SUBJECT: Audit Report 2008-05 - Downtown Residential Loan Program (DRLP) (CM08021) (City Wide)

RECOMMENDATION:

(a) That Report CM08021 respecting Audit Report 2008-05, Downtown Residential Loan Program, be received; and

(b) That the management action plans as detailed in Appendix “A” of Report CM08021 be approved and the General Manager of Planning and Economic Development direct the appropriate staff to have the plans implemented.

Ann Pekaruk
Director, Audit Services
City Manager’s Office

EXECUTIVE SUMMARY:

At the request and direction of the Mayor and City Manager, Internal Audit undertook a review of the Downtown Renewal Loan Program (DRLP) in order to assess compliance with policies and procedures and to ensure the program was carried out in a fair and transparent manner.

Observations based on a review of selected files maintained by the Downtown and Community Renewal Division and the testing of sampled transactions involving the application, loan advance and loan repayment processes resulted in several recommendations to strengthen administration, improve accountability and tighten controls over the program. These results are included in a formal report containing observations, recommendations and management responses attached as Appendix “A” of Report CM08021.
EXECUTIVE SUMMARY: (Continued)

No evidence of preferential treatment of any particular applicants or unusual expedition of specific applications was found. All repayments required as per the loan agreements are being made. Notwithstanding the isolated calculation error noted in point 4 of the report and several potential variances due to the inconsistent interpretation and follow up of residential square footage as noted in points 3 and 4, the program does not appear compromised.

BACKGROUND:

In 2005, Internal Audit conducted an audit of the Downtown Residential Loan Program, the Commercial Property Improvement Grants and the Enterprise Zone Reality Tax Grants. Sixteen recommendations for improving the Downtown Residential Loan Program were made. In May, 2007, a follow up of the audit was conducted to ensure that the implementation of the recommendations as committed to by management had been carried out. Thirteen of the recommendations had been fully implemented at that time. Three recommendations were in progress and have subsequently been implemented.

In response to an Ontario Provincial Police (OPP) investigation of the Downtown Residential Loan Program and subsequent charges against a City of Hamilton staff member in mid May, 2008, Internal Audit was requested to carry out a review of the program to ensure its integrity and compliance with Council policies and program rules.

The Downtown Residential Loan Program focuses on stimulating residential developments within a specified area in the downtown core by providing interest-free loans for erecting, renovating or converting residential units. As at May 21, 2008, approximately $26.4 million has been actively committed to 29 projects with loan advances of $12.4 million. Repayments of $5.9 million have been made as of May 21, 2008.

ANALYSIS/RATIONALE:

The review examined processes and procedures relating to applications, loan advances and loan repayments. It also included the determination of whether the controls in place in these processes were sufficient to ensure completeness, accountability, accuracy and integrity of the loan program.

Areas for improvement in regard to financial and administrative controls as well as effective and efficient operations were identified. The main recommendations noted were:

- The provision of all key documents specifically identified as “must submit” on the application. Ideally, such documents should be available for use at the time of the application assessment but definitely before the request for the first advance.

- Evaluation sheets adequately documented to support the score given by the evaluation teams. In addition, a preset numerical cut off for acceptable/unacceptable proposals should be considered. Evaluation sheets are routinely completed by teams (1 Financial, 1 Planning-related) and applications are given a combined score out of 100 points based on specific criteria. The resulting scores should be a prime determinant of successful acceptance of the applications and provide accountability for the projects proposed to Council.
ANALYSIS/RATIONALE: (Continued)

- A clear definition of “habitable” residential square footage to ensure consistent application for the calculation of the loan commitment amount.
- Independent verification of the residential square footage in order to ensure the loan amount committed to/advance is supportable.
- A change in the threshold amount for requiring third party verification of a property’s market value when checking the borrower’s 25% equity requirement.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
As noted in point 4, one applicant was advanced $300,000 more than he was eligible for. The project has been completed.

Staffing
None.

Legal
The ability to change the original loan commitment once the residential square footage is confirmed as per recommendation 4 will require a clause to be added to the loan commitment agreement document.

POLICIES AFFECTING PROPOSAL:

Downtown Residential Loan Program Terms and Regulations
City of Hamilton Official Plan & Zoning By-law
Downtown Hamilton Secondary Plan
Property Standards By-law

RELEVANT CONSULTATION:

The attached report includes management action plans which reflect the responses of management and staff responsible for the Downtown Residential Loan Program in the Downtown and Community Renewal Division of the Planning and Economic Development Department.
By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced.  ☑ Yes  ☐ No
Council's goals of "A Great City in Which to Live" and "A City of Growth and Opportunity" are supported by this initiative for stimulating residential developments in the downtown core.

Environmental Well-Being is enhanced.  ☐ Yes  ☑ No

Economic Well-Being is enhanced.  ☑ Yes  ☐ No
City Council's strategic commitment to "Best Practices - Best Value" under "A City That Spends Wisely and Invests Strategically" is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economical services and programs.

Does the option you are recommending create value across all three bottom lines?  ☐ Yes  ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?  ☐ Yes  ☑ No

ap:dt
Attachment – Appendix “A”