

# COMMITTEE AGENDA

TO **Audit Committee**

DATE October 16, 2012

LOCATION Council Chambers  
TIME 5:00 p.m.

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## DISCLOSURE OF PECUNIARY INTEREST AND GENERAL NATURE THEREOF

**CONFIRMATION OF MINUTES** – June 11, 2012 open meeting minutes and closed meeting minutes

**PRESENTATIONS** (Items with no accompanying report) - None

## CONSENT AGENDA

*The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with separately. The balance of the Audit Committee Consent Agenda will be approved in one resolution.*

ITEM	CITY PRESENTATION	DELEGATIONS	TO BE EXTRACTED
AUD-9 2012 Audit Committee Interim Work Plan Status Report	<ul style="list-style-type: none"><li>Tara Johnston, Senior Financial Analyst</li></ul>		√
AUD-10 Internal Audit Charter	<ul style="list-style-type: none"><li>Loretta Alonzo, Internal Auditor</li></ul>		√
AUG-11 Legal Services Review – Final Report	<ul style="list-style-type: none"><li>Katherine Gray</li></ul>		√

Resolution to adopt the balance of the Audit Committee Consent Agenda.

## ITEMS EXTRACTED FROM CONSENT AGENDA

Once extracted items are identified, they will be dealt with in the following order:

- 1) delegations (may include presentations)
- 2) staff presentations only
- 3) all others.

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## **CLOSED MEETING**

THAT the Audit Committee now hold a meeting that is closed to the public with respect to:

1. **External Auditor Performance Review**
  - S. 239 (2) (a) Security of the Property of the Municipality
  - S. 239 (2) (b) Personal matters about an identifiable individual

## **ADJOURNMENT**

**NEXT MEETING** – November 14, 2012

**The Corporation of the City of Guelph  
Audit Committee  
Monday, June 11, 2012 6:30 p.m.**

A meeting of the Audit Committee was held on June 11, 2012 in the Council Chambers at 6:30 p.m.

Present: Councillors Furfaro, Guthrie, Kovach, Wettstein and Mayor Farbridge

Also Present: Councillors Bell, Findlay and Hofland

Staff Present: Ms. A. Pappert, Chief Administrative Officer; Ms. S. Aram, Acting City Treasurer; Ms. T. Johnston, Senior Corporate Analyst, Financial Reporting; Mr. R. Henry, Manager, Engineering Services; Ms. T. Agnello, Deputy City Clerk; and Ms. D. Black, Council Committee Co-ordinator

There was no disclosure of pecuniary interest and general nature thereof.

1. Moved by Councillor Kovach  
Seconded by Mayor Farbridge  
THAT the minutes of the Audit Committee meeting held on May 14, 2012 be confirmed as recorded and without being read.

VOTING IN FAVOUR: Councillors Furfaro, Guthrie, Kovach, Wettstein and Mayor Farbridge (5)

VOTING AGAINST: (0)

Carried

**Consent Agenda**

The following items were extracted from the Consent Agenda to be dealt with separately:

- |              |   |
|--------------|---|
| AUD-2011 A.7 | 2011 Draft Audited Consolidated Financial Statements and External Post-Audit Report |
| AUD-2011 A.8 | 2011 Unconsolidated Financial Statement Review                                      |

**2011 Draft Audited Consolidated Financial Statements and External Post-Audit Report**

Mr. Evan McDade, Partner, Deloitte, addressed key points from the audit report.

Ms. Jennifer Gruber also of Deloitte, spoke to the audit risks and conclusions as outlined within the audit report. She said that there were no material misstatements noted and expenses tested were in line with City policies.

Mr. McDade noted that there was only one matter they will address in the closed meeting regarding shared service agreements.

Staff advised they will amend the unconsolidated financial statement for the June 25<sup>th</sup> Council meeting to include an Item regarding the Guelph Civic Museum that appears on the consolidated financial statements on Page 26, Section (d).

Mr. Trevor Lee, CEO, The Elliott, reviewed their financial statements and their audit report. He explained adjustments to their loans, line of credit and payment options, as well as cost saving measures and revenue generators they have implemented.

REPORT

2. Moved by Councillor Kovach

Seconded by Councillor Wettstein

THAT the Report FIN-12-28 dated June 11, 2012 entitled "2011 Draft Audited Consolidated Financial Statements and External Post-Audit Report" be received;

AND THAT the 2011 Draft Audited Consolidated Financial Statements be approved.

VOTING IN FAVOUR: Councillors Furfaro, Guthrie, Kovach, Wettstein and Mayor Farbridge (5)

VOTING AGAINST: (0)

Carried

3. Moved by Mayor Farbridge

Seconded by Councillor Furfaro

THAT the Audit Committee now hold a meeting that is closed to the public with respect to:

1. **Letter of Recommendation – 2011 Audit Results**  
S. 239 (2) (a) Security of the Property of the Municipality

2. **2011 Unconsolidated Financial Statements and City Financial Highlights**  
S. 239 (2) (a) Security of the Property of the Municipality

3. **Consultation with External Auditor**  
S. 239 (2) (a) Security of the Property of the Municipality

VOTING IN FAVOUR: Councillors Furfaro, Guthrie, Kovach, Wettstein and Mayor Farbridge (5)

VOTING AGAINST: (0)

Carried

**Closed Meeting of the Audit Committee**

4. Moved by Mayor Farbridge  
Seconded by Councillor Kovach  
THAT staff be given direction with regard to the Letter of Recommendation – 2011 Audit Results.

Carried

5. Moved by Councillor Kovach  
Seconded by Mayor Farbridge  
THAT the Audit Committee reconvene in open session.

Carried

**Open Meeting of the Audit Committee**

**Unconsolidated Financial Statements**

Ms. Tara Johnston, Senior Corporate Analyst, Financial Reporting, provided an overview of the unconsolidated financial statements. She advised that the City was able to increase cash and investments and investments are outpacing amortization which is a positive trend. She explained how staff determined targets for employee future benefits and other targets notated within the financial statements.

Staff will provide Council with a dashboard when the consolidated financial statements come to Council to allow for a comparison to the previous year.

5. Moved by Councillor Kovach  
Seconded by Mayor Farbridge  
THAT the Report FIN-12-27 dated June 11, 2012 entitled "2011 Unconsolidated Financial Statement Review" be received.

Ms. S. Aram

VOTING IN FAVOUR: Councillors Furfaro, Guthrie, Kovach, Wettstein and Mayor Farbridge (5)

VOTING AGAINST: (0)

Carried

**Adjournment**

6. Moved by Councillor Kovach  
Seconded by Councillor Furfaro  
THAT the Audit Committee meeting of June 11, 2012 be adjourned.

Carried

The meeting adjourned at 8:10 p.m.

.....  
Chairperson

**AUDIT COMMITTEE  
CONSENT AGENDA**

**October 16, 2012**

Members of the Audit Committee.

**SUMMARY OF REPORTS:**

The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with immediately. The balance of the Audit Committee Consent Agenda will be approved in one resolution.

**A Reports from Administrative Staff**

<b>REPORT</b>	<b>DIRECTION</b>
<b>AUD-2012 A.9) 2012 AUDIT COMMITTEE INTERIM WORK PLAN STATUS REPORT</b>  THAT Report FIN-12-34 dated October 16, 2012, entitled "2012 Audit Committee Interim Work Plan Status Report" be received and reported to Council.	Approve
<b>AUD-2012 A.10) INTERNAL AUDIT CHARTER</b>  THAT the Internal Audit Charter as presented in Appendix "A" appended to the report dated October 16, 2012 entitled "Internal Audit Charter" be approved.	Approve
<b>AUD-2012 A.11) LEGAL SERVICES REVIEW – FINAL REPORT</b>  THAT the Audit Committee report CAO-A-1205 Legal Representation Service Review of October 16, 2012 be received.	Receive

attach.

# COMMITTEE REPORT



TO **Audit Committee**

SERVICE AREA Finance and Enterprise  
DATE October 16, 2012

**SUBJECT 2012 Audit Committee Interim Work Plan Status Report**

REPORT NUMBER FIN-12-34

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## SUMMARY

### **Purpose of Report:**

To provide Mayor and Council with a mid-year update on the work completed by Audit Committee as of June 30, 2012.

### **Committee Action:**

That report FIN-12-34 "2012 Audit Committee Interim Work Plan Status Report" be received and reported to Council.

## RECOMMENDATION

THAT Report FIN-12-34 dated October 16 2012, entitled "2012 Audit Committee Interim Work Plan Status Report" be received and reported to Council.

## BACKGROUND

Audit Committee approved a 2012 Annual Work Plan at the May 14, 2012 meeting in report FIN-12-06. This current information report is a mid-year status report on the work completed by Audit Committee through June 30, 2012 with respect to this work plan.

## REPORT

Attached to this report in Appendix A is the 2012 Interim Work Plan Status Report to provide Council with information on the work Audit Committee has completed during 2012.

Highlights since the mid-year interim report include:

- The Committee has approved a 2012 work plan and has reviewed and approved changes to the Audit Committee Charter
- The Committee has received a presentation on the future accounting standard changes and has approved a work plan for the implementation of PSAB 3260- Liability for Contaminated Sites



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- The Committee received a presentation from Deloitte that outlined the external audit results of the 2011 Consolidated Financial Statement Audit and had the opportunity to meet with the auditor in a closed session without the presence of management
  - The Committee reviewed the City of Guelph's financial statements including those of the consolidated entities and recommended the 2011 consolidated financial statements to Council for approval

## **CORPORATE STRATEGIC PLAN**

2.3 Ensure accountability, transparency and engagement

## **FINANCIAL IMPLICATIONS**

None noted.

## **DEPARTMENTAL CONSULTATION/CONCURRENCE**

None noted.

## **COMMUNICATIONS**

None noted.

## **ATTACHMENTS**

Appendix A: 2012 Audit Committee Interim Work Plan Status Report

Original Signed by:

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**Prepared By:**

Tara Johnston  
Senior Financial Analyst, Financial Reporting  
519-822-1260 x2084  
tara.johnston@guelph.ca

Original Signed by:

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**Recommended By:**

Al Horsman  
Treasurer and Chief Financial  
Officer  
519-822-1260 x5606  
al.horsman@guelph.ca

**REPORT FIN 12-34 DATED October 16, 2012**

**APPENDIX A**

**Audit Committee - 2012 Interim Work Plan Status Report**

External Audit	Frequency			Comments
	Annual	Term	Need	
Review the external auditors' proposed audit scope and approach, including coordination of audit effort with City staff	•			Completed in November 2011 for the 2011 audit and expected to be completed in November 2012 for the 2012 audit.
Review with management and the external auditors the result of the audit including any difficulties encountered and all other matters required to be communicated to the Committee under Generally Accepted Auditing standards	•			Completed June 11, 2012
Resolve any disagreements between management and the external auditors regarding financial reporting			•	None noted.
At the conclusion of the audit, consult with the external auditors, without the presence of management, regarding internal financial controls, compliance and the fullness and accuracy of the City's financial statements	•			Completed June 11, 2012
Ensure the timely presentation of the external auditor's annual audit report to Council	•			Completed June 11, 2012 and approved by Council on June 25, 2012
Financial Statements	Annual	Term	Need	Comments
Review significant accounting and reporting issues, including complex or unusual transactions, highly judgmental areas and recent professional and regulatory pronouncements and understand their impact on the financial statements	•			Completed June 11, 2012 and received a presentation on the future changes in accounting standards and the resulting impact on the financial statements on May 14, 2012
Review the representation letter provided by management to the external auditors	•			Completed June 11, 2012
Prior to the presentation of the annual financial statements to Council, review the financial statements and consider whether they are complete, consistent with information known to committee members and reflect appropriate accounting principles	•			Completed June 11, 2012
Recommend to Council the approval and distribution of the annual financial statements	•			Completed June 11, 2012 and approved by Council on June 25, 2012
External Auditor Performance and Review	Annual	Term	Need	Comments
Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the city, including non-audit services, and discussing the relationships with the auditors	•			Completed June 11, 2012
Direct and review the performance evaluation process for the external auditor	•			To complete in Fall 2012
Recommend changes to the external auditor's compensation for Council approval			•	Not required in 2012 - Previous RFP has established Deloitte for term from 2010 - 2014
Periodically determine whether a RFP should be issued to select an external auditing firm. As per the Ontario Municipal Act 2001 section 296(3), the external auditor shall not be appointed for a term exceeding five years			•	Not required in 2012 - Previous RFP has established Deloitte for term from 2010 - 2014
Participate in the selection of an external auditing firm by reviewing the RFPs and bids received, interviewing potential auditing firms and recommending the external auditor for final approval to the Council			•	Not required in 2012 - Previous RFP has established Deloitte for term from 2010 - 2014

<b>Compliance</b>	<b>Annual</b>	<b>Term</b>	<b>Need</b>	<b>Comments</b>
Obtain regular updates from management and others (legal counsel, external auditors) regarding compliance with laws and regulations having a material impact on the financial statements including: tax and financial reporting, legal withholding requirements & environmental protection laws and regulations	•			Completed June 11, 2012
Review by-laws and policies specifically regulating the conduct of members of council, staff and suppliers			•	Not currently identified as a need in 2012
Review the findings of any examinations by regulatory agencies and any auditor observations			•	Not currently identified as a need in 2012
Discuss with the City Solicitor, any significant legal, compliance, or regulatory matters that may have a material effect on the financial statements or the business of the City, or on the compliance policies of the City.			•	Not currently identified as a need in 2012 by Audit Committee - Council receives semi-annual legal updates from the City Solicitor
Review the results of management's investigation and follow-up for any instances of non-compliance			•	Not currently identified as a need in 2012
Review the effectiveness of the system established to ensure compliance			•	Not currently identified as a need in 2012
<b>Risk Management &amp; Internal Control</b>	<b>Annual</b>	<b>Term</b>	<b>Need</b>	<b>Comments</b>
Understand the scope of the external auditor's review of internal financial control over financial reporting and obtain reports on significant findings and recommendations, together with management's responses and the timing of the disposition of significant findings.	•			Completed June 11, 2012
Through the use of a risk management framework, assess the financial risks to be managed by the City and any change in significant financial risks.	•			Scheduled for the Fall of 2012
Consider the effectiveness of the City's internal control system for the safeguarding of assets, including information technology security and control and the adequacy of policies and procedures			•	Scheduled for the Fall of 2012
Review management and program performance regarding efficiency, effectiveness and economy in the use of resources			•	Scheduled for the Fall of 2012
Review the effectiveness of management reporting systems regarding administrative and program performance.			•	Not currently identified as a need in 2012
Direct other risk management and internal control projects as identified and referred by Council			•	Not currently identified as a need in 2012
<b>Internal Audit</b>	<b>Annual</b>	<b>Term</b>	<b>Need</b>	<b>Comments</b>
Establish and review regularly the Internal Auditor Charter		•		Scheduled for the Fall of 2012
Review and approve the internal auditor annual work plan	•			Scheduled for the Fall of 2012
Review annually the final progress results of the internal auditor work plan	•			Scheduled for the Winter of 2012
<b>Reporting</b>	<b>Annual</b>	<b>Term</b>	<b>Need</b>	<b>Comments</b>
Ensure the creation of semi-annual information reports to Council on progress achieved by the Committee and any concerns or issues that have been identified. The report shall be prepared by the Committee Chair with input from staff.	•			Committee reported the final results of the 2011 audit committee work plan on April 11, 2012 and this current report satisfies the mid-year 2012 reporting
Provide an open avenue of communication between the external auditors and City Council	•			Completed June 11, 2012

<b>Adequacy of the City's Resources</b>	<b>Annual</b>	<b>Term</b>	<b>Need</b>	<b>Comments</b>
Review the nature of evolving or developing businesses managed by the City, including those changes occasioned by business or process redesign	•			On-going throughout 2012 - Committee reviewed the impact of GMHI during the June 11, 2012 reporting and will continue to monitor impacts of any business changes throughout 2012.
As new businesses and ventures are embarked on by the City, gain comfort that all appropriate processes have been put in place to evaluate feasibility of the new business and to ensure proper resources, both human and financial, have been provided.			•	Not currently identified as a need in 2012
<b>Other</b>	<b>Annual</b>	<b>Term</b>	<b>Need</b>	<b>Comments</b>
In conjunction with management and the external auditors, develop an annual work plan for the Committee that identifies priorities, objectives and timelines for key deliverables.	•			Completed May 14, 2012
With Council approval, retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of a review.			•	Not currently identified as a need in 2012
After consultation with the Chief Financial Officer/Treasurer and the external auditors, gain a reasonable assurance, at least annually, of the quality and sufficiency of the City's accounting and financial personnel and other resources.	•			Completed June 11, 2012
It is recognized that from time to time, other issues will be referred to the Committee for review and input. These items will be addressed on an as needed basis.			•	Not currently identified as a need in 2012
Review mandate and make recommendations for change if any		•		Completed May 14, 2012
Financial literacy and training	•			Financial literacy training received through the presentation on future accounting standard changes in April 2012 and through the presentation of the financial statements in June 2012. Additional skill development training in the area of Enterprise Risk Management to be delivered in the Fall of 2012.
<p>Legend:</p> <p>Annual - Audit Committee to review each fiscal year</p> <p>Term - Audit Committee to review each term of Council</p> <p>Need - Audit Committee to review when the need arises</p>				

# COMMITTEE REPORT



TO **Audit Committee**

SERVICE AREA CAO - Administration  
DATE October 16, 2012

**SUBJECT Internal Audit Charter**  
REPORT NUMBER CAO-A-1204

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## SUMMARY

### **Purpose of Report:**

To provide Committee with an Internal Audit Charter governing the Internal Audit function.

### **Committee Action:**

To approve the Internal Audit Charter.

## RECOMMENDATION

That the Internal Audit Charter as presented in Appendix "A" appended to the report dated October 16, 2012 entitled "Internal Audit Charter" be approved.

## BACKGROUND

As a new function for the City, Internal Audit requires a formal Charter establishing rules and responsibilities governing the Internal Auditor function.

The Institute of Internal Auditors (I.I.A.) recommends a Charter as good governance of the Internal Audit function and provides standard language considered best practice.

The Internal Audit Charter for the City of Guelph defines the following:

Mandate	Scope	Authority
Independence	Responsibilities	Audit Planning
Reporting and Monitoring		Professional Standards
Review of Internal Audit		

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## **REPORT**

The proposed Internal Audit Charter is attached in Appendix A of this report.

## **CORPORATE STRATEGIC PLAN**

Organizational Excellence – 1.3 Build robust structures and frameworks aligned to strategy.

Innovation in Local Government - 2.3 Ensure accountability, transparency and engagement.

## **FINANCIAL IMPLICATIONS**

N/A

## **DEPARTMENTAL CONSULTATION**

All executive team members and audit committee members have been consulted.

## **COMMUNICATIONS**

It is important to note that The Institute of Internal Auditors (I.I.A.) is the international governing body for Internal Audit standards and best practices. It is recommended that the Internal Audit Charter should be reviewed once per term of Council, or as required, and recommended by the Audit Committee to Council for approval.

## **ATTACHMENTS**

Appendix A – Internal Audit Charter



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**Prepared By:**

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**Recommended By:**

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## **APPENDIX "A" REPORT # CAO-A-1204**

### **CITY OF GUELPH**

### **INTERNAL AUDIT CHARTER**

#### **MANDATE**

Internal Audit is a professional, independent assurance and consulting function designed to add value and improve the City of Guelph's operations and systems of internal controls. Internal Audit brings a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

The Internal Audit Charter shall be reviewed once per term of Council or as required and recommended by the Audit Committee to Council for approval.

#### **SCOPE**

Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the City's governance, risk management process, system of internal control structure and the quality of performance in carrying out assigned responsibilities to achieve the organizations goals and objectives to ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial and operating information is accurate, reliable and timely.
- Actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently and are adequately protected.
- Programs, plans and objectives are defined, communicated and achieved.
- Significant legislative and regulatory issues impacting the City are recognized and addressed appropriately.
- Quality and continuous improvement are fostered in the organization's control processes.

## **AUTHORITY**

The Internal Auditor is granted full, free and unrestricted access to any and all records, property and personnel relevant to any function under review. This access is provided under *The Protection of Privacy Act – Municipal Freedom of Information* (in particular, Sections 31(c) and 32(d)). All employees shall assist the Internal Audit in fulfilling their objectives.

Internal Audit has the authority to conduct audits and reviews of all City departments, local boards including Downtown Guelph Business Association, the Elliott Community, and the Guelph Public Library, as well as other entities the City is related to or has an interest in.

Internal Auditor is not authorized to:

- Perform any operational duties for the organization, including the implementation of internal audit recommendations.
- Initiate or approve accounting transactions.
- Direct the activities of any City employee unless such employee has been assigned to an audit team or to otherwise assist the Internal Auditor.

## **INDEPENDENCE**

Independence is an essential component to building public trust and preserving objectivity and integrity associated with the audit function.

To provide for the independence of the Internal Audit division, the Internal Auditor shall report functionally to the Audit Committee of Council and administratively to the Chief Administrative Officer for the City. These reporting relationships help ensure independence, promote comprehensive audit objectivity and coverage and assure adequate consideration of audit recommendations.

All internal audit activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of an independent and objective attitude necessary in rendering reports.

The Internal Auditor may meet with the Audit Committee periodically, with or without management present, and shall have unrestricted access to the Chair of the Audit Committee and/or Mayor at any time.

The Internal Auditor shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which would normally be audited.

## **RESPONSIBILITIES**

The Internal Auditor has the responsibility to:

- Review operations within the City at appropriate intervals to determine whether planning, organizing, directing and controlling are in accordance with management instructions, policies and procedures and in a manner that is consistent with both City objectives and high standards of administrative practice.
- Determine the adequacy and effectiveness of the systems of internal accounting, financial and operating controls.



- Review established systems to ensure compliance with those policies, plans, procedures, laws and regulations which would have a significant impact on operations and determine whether the organization is in compliance.
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- Report to the appropriate management or those who should be informed or who should take corrective action, the results of audit examinations, the audit opinions formed, and the recommendations made.
- Foster collaboration and teamwork to support management's efforts to achieve the City's objectives by consulting with senior management regularly with respect to the status of all audit findings to ensure full awareness of any significant issues that arise.
- Evaluate any plans or actions taken to correct reported conditions and provide timely follow-up to ensure satisfactory disposition of audit findings in the manner and timeframe committed to by management in the original audit report. If the corrective action is considered unsatisfactory, hold further discussions to achieve acceptable disposition.
- As requested, provide consulting services, beyond assurance services, to assist the City in meeting its objectives.
- Develop an educational component to create awareness of Internal Audit services within the organization.
- Lead the development and implementation of an Enterprise Risk Management framework for the City including policy creation for Council approval, training and education for staff and Council, ongoing monitoring and reporting to senior management of the City's risk status and mitigation plans.
- Set agendas for Audit Committee in coordination with any Finance reports or presentations.
- In addition to audit engagements, Internal Audit may provide advisory or other consulting services, as appropriate, or at the request of Council or senior management. These types of services may include:
  - Conducting special projects, reviews or investigations.
  - Performing research.
  - Providing training on audit related topics such as risk assessment and internal controls.
  - Providing advice to staff and Council.

## **AUDIT PLANNING**

Each year the Internal Auditor shall prepare a work plan, setting out the proposed schedule of audits and other undertakings proposed for the coming year. In order to generate this plan, the following sources are considered:

- Prioritization of the audit plan using a risk-based methodology.
- Requests from Councillors, senior management and staff.
- Any audits planned for the previous year that was delayed or incomplete.
- Any conditions or concerns discovered or communicated throughout the past year.

- Coordinate work between Internal Auditor and External Auditors to avoid duplication and ensure scope of work for internal audit is appropriate.

The annual work plan will be presented to the Audit Committee for approval.

## **REPORTING and MONITORING**

A written report will be prepared and issued by the Internal Auditor following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee.

The internal audit report may include management's response and corrective action taken or planned in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The Internal Auditor will be responsible for appropriate follow-up on audit findings and recommendations. All significant findings will remain in an open issues file until cleared.

At least quarterly, the Internal Auditor will report to the Audit Committee including a report on the performance of Internal Audit relative to the approved work plan, significant issues identified with resolutions, and assurance as to areas that are well-controlled.

Situations may arise where a report is requested to be presented in "Closed Session". In order to qualify as "closed" the report may be evaluated by Clerk's to verify if it meets the criteria outlined in the Municipal Act. Closed Session reports are distributed on a separate agenda to Audit Committee and senior management in accordance with existing procedures.

In reports where only a section of the audit findings are classified as confidential, these findings and recommendations should be reported separately placed in a CONFIDENTIAL appendix to the Audit Committee report.

If, during the course of an audit, the auditor suspects wrongdoing or inappropriate conduct by an employee or elected official for the City, the following reporting protocol shall be followed:

Employee issue	shall be reported to Supervisor or Manager
Management Issue	shall be reported to Executive Director
Executive Director Issue	shall be reported to Chief Administrative Officer
CAO Issue	shall be reported to Mayor and Council
Councillor Issue	shall be reported to CAO, Mayor, and City Clerk
Mayor Issue	shall be reported to CAO, Council and City Clerk

## **PROFESSIONAL STANDARDS**

Internal Audit services will be guided by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

## **REVIEW OF INTERNAL AUDIT**

The Chief Administrative Officer and Audit Committee shall ensure Internal Audit has in place internal quality assessment processes for reviewing the unit's effectiveness. This shall include feedback from the external auditors and stakeholders.

The Internal Auditor will prepare an annual report to the Audit Committee summarizing all activity for the previous year showing status of work against the approved work plan.

In consultation with the Audit Committee, the Chief Administrative Officer is responsible for ensuring that the Internal Auditor is effectively achieving their mandate through an annual performance evaluation and approval of salary, bonus and other benefits of the Internal Auditor.

## **City of Guelph Internal Audit Charter**

Approved this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
**Internal Auditor**

\_\_\_\_\_  
**Chief Administrative Officer**

\_\_\_\_\_  
**Chairman of the Audit Committee**

# COMMITTEE REPORT



TO **Audit Committee**

SERVICE AREA CAO Administration  
DEPARTMENT Internal Audit  
DATE October 16, 2012

**SUBJECT Legal Representation Service Review**  
REPORT NUMBER CAO-A-1205

## SUMMARY

**Purpose of Report:** To provide the results of the Legal Representation service review. These results include an overview of service, findings, recommendations and opportunities for improvement.

**Committee Action:** To receive report CAO-A-1205 Legal Representation Service Review.

## RECOMMENDATION

**THAT** the Audit Committee report CAO-A-1205 Legal Representation Service Review of October 16, 2012 be received.

## BACKGROUND

Service and Operational reviews are designed to provide Council and Management with the information necessary to understand a service or aspects thereof, how it compares to other municipalities, to explore alternative delivery options and best practices in terms of process or outcomes, and to identify what improvements can be made to realize valued change, efficiencies and/or effectiveness within approved service levels. Efficiencies and benefits can include cost savings, streamlined processes, improved service quality and increased levels of service satisfaction. On October 24, 2011 Council approved an Executive Team recommendation to conduct six Service Reviews and four Operational Reviews. One of these approved service reviews was of Legal Representation.

The purpose of the Legal Representation review is to determine whether legal services should be provided internally by the City and if so, the most appropriate way to provide the service and at what service level.

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## REPORT

The legal representation service review involved staff interviews, a customer survey, a review of other municipalities as well as data and workflow analysis.

All staff members of the Legal and Realty Services department were interviewed. Areas of review with staff included;

- Role explanation
- Service provision and methods
- Identification of customers
- Scheduling and planning
- Performance measurements
- Reaction plans
- Challenges
- Improvements

A customer survey was conducted to determine customer satisfaction and perception. Legal and Realty Services department provides support and service to internal departments of the City, therefore their customers are internal customers. 51 members of City Staff and Council were requested to participate in the survey. The survey was distributed via email and the intranet to the CAO, Mayor, Council, Executive Directors, General Managers and Managers within the organization. The purpose of the survey was to gauge knowledge of the Legal and Realty Services department and the utilization of the services provided across the Corporation.

Twenty seven (27) municipalities from the Council approved comparator list were requested to participate in benchmarking for legal and realty services. There was a 30% response rating from this request.

As a result Staff have prepared a report (Appendix A) identifying whether the service should be provided internally and outlining current services, recommendations and opportunities for improvement. To this end, the following summary identifies the issues found as well as recommendations and opportunities.

### ***Is Legal Representation a service that should be provided internally by the City?***

Value for money analysis clearly shows that providing legal and realty services in-house provides an average savings of \$387 per hour, compared to outsourcing the same services. It is recommended to continue to provide the service in-house.

### ***Opportunities for Improvement***

Several opportunities for improvement were identified during this review. These opportunities are in addition to the recommendations made in the report and include;

- Improved software programs for Realty Services
- Improved library for research material
- Investigation of partnerships to utilize Article Students for additional resources.

- Reinstatement of Lunch and Learns
- Service-based budgeting (internal chargeback for service)

### ***Key Findings and Recommendations***

	<b>FINDING</b>	<b>RECOMMENDATION</b>
<b>1</b>	Is Legal Representation Services a service that should be provided by the City?	Value for money analysis clearly shows that providing legal and realty services in-house provides an average savings of \$387 per hour, compared to outsourcing the same services. Continue to provide the services in-house.
<b>2a</b>	Use of external counsel, by departments other than the Legal and Realty department, is increasing with an unclear picture why	Develop a policy and set of guidelines for utilizing external counsel with monitoring to evaluate trends in use. This policy should include an Approved Lawyer List (identifying approved lawyers by expertise and rating).
<b>2b</b>	Use of external counsel, by departments other than the Legal and Realty department, is increasing with an unclear picture why	External legal costs should be managed through the Legal and Realty Services department's accounts, to ensure a clear picture of the true legal costs and to allow for better analysis. This would require all legal budget items (across the corporation) to be expensed through Legal to ensure accurate reporting providing accountability and transparency.
<b>3</b>	The department does not budget for external legal services. These costs are covered by reserve transfers, for a net zero (0) operating budget (for external legal costs). This does not allow for a clear picture of legal costs	It is recommended that budgeting practices be changed to budget external legal costs based on historical expenditures, utilizing the reserve for complex or large external issues.
<b>4</b>	The City of Guelph's legal staffing levels are lower than most of the municipalities that participated in the benchmarking activity.	Monitor cost of legal work outsourced (where the internal expertise is available in house) vs. the cost of an on staff lawyer, to ensure cost efficiency in service provision. The department should monitor and analyze this (for the last year) data and report to Committee by the end of 2012 with recommendations regarding continued use of external legal resources or additional in-house legal staff. Provide whichever recommendation is most fiscally responsible, to inform the 2013 and 2014 budget process.

---

<b>5</b>	Limited performance measurements that identify whether the department is achieving their objectives and identify trends for value added decision making. The department compiled their first annual report which is an excellent starting point, but further improvements are required.	Implement simple performance measures such as; <ul style="list-style-type: none"> <li>o Customer Feedback; this would provide information regarding perception of service</li> <li>o Workload; this would highlight trends or areas of concern to allow workload levelling.</li> <li>o Cost Effectiveness; this will compare the costs of outsourcing legal activity to the cost of an additional lawyer and/or support staff.</li> </ul>
<b>6</b>	Lack of policy or structure to requesting and assigning work, as well as monitoring completion.	Define system and policy for requesting work, assigning work and monitoring it, to ensure potential risks, inconsistencies, unbalanced workloads, etc can be identified and corrected
<b>7</b>	Inconsistency in document control (logging, identification, etc) causes extended searches (up to 5-10 hours additional work to find documents)	Standardized system and policy for document control (EDMS)
<b>8</b>	Lack of administrative support to the Solicitors	Recommend that the time spent conducting these tasks be monitored, as part of the monitoring system, to identify areas of efficiency/effectiveness gain. Report back to Committee on these results with recommendations to inform the 2013/2014 budget process.
<b>9</b>	Contract review is not always conducted through Legal Services	All contracts/agreements should be reviewed and approved by Legal Services, as there is legal liability in every agreement. If standardized templates are utilized the review would be minimal

### **Summary**

This review has provided an understanding of the services provided, the organizational structure and the costs associated with the Legal and Realty Service department.

Based on the value for money analysis and the internal use and satisfaction with the services provided by the Legal and Realty Service department, outsourcing this activity would not be efficient or cost effective for the City of Guelph.

Recommendations have been made for policy and system development, monitoring and measurement as well as budgeting process and organizational structure changes. These recommendations will better position the department to provide more proactive (less reactive) services to the organization efficiently and effectively.

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## **CORPORATE STRATEGIC PLAN**

2.3 Provide accountability, transparency and engagement

## **FINANCIAL IMPLICATIONS**

Budgeting practices be changed to budget external legal costs based on historical expenditures, utilizing the reserve for complex or large external issues as well as manage all external legal costs through the Legal and Realty accounts.

No financial implications to the 2013 budget have been identified.

## **DEPARTMENTAL CONSULTATION**

Corporate and Human Resources  
Legal and Realty Services Department

## **COMMUNICATIONS**

Corporate and Human Resources and the Legal and Realty Services department are aware that this report will be reviewed by the Audit Committee at it's October meeting.

## **ATTACHMENTS**

Appendix A: Legal Representation Service Review

**Prepared By: Katherine Gray, Service, Performance and Development Coordinator**

**Original Signed by:**

---

### **Reviewed and Recommended By:**

Loretta Alonzo  
Internal Auditor  
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## **Legal Representation Service Review**

### **Final Report**

**2012**

**Prepared by: Katherine Gray,** Service, Performance & Development Coordinator

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# Executive Summary

## Review Objectives

1. Provide an informed recommendation on whether Legal and Realty services should be provided internally by City
2. To provide an understanding of the current services delivered, the organizational structure, costs, objectives, standards and outcomes.
3. Identify the appropriate service levels and identify parameters for the use of external council or consultants to supplement the services provided in house.
4. Examine the positioning of legal services within the Corporation to ensure alignment with strategic initiatives.
5. To examine other municipal practices with respect to business systems.
6. To make informed recommendations for improvements to the current services, for the introduction of new services or service delivery models.
7. Recommend performance indicators, goals and objectives, including service levels.

## Scope

The legal representation service review will focus on the provision of legal services, including realty services, to the Corporation and the method in which it is performed.

## Key Findings and Recommendations

	FINDING	RECOMMENDATION
1	<b>Is Legal Representation Services a service that should be provided by the City?</b>	<b>Value for money analysis clearly shows that providing legal and realty services in-house provides an average savings of \$387 per hour, compared to outsourcing the same services.</b> <b>Continue to provide the services in-house.</b>
2a	Use of external counsel, by departments other than the Legal and Realty department, is increasing with an unclear picture why	Develop a policy and set of guidelines for utilizing external counsel with monitoring to evaluate trends in use. This policy should include an Approved Lawyer List (identifying approved lawyers by expertise and rating).
2b	Use of external counsel, by departments other than the Legal and Realty department, is increasing with an unclear picture why	External legal costs should be managed through the Legal and Realty Services department's accounts, to ensure a clear picture of the true legal costs and to allow for better analysis. This would require all legal budget items (across the corporation) to be expensed through Legal to ensure acute reporting providing accountability and transparency.
3	The department does not budget for external legal services. These costs are covered by reserve transfers, for a net zero (0) operating budget (for external legal costs). This does not allow for a clear picture of legal costs	It is recommended that budgeting practices be changed to budget external legal costs based on historical expenditures, utilizing the reserve for complex or large external issues.

	FINDING	RECOMMENDATION
4	The City of Guelph's legal staffing levels are lower than most of the municipalities that participated in the benchmarking activity.	Monitor cost of legal work outsourced (where the internal expertise is available in house) vs. the cost of an on staff lawyer, to ensure cost efficiency in service provision. The department should monitor and analyze this (for the last year) data and report to Committee by the end of 2012 with recommendations regarding continued use of external legal resources or additional in-house legal staff. Provide whichever recommendation is most fiscally responsible, to inform the 2013 and 2014 budget process.
5	Limited performance measurements that identify whether the department is achieving their objectives and identify trends for value added decision making. The department compiled their first annual report which is an excellent starting point, but further improvements are required.	Implement simple performance measures such as; <ul style="list-style-type: none"> <li>• Customer Feedback; this would provide information regarding perception of service. <i>Can be measured through a per-service feedback loop, this would require a service request and provision policy, and/or a semi-annual/annual basis.</i></li> <li>○ Workload; this would highlight trends or areas of concern to allow workload leveling. <i>Could be measured by assigning complexity ratings to tasks when services are assigned.</i></li> <li>• Cost Effectiveness; this will compare the costs of outsourcing legal activity to the cost of an additional lawyer and/or support staff.</li> </ul>
6	Lack of policy or structure to requesting and assigning work, as well as monitoring completion.	Define system and policy for requesting work, assigning work and monitoring it, to ensure potential risks, inconsistencies, unbalanced workloads, etc can be identified and corrected
7	Inconsistency in document control (logging, identification, etc) causes extended searches (up to 5-10 hours additional work to find documents)	Standardized system and policy for document control (EDMS)
8	Lack of administrative support to the Solicitors	Recommend that the time spent conducting these tasks be monitored, as part of the monitoring system, to identify areas of efficiency/effectiveness gain. Report back to Committee on these results with recommendations to inform the 2013/2014 budget process.
9	Contract review is not always conducted through Legal Services	All contracts/agreements should be reviewed and approved by Legal Services, as there is legal liability in every agreement. If standardized templates are utilized the review would be minimal

## ***Background Information***

Service and Operational reviews are designed to provide Council and Management with the information necessary to understand a service or aspects thereof, how it compares to other municipalities, to explore alternative delivery options and best practices in terms of process or outcomes, and to identify what improvements can be made to realize valued change, efficiencies and/or effectiveness within approved service levels. Efficiencies and benefits can include cost savings, streamlined processes, improved service quality and increased levels of service satisfaction. On October 24, 2011 Council approved an Executive Team recommendation to conduct six Service Reviews and four Operational Reviews. One of these approved service reviews was of Legal Representation.

The purpose of the Legal Representation review is to determine whether legal services should be provided internally by the City and if so, the most appropriate way to provide the service and at what service level.

## ***Review Team***

Katherine Gray

## ***Scope and Deliverables***

The Legal Representation Service Review will focus on the provision of legal services, including realty services, to the Corporation and the method in which it is performed. It is anticipated that the Service Review will identify the appropriate service level and set parameters for the use of external counsel or consultants to supplement the services provided in house. Examine the positioning of Legal Services within the Corporation to ensure alignment with strategic initiatives

Determine the services currently offered and interview primary users regarding services

Review other applicable practice information from comparator municipalities and options for delivery of this service. Review workloads, workflow and standards for turnaround time and other performance measures. Recommend performance indicators, goals and objectives, including service levels. Assess use of external resources to supplement internal resources to achieve desired level of service.

## ***Opportunities***

Several opportunities for improvement were identified during this review. These opportunities are in addition to the recommendations made in the above Key Findings and Recommendations section of this report.

Opportunities for improvement;

- Improved software programs for Realty Services
  - Property Inventory program and improved communication between the programs used in title searched, to increase efficiency
- Improved library for research material, the ability to update and increase the library was reduced in previous budget cycles.
- Investigation of a partnership with area Universities and local law firms to utilize Articling Students for additional resources.
- Reinstatement of Lunch and Learns which are hosted by the Legal and Realty Department, to provide information to the rest of City Staff.
- Implementation of service-based budgeting, which would track billable hours and result in internal chargeback for service.

## Methodology

The following research and analysis was undertaken for the review:

- Staff, agency and stakeholder interviews
- Data analysis
- Performance metrics
- Workflow analysis
- Municipal comparison

## Current Environment

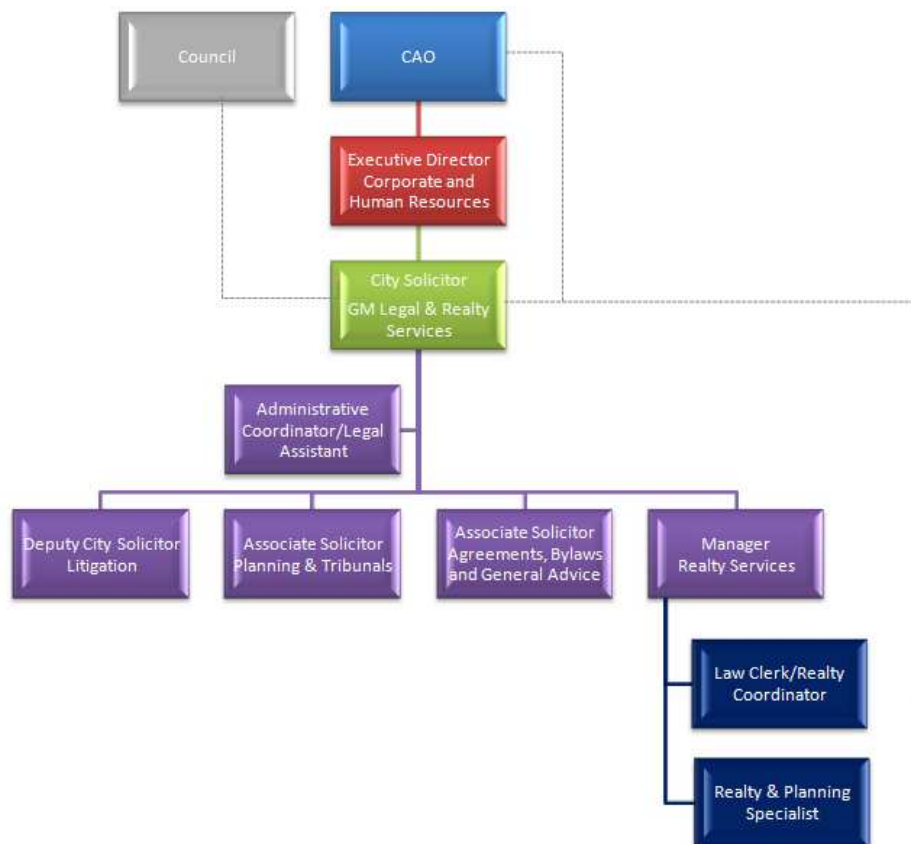
Legal and Realty Services provides legal advice to the Mayor, Council, CAO and City staff on all areas of operations and governance. Legal Services represents the City in negotiations of contracts and in litigation matters.

Realty Services represents the City with regard to land acquisitions and dispositions, leases, easements, encroachments and other real estate issues.

## Organization Chart

The Legal and Realty Service department consists of;

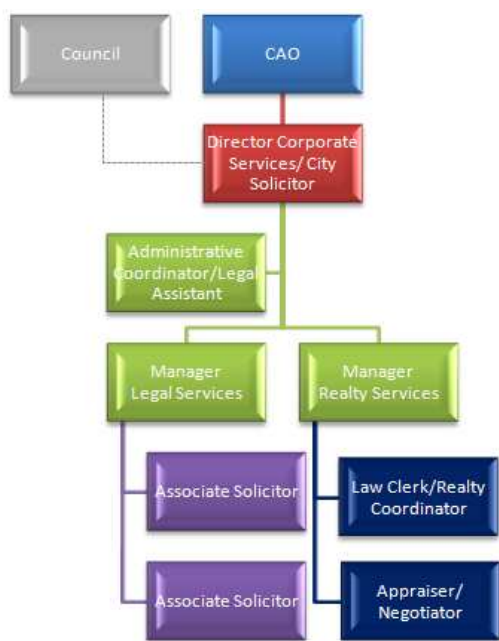
- Four (4) lawyers dealing with litigation, planning and tribunals, bylaw and agreement review as well as providing general legal advice.
- One manager of realty services with a law clerk/realty coordinator dealing with acquisitions and dispositions.



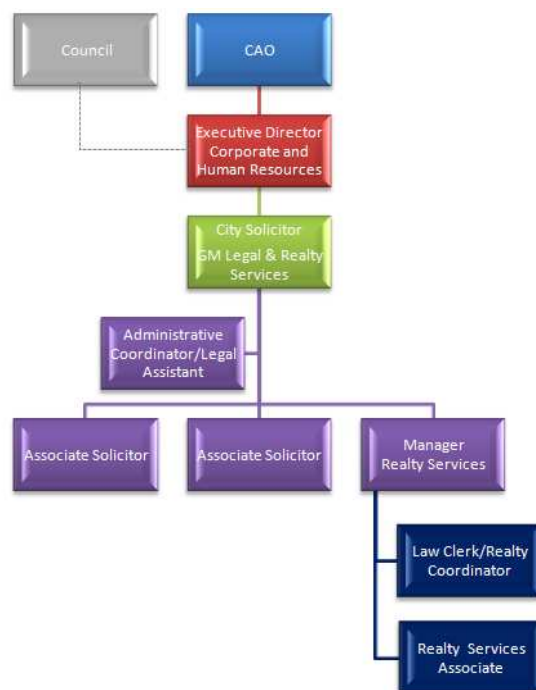
## Organizational Structure Analysis

Early 2010 organizational structure saw the City Solicitor reporting directly to the CAO and part of the executive team, refer to illustration #1: 2010 Pre-Org Change Legal Services Organizational Chart. The Associate Solicitors were involved in all aspects of legal services within the City of Guelph.

July 2010 there was an organizational change that dissolved Corporate Services and created the General Manager/City Solicitor role in the Legal and Realty Department reporting to the Executive Director of Corporate and Human Resources, refer to illustration #2: 2010 Post Org-Change Legal Services Organizational Chart.

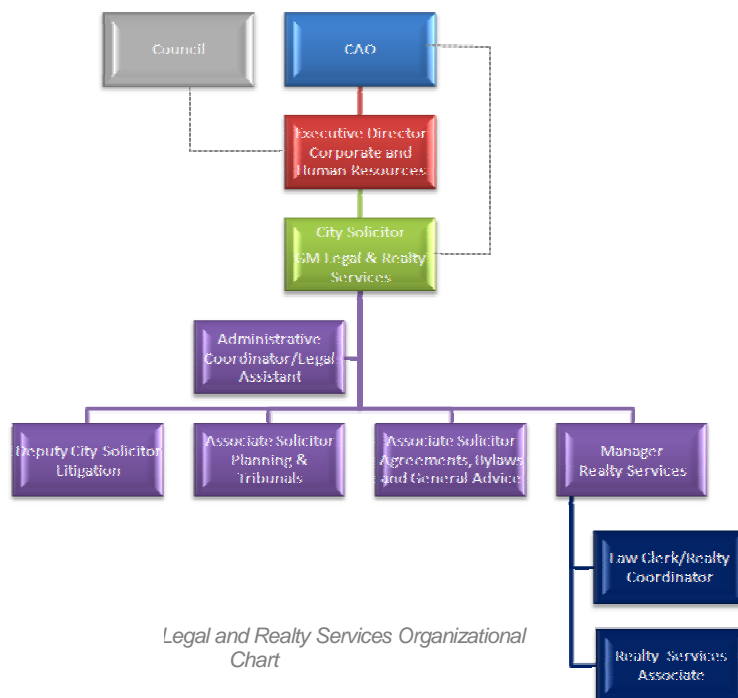


Legal Services



Post Org Change Legal Services Organizational Chart

2011 saw the hiring of a Deputy City Solicitor and a shifting of responsibilities to focus areas. Each lawyer (Associate Solicitor) being primarily responsible for a specific area of legal services. This was done to increase expertise and streamline, provide efficiencies in the services being provided. Refer to illustration #3: 2011 Legal and Realty Organizational Chart.



Legal and Realty Services Organizational Chart

The City Solicitor's role to provide direct legal advice to Mayor, Council, CAO and City staff, has remained the same, regardless of the report structure changes.

Of notice in this review is the lack of administrative support to the Solicitors. This lack results in the Solicitors conducting administrative tasks such as general research, filing, copying and docket preparation.

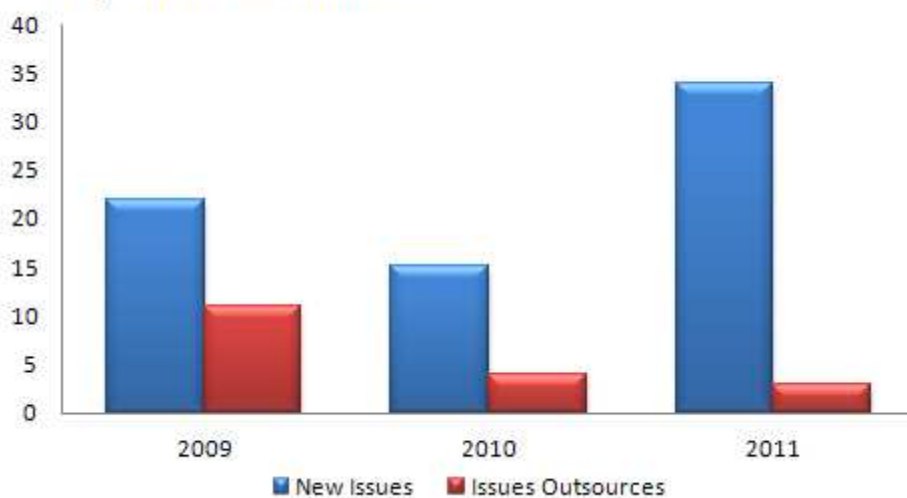
## ***Staff Interviews – Summary***

All staff members of the Legal and Realty Services department were interviewed. Areas of review with staff included;

- Role explanation
- Service provision and methods
- Identification of customers
- Scheduling and planning
- Performance measurements
- Reaction plans
- Challenges
- Improvements

This review identified that staff feel the new focused approach to providing legal and realty services is successful and value added (refer to illustration #4: New Legal Issues vs. Outsourced Issues), There has been reduction in the work that must be outsourced by Legal Staff, since the addition of the Deputy Solicitor and the implementation of the focused approach, but staff identified there is still room for further improvements.

**New Legal Issues vs Outsourced**



*Legal Issues vs. Outsourced Issues*

Staff identified challenges in areas of software, document control, communication and lack of policy.

Improvement opportunities identified by staff include;

- Formal policies for service requests and service provision. Such as service requests, use of external counsel and contract review
- Software improvements, document control, property inventory, improved connectivity in search programs
- Centralized management of external counsel utilized to ensure there are no conflicts and mitigate risk, including an approved list of external counsel
- Additional administrative/law clerk support to remove the administrative work from the solicitors



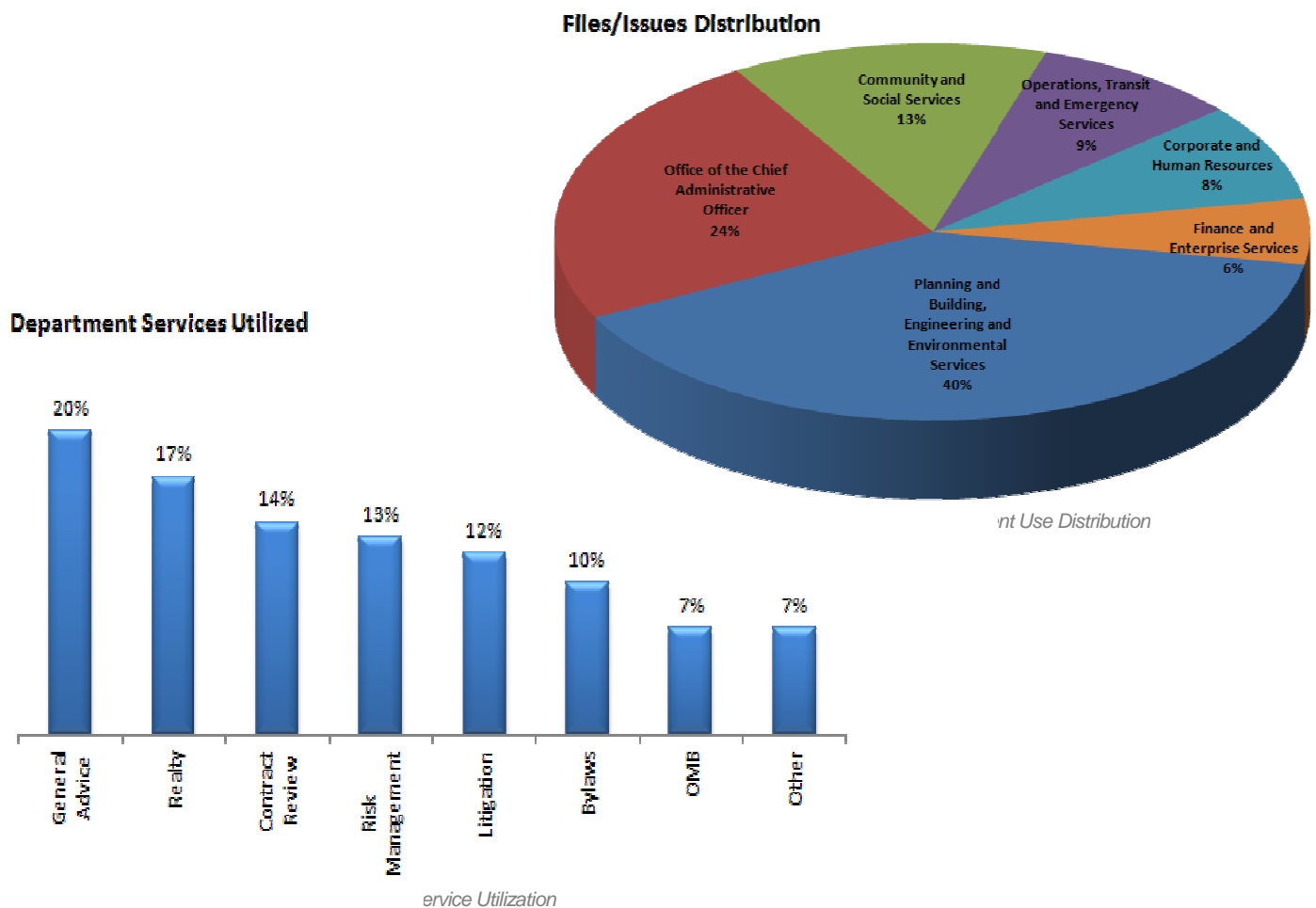
- Improved communication of the priorities and direction of Council and the Executive Team to assist with activity direction and prioritization

## Stakeholder Interviews – Summary

A customer survey was conducted to determine customer satisfaction and perception. Legal and Realty Services department provides support and service to internal departments of the City, therefore their customers are internal customers. 51 members of City Staff and Council were requested to participate in the survey. The survey was distributed via email and the intranet to the CAO, Mayor, Council, Executive Directors, General Managers and Managers within the organization. The purpose of the survey was to gauge knowledge of the Legal and Realty Services department and the utilization of the services provided across the Corporation.

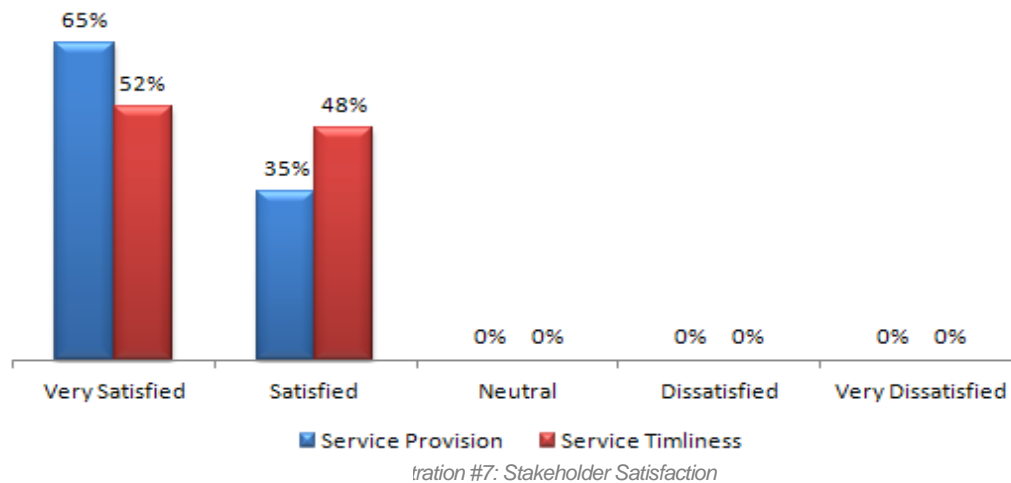
54% of the survey respondents stated they were Very Familiar (interacts and works with the department) and 47% stated they were Familiar (knowledge of the department and the services they provide), while only 4% were Somewhat Unfamiliar (knows of the department but have had minimal contact).

Respondents were asked how many matters they worked on with the Legal and Realty and what the services were that they used. Refer to illustration #5: Department Use Distribution and #6: Department Service Utilization to view the breakdown of responses.



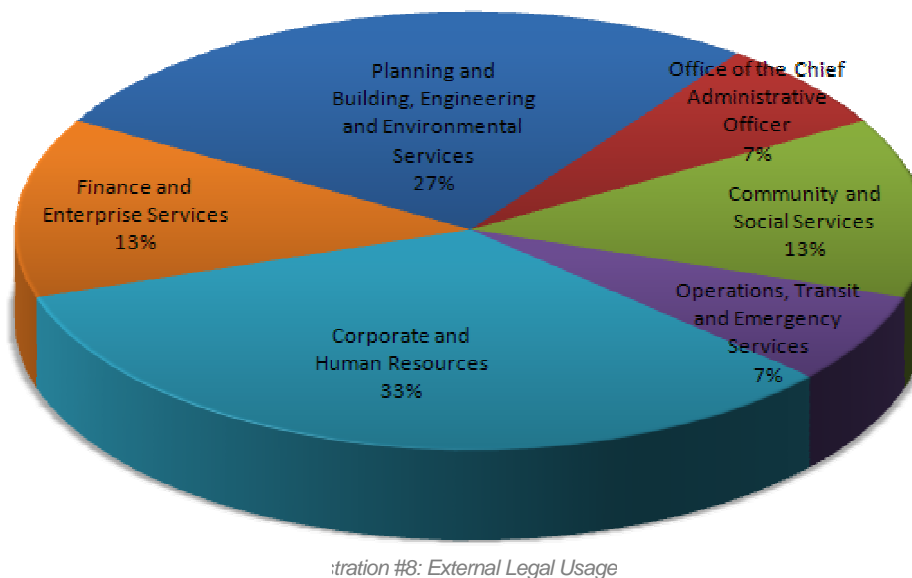
100% of all respondents stated they were satisfied with the services provided by the Legal and Realty department as well as the timeliness of the service provision, refer to illustration #7: Stakeholder Satisfaction.

### Satisfaction with Services Provided



When asked if they utilized external counsel for legal or realty matters, 63% responded yes, with 53% of these not being managed through the City's Legal and Realty Department. 62% of respondents have utilized external legal services with 53% of those being managed by the individual departments, not the Legal and Realty department. Refer to illustration #8: External Legal Usage, for a breakdown of service area utilization of external counsel.

### External Counsel Usage



External legal and realty counsel has been utilized for employment and labour law as well as other areas where the expertise is not available in house. When work load issues arise, external counsel may also be utilized.

Survey participants were asked to rate services, provided by the Legal and Realty Services department, on the importance of having the service provided in house. The results clearly state that the services provided are considered essential services to the service areas and departments of the City. Refer to illustration #9: Service Rating Chart.

Service	Essential Service	Non Essential Service (makes my work easier/more efficient)	Not Required (as in house service)
Litigation	36%	24%	20%
OMB	44%	20%	8%
Planning/Tribunals	40%	24%	8%
Risk Management	52%	28%	0%
Contract Review	48%	28%	8%
Bylaw Review	68%	12%	0%
Realty Services	44%	40%	0%
General Advice	84%	8%	0%

Stakeholder engagement identified overall satisfaction with the outcomes and timeliness of the services being provided, by the Legal and Realty Service department. This is indicative of the overall processes being effective in meeting the needs of the customers/stakeholder. However; the use of external counsel by other departments is increasing with an unclear picture why. It is recommended to develop a policy and set of guidelines for utilizing external counsel with monitoring to evaluate trends in use.

## ***Benchmarking - Municipal Comparators***

To better understand how the City of Guelph's legal and realty services compare with other municipalities, a benchmark study was conducted.

Each municipality's results are influenced to varying degrees by a number of factors, including:

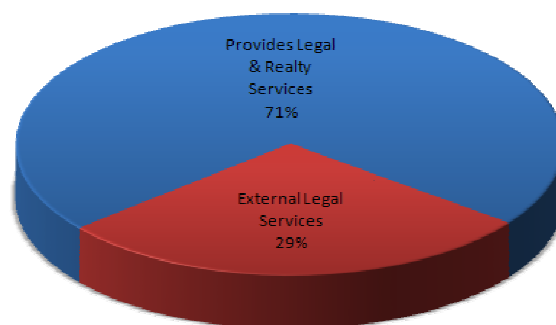
- Demand Drivers
  - Demand for specific types of legal services differs from municipality to municipality and/or from year to year.
  - Upper-tier and single-tier municipalities provide different services.
- Policy and Practices
  - Different services can demand varying levels of legal support
  - Reimbursement of Legal Fees Indemnification Bylaws is handled differently by municipalities.

All municipalities that participated in the benchmark study were from the approved comparator list.

Twenty seven (27) municipalities from the Council approved comparator list were requested to participate in benchmarking for legal and realty services. There was a 30% response rating from this request.

Of the municipalities that participated in the benchmarking, 71% of them provide in house legal and realty services (refer to illustration #10).

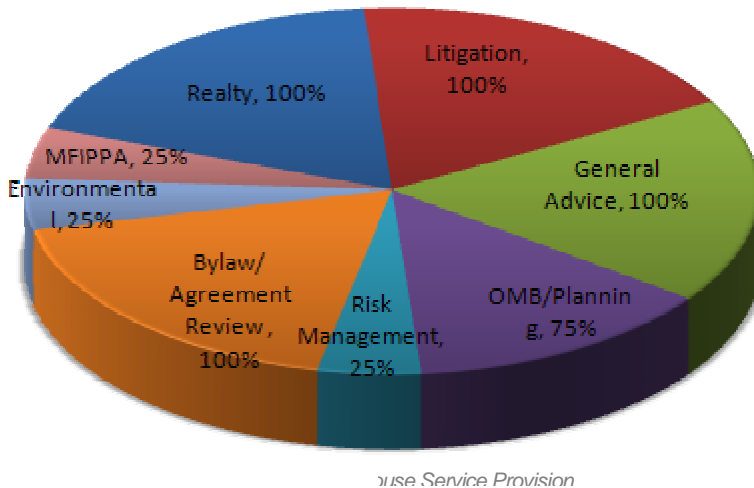
**In House vs External Service Provision**



*Provision Breakdown*

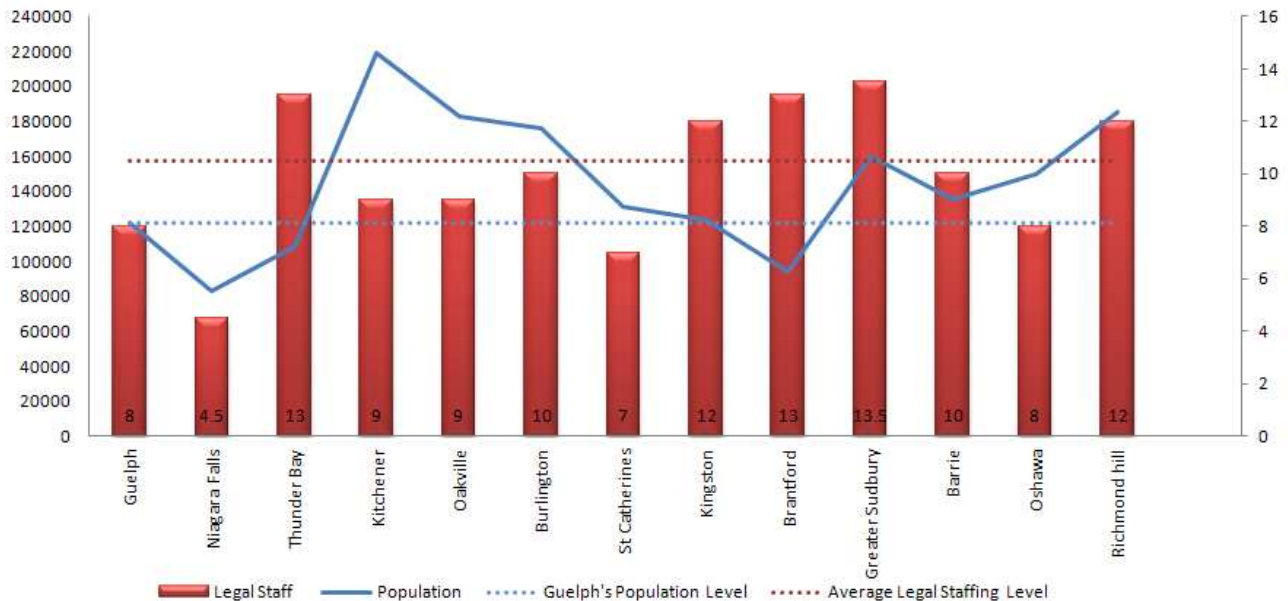
All (100%) of the participating municipalities stated they provide realty, litigation, bylaw and agreement review as well as general legal advice. 75% of the participating municipalities provide OMB/planning legal support and 25% provide service for risk management, environmental and the municipal freedom of information and protection of privacy act. Refer to illustration #11: In-House Service Provision.

### Services Provided by In House Legal Departments



When comparing the population of the municipalities to the staffing levels of the legal services departments, the average number of employees is eleven (11). In some instances this includes Court Services, which is not currently part of the department make-up at Guelph. Illustration #12: Legal Staff Breakdown demonstrates that the City of Guelph's Legal and Realty Services Department is below the average for staffing levels.

### Legal Staff per Municipal Population

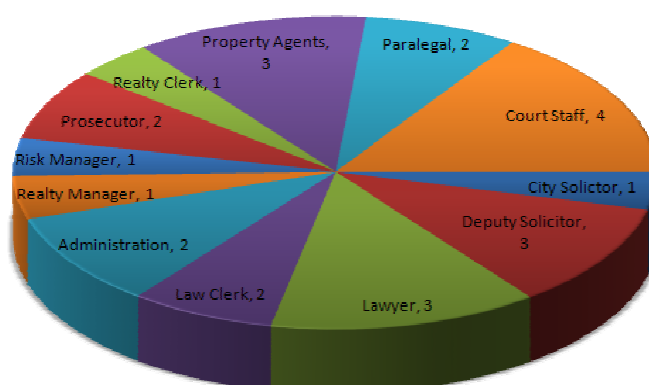


Fourteen municipalities were reviewed for department makeup. Refer to illustration #13: Average Department Makeup and illustration #14: Guelph Legal and Realty Department Makeup

Average makeup of the Legal Services departments includes;

- City Solicitor (average of 1)
- Deputy Solicitors (average of 2)
- Lawyers (average of 3)
- Law Clerks (average of 2)
- Administrative Support Staff (average 2)
- Realty Manager (average of 1)
- Realty Clerk (average of 1)
- Property Agents (average of 3)
- Risk Manager (average of 1)
- Prosecutors (average of 2)
- Paralegals (average of 2)
- Court Staff (average of 4)

**Average Makeup of the Legal Department**



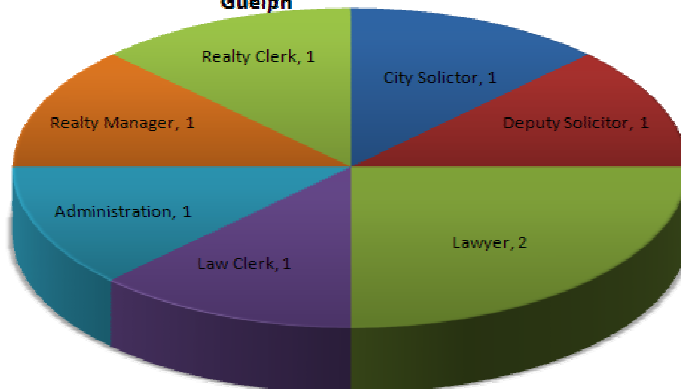
*Department Makeup*

The Legal and Realty Services Department of Guelph consists of;

- 1 City Solicitor
- 1 Deputy Solicitor
- 2 Lawyers
- 1 Administrative Support
- 1 Realty Manager
- 1 Realty/Law Clerk
- 1 Realty/Planning Coordinator

A total of eight (8) staff

**Makeup of Legal and Realty Services Department - City of Guelph**



*ality Department Makeup*

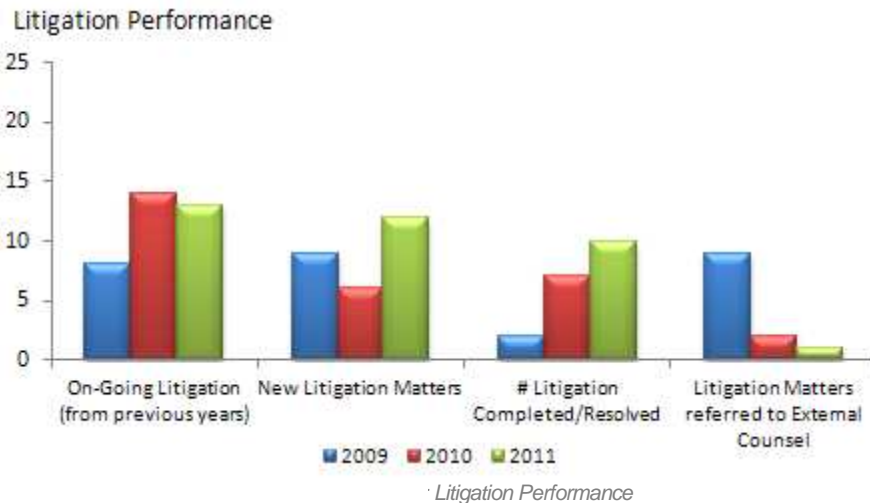
Conducting benchmarking by examining other municipal practices for legal and realty services was one of the objectives of this review. The benchmarking activity identified that the provision of in-house legal services is a best practice. Also the City of Guelph's legal staffing levels is lower than most of the participating municipalities. One recommendation is to monitor cost of legal work outsourced (where the internal expertise is available in house) vs. the cost of an on staff lawyer, to ensure cost efficiency in service provision.

## **Key Performance Indicators (KPIs)**

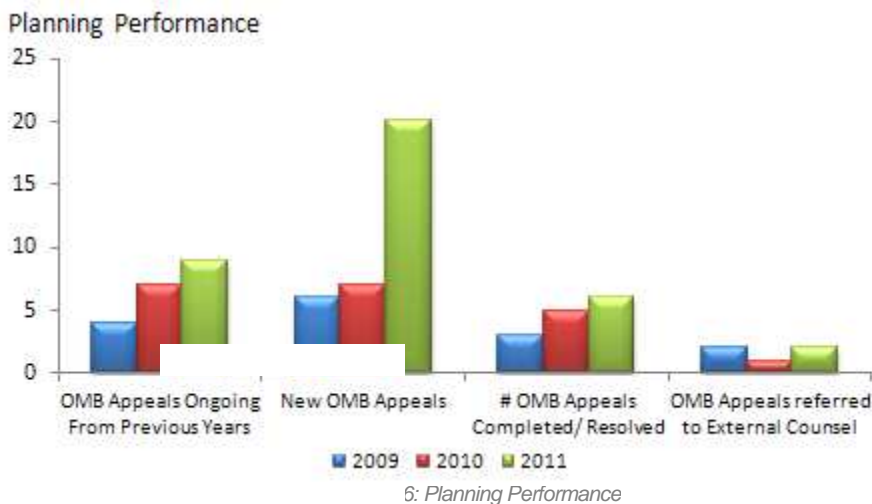
Analysis was conducted on the performance data of legal and realty for a three (3) year window (2009-2011).

Efficiency was assessed through the number of files ongoing from previous years, as well as how many files are closed each year. Currently there are minimal performance metrics or targets developed for legal and realty services. 2011 was the first year for annual reporting of department performance. With the complexity and variability of the type of issues and tasks that are undertaken in the department clear objectives and targets need to be defined in a manner to make the data collected usable or value-added to identify improvement opportunities and conduct trend analysis.

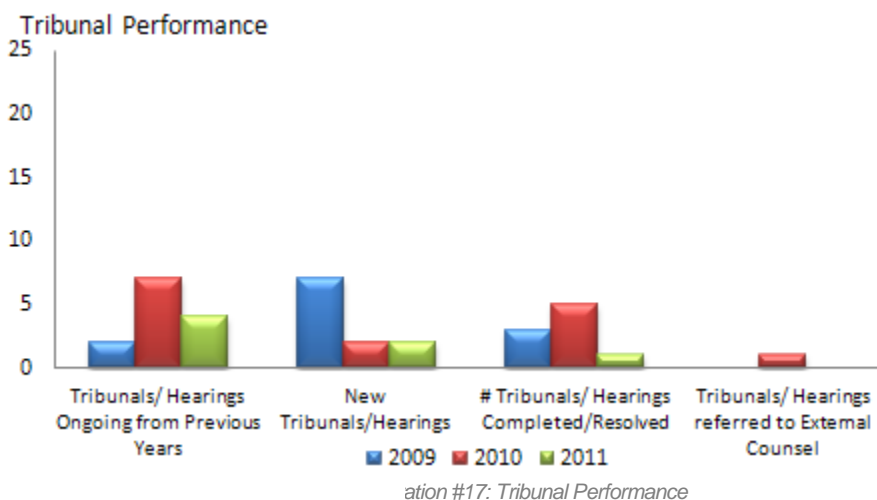
Litigation services is showing a 50% increase in new matters in 2011 over 2010, a decrease of 8% in matters carried over from 2010 to 2011 and a trending increase (70% increase 2009 to 2010 and a 50% increase 2011 over 2010) in the litigation files closed in the year. Litigation matters that are referred to external council has decreased year over year, Ongoing litigation carrying over from previous years is showing a slight decrease and will need to be monitored longer to identify any trending activity. Refer to illustration #15: Litigation Performance



OMB/Planning services is showing a 65% increase in new matters in 2011 over 2010, a 22% trending increase in matters being carried over year to year and an increase (17% 2011 over 2010) in the planning files closed in the year. Planning matters that are referred to external council has stayed static at one (1) or (2) cases per year. Refer to illustration #16: Planning Performance.



Tribunal services are showing a slight decrease. Refer to illustration #17: Tribunal Performance.



Realty Services (refer to illustration 18: Realty Performance), workload is staying fairly static in quantity; this chart does not indicate complexity of work. The exception to this is issuance of compliance letters and subdivision lots, as well as title searches, which have increased year over year.

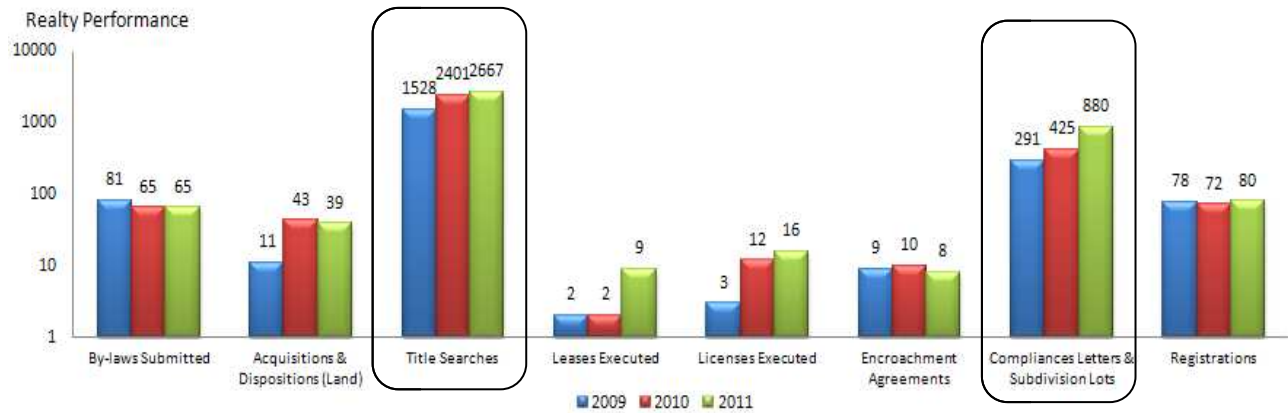


Illustration #18: Realty Performance

Requests for service come from all areas of the organization. The largest consumers of legal and realty services are Planning & Building, Engineering & Environment, with the remaining service areas almost equally utilizing the services, as illustrated below (refer to illustration #19: Requests by Service Area). Refer to illustration #20: PBEE Breakdown, which graphically displays that the largest overall consumer of legal services is Planning.

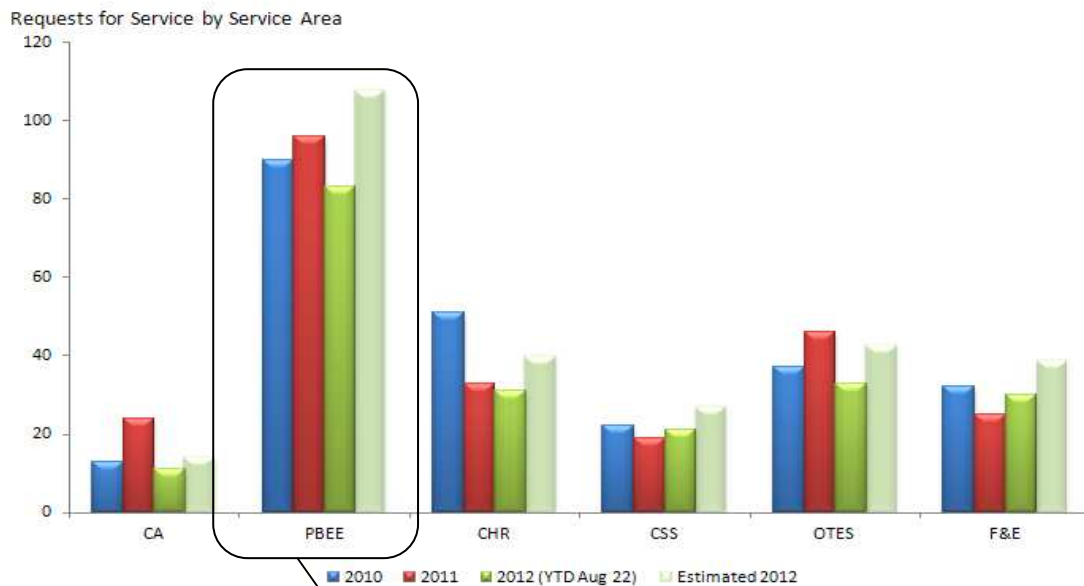
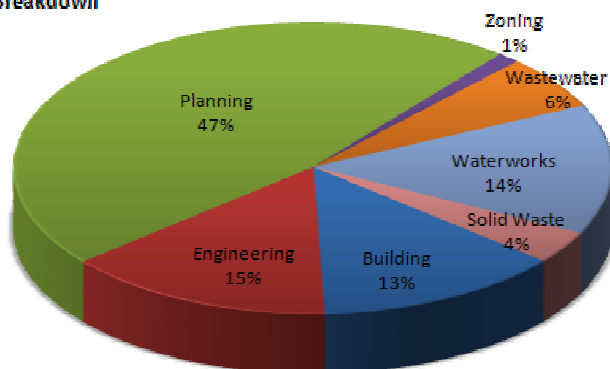


Illustration #19: Requests by Service Area

#### PBEE Breakdown





A lot of excellent work was conducted to identify and implement these annual key performance indicators (KPIs), and they are an excellent starting point. There is room for continued improvement, to provide performance measurement(s) that will indicate achievements and trend analysis. Some staff suggested measures included meeting deadlines and successful completion of cases (# cases won, files resolved).

One of the objectives of this review is to provide recommendations on performance indicators. Given the high volume of work and previous lack of KPIs, it is recommended that the KPIs be kept to a minimum. In their simplest form they should provide an indication of whether the department is achieving their objectives and identify trends for value added decision making.

- Customer Feedback; this would provide information regarding perception of service.
  - Can be measured through a per-service feedback loop, this would require a service request and provision policy, and/or a semi-annual/annual basis.
- Workload; this would highlight trends or areas of concern to allow workload leveling.
  - Could be measured by assigning complexity ratings to tasks when services are assigned.
- Cost Effectiveness; this will compare the costs of outsourcing legal activity to the cost of an additional lawyer and/or support staff.

## Financial Analysis

A comparison of internal and external hourly rates for legal services was conducted.

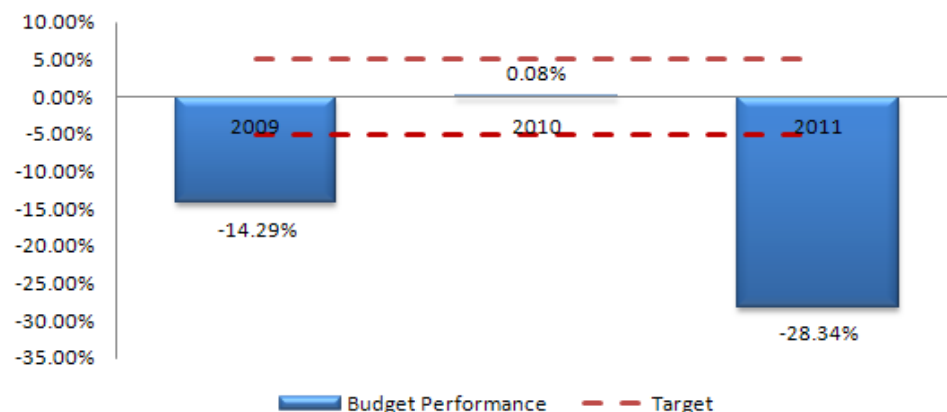
This comparison utilized work hours, overhead, productive hours and operating costs to calculate the average internal hourly costs and compared that to the average hourly costs of the external legal firms that have been utilized by the City of Guelph over the last three years.

This comparison clearly shows that providing legal and realty services in-house provides an average savings of \$387 per hour, compared to outsourcing the same services. Refer to Appendix 1: Value for Money Analysis for further information on the calculations used.

Hourly Rate Ranges				
	High	Medium	Low	Average
External Firms	\$ 750	\$ 325	\$ 100	500
Our City	\$ 170	\$ 113	\$ 57	113
Average Savings per hour				\$ 387

The Legal and Realty Services department is consistently under budget, refer to illustration #21: Budget Performance. However practice is that the department does not budget for external legal services, and these costs are covered by reserve transfers, for a net zero (0) operating budget (for external legal costs). This does not allow for a clear picture of legal costs. Better practice would be to budget based on historical averages, with the reserve to shore up any large or complex legal issues that arise.

### Budget Performance



ion #21: Budget Performance



The net zero operating budget (for external legal costs) only works when the full amount is transferred from the reserve. There have been instances (2010) where the full amount was not transferred out of the reserve.

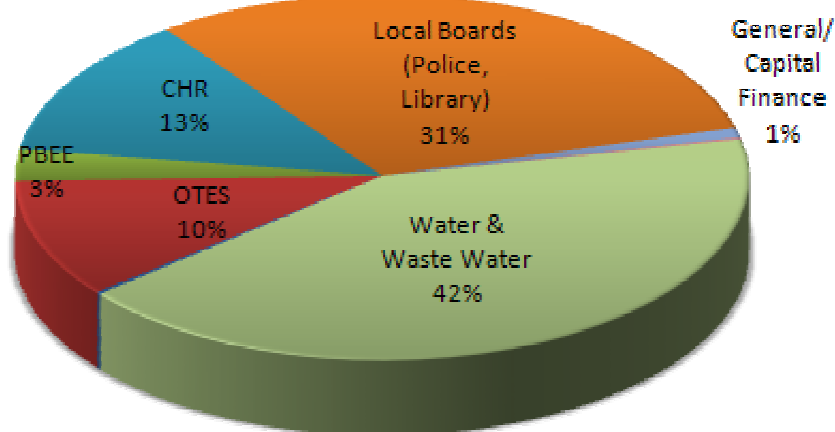
External Costs incurred by other departments have increased. Not all these costs and services are managed through the internal legal and realty department, which prohibits a clear understanding of annual legal costs. Refer to illustration #22 & #23 for the cost of legal and realty services and the breakdown of other department legal spend across the organization.

#### Legal and Realty Cost



Illustration #22: Legal & Realty Costs

#### Other Department Legal Spend Breakdown



3: Other Department Spend Breakdown

The value for money analysis proves that having an internal legal and realty department is far more cost effective than outsourcing.

It is recommended that budgeting practices be changed to budget external legal costs based on historical expenditures, utilizing the reserve for complex or large external issues. Also all external legal costs should be managed through the Legal and Realty Services department's accounts, to ensure a clear picture of the true legal costs and to allow for better analysis.

# SWOT Analysis

**STRENGTHS:** what is it that your business/organization does well?

Review Team Analysis	Staff Analysis
Focused expertise	Good work environment
Experienced staff	Experienced staff
Cost effective	Focused areas – increased expertise
Customer/Stakeholder support/satisfaction	

**WEAKNESSES:** what are the areas of your business/organization that cause you concern

Review Team Analysis	Staff Analysis
Heavy workloads in some areas	Document control system
Lack of performance measurement	Compatibility of software programs
No clear picture of true external costs	Research material
Lack of policy for service request and provision	Communication of direction and priorities of Council and Executive Team
Lack of policy for external counsel use	
Reactive Process vs. Proactive	

**OPPORTUNITIES:** What opportunities are available, which can be taken advantage of...both now and in the future?

Review Team Analysis	Staff Analysis
Approved Lawyer List	Partnership with University and local law firms to utilize Article Students for additional resources
Service Request and monitoring system to monitor workloads and outcomes	Reinstatement of lunch and learns
Improved budgeting/finance process	
Policy development and implementation	
Performance Measurement system	

**THREATS:** have there been any significant changes in the industry in which you operate

Review Team Analysis	Staff Analysis
Lack of expertise in some areas	Lack of policy and approved lawyer list
Lack of policy and approved lawyer list	

## Process Mapping

Current services provided by the Legal and Realty Service Department include;

- Litigation: providing lead counsel, advisor for external counsel, management of insurance litigation. Represent the City in all potential and actual legal actions for and against the City.
- Planning and Tribunals: providing legal advice on planning related issues and representing the City in proceedings before the Ontario Municipal Board and other tribunals.
- Agreement Review: providing review of agreements entered into by the City, creating standard form agreements to be used for routine matters. Assist or conduct negotiations between external parties and the City.

- Bylaw Review: providing review and risk assessment of bylaws being created and revised for the City.
- Realty Services: providing real estate and related services for;
  - Acquisition and disposition of property and related interests
  - Title searching and conveyance (property transfer)
  - Development and agreement compliance response
  - Real property and related interest inventory maintenance
- General Legal Advice

The process review identified that there is a lack of policy or structure to requesting and assigning work, as well as monitoring completion. Currently some work is logged with the department administrator; however personnel can contact the staff directly to request assistance. This does not allow for monitoring workloads and outcomes effectively. There is a need to have a defined method for requesting work, assigning work and monitoring it, to ensure potential risks, inconsistencies, unbalanced workloads, etc can be identified and corrected.

Also of note during the review is the lack of administrative support to the Solicitors. This results in the Solicitors, being compensated at a lawyer rate, conducting administrative tasks such as general research, filing, copying and docket preparation, that would be better suited to a law clerk or administrative clerk. It is recommend that the time spent conducting these tasks be monitored, as part of the monitoring system, to identify areas of efficiency/effectiveness gain.

## ***Conclusion***

Based on the value for money analysis and the internal use and satisfaction with the services provided by the Legal and Realty Service department, outsourcing this activity would not be efficient or cost effective for the City of Guelph.

This review has provided an understanding of the services provided, the organizational structure and the costs associated with the Legal and Realty Service department. Recommendations have been made for policy and system development, monitoring and measurement as well as budgeting process. These recommendations will better position the department to provide more proactive (less reactive) services to the organization efficiently and effectively.

A management response is required within 30 days of receipt of this audit report. Receipt was delivered on September 10, 2012 to the Executive Director of Corporate and Human Resources and the General Manager/City Solicitor of Legal and Realty Services.

Management response should include action plans, timelines and accountabilities for each recommendation noted in this audit report (refer to Key Findings and Recommendations section).

## ***Appendices***

Appendix 1: Value for Money Analysis

## Appendix 1: Value for Money Analysis

### Legal & Realty Services Department - Comparison of External Costs to City Costs

#### General Comparison of Hourly Rates (\$)

	Our City		Variable		Fixed	Our City
	Hourly rate	Benefits	Overhead	Subtotal	Overhead	
Average hourly rate (internal)	75.77	19.93	16.10	111.80	1.25	113.04

<b>Productive Hours:</b>			
Total hours	35 hrs/wk X 52 wks		1,820.00
less vacation	35 hrs/wk X 4 wks	-	140.00
less sick time	7 hrs/day X 6 days	-	42.00
less stat holidays	7 hrs/day X 12 days	-	84.00
less floater	7 hrs/day X 1 day	-	7.00
Subtotal			1,547.00
less non-productive time	15% of at-work hours	-	232.05
<b>Total productive hours</b>			<b>1,314.95</b>

#### For the Total Hourly Rate:

1. Average Hourly Rate is based on 2013 budgeted rate for all 8 positions in the division, including Realty Services

2. Average Benefit Rate is based on 2013 budgeted rate for all 8 positions in the division, including Realty Services

#### 3. Variable Overhead is calculated as follows:

Total Legal overhead 2011 actual = 169,386.00  
 Per staff (based on 8 staff) = 21,173.25  
**Per staff per hour 2011 actual = \$ 16.10** \*\* used above  
 Total Legal overhead 2012 budget = 112,400.00  
 Per staff (based on 8 staff) = 14,050.00  
**Per staff per hour 2012 budget = \$ 10.68**  
 Variable Overhead includes all Legal expenses other than salary, wages, benefits

#### 4. Fixed Overhead is calculated as follows:

Total 2012 Budget City Hall overhead = \$ 960,179  
 Overhead per sq.ft = \$ 6.86  
 Legal area- sq.ft 1,914  
 City Hall area- sq.ft 140,000  
 Legal % of square footage 1.37%  
 Legal overhead = \$ 13,127.02  
 Overhead per person \$ 1,640.88  
**Overhead cost per hour \$ 1.25**  
 Overhead includes heat, water, electricity, taxes, maintenance salary/variable overhead for Facilities staff

External Firms	Type of Work	Actual Rate/hr
Firm A	Litigation	500
Firm B	Litigation	450
Firm C	DC	550
Firm D	Litigation	350
Firm E	Litigation	200
Firm F	OMB	300

<b>Legal Division - Operating Costs - Actual 2011</b>				
Misc. Revenue	-	46,219		
Salaries & Benefits		825,197		
Overhead		169,386		
<b>Net Expense</b>		<b>948,364</b>		
<b>City of Guelph- Annual Legal Fees (external)</b>				
General Fees		\$ 600,000 to \$ 700,000		
<b>Hourly Rate Ranges</b>				
	High	Medium	Low	Average
External Firms	\$ 750	\$ 325	\$ 100	500
Our City	\$ 170	\$ 113	\$ 57	113
<b>Average Savings per hour</b>				<b>\$ 387</b>

## Management Response – LRS Service Review

	FINDING	RECOMMENDATION	MANAGEMENT RESPONSE	TIMELINE
1	<b>Is Legal Representation Services a service that should be provided by the City?</b>	<b>Value for money analysis clearly shows that providing legal and realty services in-house provides an average savings of \$387 per hour, compared to outsourcing the same services.</b> <b>Continue to provide the services in-house.</b>	<b>Agree</b>	<b>N/A</b>
2a	Use of external counsel, by departments other than the Legal and Realty department, is increasing with an unclear picture why	Develop a policy and set of guidelines for utilizing external counsel with monitoring to evaluate trends in use. This policy should include an Approved Lawyer List (identifying approved lawyers by expertise and rating).	Policy/guidelines re use of external counsel Approved Lawyer List <ul style="list-style-type: none"> <li>- Partial</li> <li>- If RFEOI required for some areas</li> </ul>	Dec 2012  Dec 2012 Feb 2013
2b	Use of external counsel, by departments other than the Legal and Realty department, is increasing with an unclear picture why	External legal costs should be managed through the Legal and Realty Services department's accounts, to ensure a clear picture of the true legal costs and to allow for better analysis. This would require all legal budget items (across the corporation) to be expensed through Legal to ensure accurate reporting providing accountability and transparency.	Agree that external legal costs should be managed by LRS. The level of management will differ depending on the circumstances. If this is the case, LRS can track and report the expenses of other departments without having these expenses in the LRS budget. LRS can also work with departments to determine the most cost effective use of resources.	Dec 2012
3	The department does not budget for external legal services. These costs are covered by reserve transfers, for a net zero (0) operating budget (for external legal costs). This does not allow for a clear picture of legal costs	It is recommended that budgeting practices be changed to budget external legal costs based on historical expenditures, utilizing the reserve for complex or large external issues.	Agree – the historical non-extraordinary cost is \$400,000 per year. In 2012, due to a variety of factors, the annual amount for the OMB/Litigation external costs is estimated to be \$850,000.	2013 Budget

4	<p>The City of Guelph's legal staffing levels are lower than most of the municipalities that participated in the benchmarking activity.</p>	<p>Monitor cost of legal work outsourced (where the internal expertise is available in house) vs. the cost of an on staff lawyer, to ensure cost efficiency in service provision.</p> <p>The department should monitor and analyze this (for the last year) data and report to Committee by the end of 2012 with recommendations regarding continued use of external legal resources or additional in-house legal staff. Provide whichever recommendation is most fiscally responsible, to inform the 2013 and 2014 budget process.</p>	<p>As of November 5, 2012, due to an overwhelming amount of OMB work, a planning lawyer on a one year contract will be added to Legal Services to work exclusively on Planning matters. The cost of hiring external counsel to deal with planning matters is at a minimum 2.5 times the cost of having a contract lawyer. At the moment, most other matters handled by LRS using external counsel are either legacy files or ones for which we did not have internal expertise (e.g. OHSA charges). Once LRS has the details of the amounts being spent by other departments on external counsel, an assessment can be made regarding the possibility of hiring additional in house counsel or additional support staff to allow these external matters to be handled in house.</p>	<p>Ongoing</p> <p>Recommendation re additional resources by end of 2012</p>
5	<p>Limited performance measurements that identify whether the department is achieving their objectives and identify trends for value added decision making. The department compiled their first annual report which is an excellent starting point, but further improvements are required.</p>	<p>Implement simple performance measures such as;</p> <ul style="list-style-type: none"> <li>• Customer Feedback; this would provide information regarding perception of service. <i>Can be measured through a per-service feedback loop, this would require a service request and provision policy, and/or a semi-annual/annual basis.</i></li> <li>◦ Workload; this would highlight trends or areas of concern to allow workload leveling. <i>Could be measured by assigning complexity ratings to tasks</i></li> </ul>	<p>Customer Service – LRS will work with internal resources to determine the most appropriate method for tracking customer service.</p> <p>Workload – Currently there are not sufficient administrative and technological tools to address this measurement.</p> <p>Cost Effectiveness – LRS will continue to undertake this analysis</p>	<p>Dec 2012 or when appropriate tools are available</p>

		<p><i>when services are assigned.</i></p> <ul style="list-style-type: none"> <li>• Cost Effectiveness; this will compare the costs of outsourcing legal activity to the cost of an additional lawyer and/or support staff.</li> </ul>	and will make recommendations where there is a clear business case to support this.	
6	Lack of policy or structure to requesting and assigning work, as well as monitoring completion.	Define system and policy for requesting work, assigning work and monitoring it, to ensure potential risks, inconsistencies, unbalanced workloads, etc can be identified and corrected	Agree – LRS needs an electronic case management system	Dec 2012 for policy Case Management System when funding available
7	Inconsistency in document control (logging, identification, etc) causes extended searches (up to 5-10 hours additional work to find documents)	Standardized system and policy for document control (EDMS)	The inconsistency in document control is a corporate issue and not specific to LRS. Within LRS, document control exists. Corporately, there is a need for EDMS & Knowledge Management to reduce or eliminate inefficiencies and time spent in retrieving and managing institutional knowledge. LRS could use a specific document (EDMS) and knowledge management system designed for inhouse legal departments.	When funding is available
8	Lack of administrative support to the Solicitors	Recommend that the time spent conducting these tasks be monitored, as part of the monitoring system, to identify areas of efficiency/effectiveness gain. Report back to Committee on these results with recommendations to inform the 2013/2014 budget process.	Agree – LRS will monitor the time lawyers are spending doing administrative functions.	November 2012
9	Contract review is not always conducted through Legal Services	All contracts/agreements should be reviewed and approved by Legal Services, as there is legal liability in every agreement. If standardized templates are utilized the review would be minimal	Agree – All contracts should be reviewed by LRS prior to execution. This will be in the policy set out in 2a. LRS is working on standardizing and reviewing contract templates throughout the City.	Dec 2012  Template Review – Dec 2013