on the items noted above, it would be reasonable to conclude that the Time Frame to Build Requirement has not been adequately enforced during the period inspected due to the process implemented and the significant challenges that Saskatoon Land has faced in its attempts to prepare the report via an automated method. Although our preference would be that Saskatoon Land work with the software provider(s) and/or the City of Saskatoon Information Technology department on an automated solution to monitor and enforce the Time Frame to Build Requirement, we understand that attempts to do so during the period under audit were unsuccessful and that a new tracking system has been implemented within the software to facilitate monitoring and enforcing the Time Frame to Build Requirement."</i></p>	<p>Agree. New procedure was implemented September 2016.</p> <p>Over the last two and a half years, Saskatoon Land, with the help of IT programmers, has attempted to create a bridge reporting system between Reflex and Posse software to automate the process of identifying builders in violation of the three-year build time requirement.</p> <p>In the creation and attempted rollout of the report, many errors were encountered in the automated comparison of the two data sets. Despite multiple attempts to correct these errors, there continued to be issues and deficiencies in the bridging report, and the reliability of the data was constantly in question.</p> <p>To address the known deficiencies, Saskatoon Land has abandoned the bridge report and implemented a new tracking system in which a diary is created in the Reflex system at the time of sale. The diary automatically sends reminders to staff to check the build requirement at select intervals. This also allows the Administration to deal with violations in a more timely matter, as all alerts will take place on the individual lot level and not just when a report is run. At these intervals, Saskatoon Land will generate the required letters in Reflex and remind builders of their requirements.</p>	01-Sep-16 COMPLETED PRIOR TO AUDIT
12	<p><i>"IA recommends that Saskatoon Land, in accordance with 4.1(b) of C09-006, recommend changes to the policy to implement any needed changes to 3.9 with respect to allowing for the possession date to be used as the commencement date in place of the date of the Agreement for Sale."</i></p>	<p>Agree.</p> <p>The Administration will recommend policy changes in accordance with 4.1(b) of Council Policy No. C09-006 to address the build time commencement date.</p>	30-Aug-17

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13	<p><i>"IA recommends that a formal Employee Conflict of Interest policy specific to Saskatoon Land be developed. This policy would use the City of Saskatoon's Administrative Policy A004-006 as a template, but within each of the 6 sections of the policy could give more specific instances of applicable circumstances which could arise at Saskatoon Land. The existence of the policy would provide more certainty for Saskatoon Land employees of what precisely constitutes a conflict of interest and would work to eliminate any lack of clarity in this area that currently might exist. Saskatoon Land could refer to the code of conduct and conflict of interest policy in place at Calgary Municipal Land Corporation or Surrey City Development Corporation for examples (refer to procedure 6 for further comments on these municipal land corporations)."</i></p>	<p>Agree.</p> <p>The Administration is currently conducting a review of Administrative Policy No. A04-006, Employee Conflict of Interest. Specific amendments will be proposed to address IA's comments regarding Saskatoon Land and other civic departments that face similar conflict situations with the customers and clients they interact with.</p>	30-Apr-18
14	<p><i>"IA recommends that subsequent to the Saskatoon Land conflict of interest policy being finalized, that it be presented formally to all Saskatoon Land staff. This should be supplemented by a formal annual declaration from each employee that they understand the policy and are conflict-free. Finally at the bi-weekly team meetings that take place at Saskatoon Land, conflict of interest should be a standing item on the meeting agenda so that there is an open forum for management and staff to discuss potential conflicts of interest. In particular, this would provide an opportunity to discuss any work being done personally for Saskatoon Land Management and staff by contractors and trades (both before and during) and also to discuss any business meetings taking place."</i></p>	<p>Agree.</p> <p>Saskatoon Land will add "Conflict of Interest" as a standing agenda item to its bi-weekly division meetings, and ensure Administrative Policy No. A04-006, or any newly developed conflict of interest policy, is reviewed by all Saskatoon Land employees on an annual basis, supplemented by a formal declaration from each employee.</p>	30-May-17
15	<p><i>"IA recommends that Saskatoon Land consider increases to the types (i.e., application fees, qualifying deposits, design/development/architectural deposits and performance fees) and amounts of deposits and related fees required in order to facilitate entry into the lot draw and/or the sales agreements itself."</i></p>	<p>Agree.</p> <p>Saskatoon Land will undertake a review of potential fee options to enter lot draws and sale agreements and report to Committee. Engagement with builder customers will take place before any potential fees for entering draws are proposed.</p>	18-Apr-18
16	<p><i>"IA recommends that Saskatoon Land consider reducing the timeline to pay and/or the interest rates and/or the consequences of non-payment. Other instances were noted of much stricter timelines to pay in certain municipalities (i.e., 2, 3 or 4 months), much higher interest (i.e., 18%) and much stricter consequences of non-payment (i.e. forfeit of deposit and cancellation of sales agreement). IA notes that any tightening of the financial restrictions would have to be carefully considered as they might restrict the number of contractors able to purchase lots from the City of Saskatoon if too restrictive (although this policy could be used to strike a desirable balance in that regard). Additionally, current market conditions and payment terms being offered by major competitors could also factor into this policy choice. IA notes that this recommendation should be read in conjunction with Recommendations #8 and #9 on page 14 regarding outstanding accounts."</i></p>	<p>Agree.</p> <p>The Administration considered PwC's recommendation for stricter timelines for payment, interest charges and consequences of non-payment. Due to the fact that other developers in the local market are currently offering generous payment terms, the Administration advises against implementing more stringent payment changes in the short term. The recent amendment to Council Policy No. C09-006, Section 3.4, approved by City Council on January 23, 2017, allows the Administration to propose specific payment terms for each successive land offering for Committee's consideration.</p> <p>Increasing interest rates, deposits and payment timelines in the current market would put Saskatoon Land at a significant competitive disadvantage with other developers in Saskatoon area.</p>	N/A
17	<p><i>"IA recommends that Saskatoon Land consider implementing changes to the lot return calculations, for example with reference to those utilised by the City of Red Deer."</i></p>	<p>Agree.</p> <p>Saskatoon Land will review other methods of calculating return fees and report its findings to Committee.</p>	1-Jan-18

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18	<p><i>"IA recommends that, in light of existing PSAS guidance regarding segmented reporting and segmented reporting practices in place at comparable municipalities with land development activities, the City of Saskatoon examine their existing policy on segmented reporting to consider the inclusion of Saskatoon Land as a unique operating segment."</i></p>	<p>Agree.</p> <p>Saskatoon Land, along with the Finance Division, will undertake a review on segmented reporting possibilities and report its findings to Committee.</p> <p>Current reporting is not in violation of any accounting standards.</p>	1-Apr-18
19	<p><i>"IA recommends that, in light of existing transparency of land development budgeting in place at the City of Edmonton, the City of Saskatoon examine their existing budgeting to include further details on its land development activities."</i></p>	<p>Agree.</p> <p>Saskatoon Land will undertake a review and comparison of the City of Edmonton's land development budgeting with the City of Saskatoon's current budgetary practice.</p> <p>Findings will be reported to Committee.</p>	1-Apr-18
20	<p><i>"IA recommends that, in light of existing supplementary financial information produced by Land and Business Support in Medicine Hat and the Office of Land Servicing & Housing in Calgary, Saskatoon Land examine additional financial reporting that could be incorporated into their annual report to increase transparency and meaningfulness of the information being communicated to community stakeholders."</i></p>	<p>Agree.</p> <p>Saskatoon Land has begun reviewing supplementary financial information provided by other municipalities, and will look at additional data that could be provided in the Saskatoon Land Annual Report and the City of Saskatoon Annual Report.</p> <p>Previous audits of the Land Branch recommended that for confidentially reasons, financial performance and investment return information be provided in camera.</p>	1-Apr-18
21	<p><i>"IA recommends that Saskatoon Land consider publishing the Eligible Builder's List on an annual basis, in a fashion that is publicly available, or more limited to the eligible builders group themselves. The recommendation is for an annual publication as opposed to a monthly publication as the list itself does not change during the course of year, but rather is impacted by those builders who are suspended from the list by virtue of outstanding accounts or build times in violation of policy. These updates throughout the year could also be made available in a transparent fashion."</i></p>	<p>Agree.</p> <p>Saskatoon Land will publish its annual Eligible Contractor list on Saskatoon Land's new website, and update it as new builders complete their probationary period.</p> <p>Due to the confidential nature of suspensions, builders who are currently suspended will not be indicated as such on the list.</p>	1-Jul-17