



***Development Charges Audit
Finance Department
Treasury Office***

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1.0 Management Summary

Audit Services has completed an audit of Development Charges (DC's) within the Treasury Office of the Finance Department. The objectives of this engagement were to provide assurance on the adequacy of internal controls over the administration of the DC process, including compliance with applicable legislation requirements, calculations and collections, and management oversight.

The audit scope included a review of select development charge transactions, processes and documents created and/or used during the period April 1, 2021, through June 2022. Processes included (but are not limited to) collections calculated, payment processing, financial reporting, management oversight, transfers from lower tier municipalities, and regulatory compliance. The scope of this review did not include a review of or verification of documentation at the nine local municipalities. All supporting documentation from the locals was provided by the Region.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Based on the work performed, opportunities exist for control and process improvements within the administration and management of the DC process. These control and process improvements mirror some of the findings in the York Region Development Charges Review, Consulting Report issued in April 2013. These opportunities include formally documenting procedures and roles/responsibilities, enhanced tracking and oversight, and verification of completeness over DC remittance amounts.

During the audit we noted key strengths within the DC administration process including staff having in-depth knowledge of legislative requirements, accuracy of calculations and timely collections in the sample of DC transactions reviewed, and managements proactive approach to consider alternative software for improved tracking and oversight.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services would like to thank Region staff and management for their co-operation and assistance provided during the audit.

2.0 Introduction

The payment of DCs is governed through the Provincial *Development Charge Act 1997* and *Regional By-Law No. 2012-36: A by-law to impose development charges against*

lands to pay for increased capital costs required because of increased needs for services arising from development within The Regional Municipality of York.

Regional DCs are levied to cover the increased needs and costs brought on by land development for hard services (water, waste water, roads) and soft services (transit, general services). As per the *Development Charges Act 1997*, Regional DCs collected by local municipalities must be remitted to the Region on or before the 25th of the month after the month the funds were collected.

Regional DC's have continued to trend upwards over the past few years and are as follows:

Table 1

Year	Regional DCs collected
2019	216,669,308
2020	\$279,398,407
2021*	\$457,348,102
2022 (As at Aug 31)	\$463,374,413

DC's are generally collected at the local municipality when the building permit is issued. For residential subdivisions, the hard services component of DCs are collected directly by the Region from the developer when subdivisions are submitted to the Region for approval. The soft services component is collected by the local municipalities at building permit issuance.

Regional DCs collected in **2021** were as follows:

Collected by the...	Amount	Percentage
Region	\$259,936,527	57%
Local Municipality for the Region	\$197,411,574	43%
	\$457,348,102	100%

3.0 Objectives, Scope, and Methodology

AUDIT OBJECTIVES

The main objectives of this engagement were:

- To verify that internal controls over development charge calculations and collections are adequate and working as intended
- To verify that sufficient policies and procedures exist to support the administration of the development charges process
- To ensure compliance with the development charges by-law and applicable legislative requirements

AUDIT METHODOLOGY & SCOPE

The audit included a review of select development charge transactions, processes and documents created and/or used during the period April 1, 2021 through March 31, 2022. Processes include (but are not limited to) collections calculated, payment processing, financial reporting, management oversight, transfers from lower tier municipalities, and regulatory compliance.

The audit objectives were accomplished through:

1. Review of relevant policies, procedures, and legislation
2. Interviews with appropriate personnel
3. Sample testing within processes identified in the audit scope
4. Review of other related documentation

4.0 Detailed Observations

4.1 *Completeness and Verification of DC's*

There is currently no process in place to help ensure that the Region receives all DC's owing.

The local municipalities email the Region monthly to communicate the DC's collected for the prior month on permits and the corresponding amount owing to the Region. There is currently no independent verification on the Region's behalf of completeness on the permit dates, amounts calculated, and amounts submitted. Without proper verification or a period review of DC payments, underpayments could go undetected resulting in financial loss to the Region.

Based on discussions with the Manager Development Financing, "YorkTrax", the in-house Planning software, has capabilities to provide better oversight and tracking of DC related information, however not all of the locals have been receptive to using this software and therefore has been used inconsistently over the past few years.

Recommendations

Management should consider implementing an audit verification process to ensure DC's collected are complete and accurate. In the absence of a centralized software system, management could implement a periodic review of DC payments.

Management Response

Agreed. Until such time as the YorkTrax is available to track all DC payments, Management will work with local municipal staff to enhance reporting information being provided to the Region as it relates to DCs collections (e.g., building permit data) coupled with periodic audit verifications.

Management is proposing to implement this process by the end of Q2 2023.

4.2 *Tracking of Development Charges*

DC's are currently tracked and managed in Microsoft Excel, which is not adequate to support the administration of the DC process.

The Region uses Microsoft Excel to track, calculate and manage all DC related information for the nine local municipalities and developers. Using Excel as a detailed

database to calculate and manage a program with such a significant amount of budget is not ideal given its limited functionality and susceptibility to user errors. There is an increased opportunity for DC calculation errors to go undetected potentially resulting in inaccurate information and reporting.

Recommendations

Management should consider investing in an applicable automated centralized software that could track DC related data and provide real time reporting to both the locals and Region.

Opportunities to coordinate with the locals on an integrated software system should be considered to increase efficiencies and provide better management oversight on completeness of DC's calculated.

Management Response

Agreed. Management will conduct a review on all the software systems used by the locals and other regional governments for reporting DC collections. Subject to budget availability, Management will explore implementing a system compatible for both the Region's and local municipal needs. Staff will include the Region's Planning department in this review to ensure that any data from the software system used can be transferred into Yorktrax once it is fully implemented.

Management is proposing to implement this by Q4 2024.

4.3 Documentation of Roles, Responsibilities & Procedures

Roles, responsibilities, and DC related procedures are not formally documented.

The DC administration process is very manual and labor intensive including calculations, monthly reconciliation, and reporting. Based on discussions with staff, the majority of the monthly DC reconciliation process is completed by one staff. By not formally capturing procedures and responsibilities, the Region risks challenges in the transfer of knowledge and succession planning that could negatively impact the administration of the DC process.

Recommendation

Management should formally document DC related procedures, roles, and responsibilities.

Management Response

Agreed. Management will develop a DC collection manual. This manual will identify the roles and responsibility for both Regional and local staff with respect to the collection and reporting of DC collections.

Management is proposing to implement this by Q3 2023.

End of observations.

Management has received a copy of this report and included a response as indicated in their signatures below.

Original Signed

Laura Mirabella
Commissioner, Financial Services
& Regional Chair

Original Signed

Director, Treasury Office

Original Signed

Michelle Morris
Director Audit Services

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