

MONEY MATTERS AT THE CITY OF NORTH VANCOUVER

By: Kerry Morris - April 24, 2015

It was July 31st 2014, and we were right in the midst of the election. I caught wind there was a massive problem with the City of North Vancouver's water meter billing to Vancouver Coastal Health ('VCH') for Lions Gate Hospital. The rumour was that the City had lost approximately \$450,000 through a water meter failure. I requested the documents in relation to this matter by way of a Freedom Of Information ('FOI') request on the City Clerk (<http://kerrymorris.ca/wp-content/uploads/2014/04/Initial-FOI-Request.pdf>). In what was a breach of law, the City used up it's legal time for document production, then on October 30th 2014 (<http://kerrymorris.ca/wp-content/uploads/2014/04/CNV-Formal-Response.pdf>) informed me that *"...We [the City] require payment in full, for retrieving and photocopying the records responsive to your request, before we proceed further in processing the file..."*. This communication also asked for prepayment of a fee of \$235 before they would even begin the search.

The City's target had always been to stall out the production of these records until after the election. The internal decision for the delay had been conveyed as a requirement to locate and copy the documents, but the October 30th letter made it clear no hunting or copying had or would occur until delivery of the FOI payment, and the time clock for delivery of the documents would only then begin. This successfully resulted in delaying the release of the documents until after the election. This delay was important for several reasons. First, it could, by way of payment, allow coverup of the billing loss thereby avoiding further embarrassment for the Mayor and the CEO for having allowed the loss. Second, it would hide a failure to disclose these financial errors within the City's audited annual statements. Third, it would keep the investigation regarding systemic management failures within the City to remain confidential.

Today, VCH, responding in part to an FOI served on them on March 11, 2015, delivered the first phase of the release (<http://kerrymorris.ca/wp-content/uploads/2015/04/VCH-Phase-1-FOY-Release.pdf>), some 60 pages of documents. At page three of the release the document discloses that the City allegedly under-billed VCH an estimated \$692,000 in relation to water and sewerage services provided to VCH by the City. It turns out that beginning in the fall of 2009, and continuing on through to the end of the first quarter of 2012, the City billed VCH only 1/10th of the actual value for water consumption and sewerage charges properly applicable during this period.

The City initially asked VCH to pay the full \$692K value of the under-billing. They subsequently reduced their demand to only \$375K. It is not yet clear if this amount was eventually paid by VCH. We will have to wait for the final figures which won't arrive until the Phase-2 document release is delivered. VCH, are still awaiting the City's approval to release the additional documents. The City's delay in responding has



Briefing Note – LGH Water Under-billed claim City of North Vancouver

Submitted By Rodrigo Lecompte
Participants Wendy Hansson, Brent Alley, Mark Delivuk, Jay Tretthewey, Clive Camm
Date Submitted 17-May-2013

Historical Background:

- November 2010:** Facilities finalized the implementation of Utilities toll and detected anomalies in the consumption results for LGH. Facilities started the collection of detailed data and identified a problem in account 001-005-1001-900. At the same time the Finance department requested confirmation about the outstanding accrual for \$345K.
- November 2010 – January 2011:** Facilities contacted the City of North Vancouver by phone regarding the issue.
- February 2011:** Facilities sent a formal request to the City to review the bills between 2009 and 2011 and the City replied with two formal letters confirming the billing and consumption readings were accurate and correct so no action was needed.
- Fiscal year 2012:** Accrual was reversed under the assumption the City would not claim back any amount since the consumption was correct.
- May 2012:** Meter was upgraded from a mechanical meter to a digital meter as part of the Hope project. As part of the project VCH replaced a pipe before the meter in 14th street. Pipe was leaking but it was before the meter and VCH replaced under assumption it is in VCH premises and did not inform the City (the cost of the pipe replacement, road repairs and other cost associated was \$145K plus taxes).
- December 2012:** The City sent a letter to VCH (Mark Delivuk) indicating they detected the meter was read improperly causing inaccurate billing (missing an extra zero) and VCH owed them \$692K.
- December – March 2013:** Legal department was contacted to review the City letter. Clark and Wilson lawyers sent a memorandum indicating the the City has the right to pursue retroactive charges but at the same time VCH acted in good faith paying the amount billed and recommended to approach the the City and negotiate under the argument the meter is a property of the City and it was their responsibility to take the readings. Simultaneously Facilities updated all the data collected in 2010 including the new meter reading in the last year. It was found there is a significant discrepancy between the previous meter and the new one installed in 2012. (See figure 1 summary below and power point presentation)
- April 9th 2013:** Mark Delivuk, who is leading the discussions with the City, shared the analysis of the new meter figures for the City to review.
- May 9th 2013:** City replied that the new meter is correct and it can not be demonstrated that the previous meter was incorrect. In summary they indicated their readings and assumption of the "missed zero" are correct and requested a reasonable solution to present to the Council. Additionally, they indicated the meter was never returned to the City and it can not be tested to confirm the VCH case.
- May 15th 2013:** Facilities department was unable to locate the meter. According to the contractor and internal crew the meter may have been taken by the City staff when they installed the new meter. The meter was never found.

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stalled VCH causing them to request a 30 day time extension. In the circumstances VCH are being fair and reasonable. The final phase of the document release is not expected till June 8th 2015.

My initial News Release on this topic dated November 28th 2014 (<http://kerrymorris.ca/wp-content/uploads/2014/04/NEWS-RELEASE-Water-Meter-Billing-Error-2.pdf>), alleged the City's loss was the result of a meter failure. It was not. The meter failure appears to have caused an over-billing situation which began in the Fall of 2004 and lasted through till the Fall of 2009. At this point the City replaced the hospital meter and for the next three years failed to read the new meter correctly. This should have been easily discovered, as it resulted in a significant change in the annual utility cost for Lions Gate Hospital.

To their credit, VCH staff made repeated attempts to educate the City in regard to these billing errors, but the City rejected these overtures, so eventually VCH took the savings and reduced it's budget to reflect the downward change in billed utility costs.

As a result of the honesty shown by VCH staff, the City had little if any ability to do a retroactive billing to reflect the lost income. Moreover, the investigation process also disclosed an over-billing condition and VCH had a legal right of offset, but on a claim which would be harder to prove.

Briefing Note: LGH Water and Sewer Analysis - May 17, 2013

- **May 23rd 2013:** Meeting with members of the City of North Vancouver and VCH Staff. After the presentation of the VCH analysis and discussions about VCH and City's arguments; the City proposed they would present to Council a new offer recalculating the figures using new meter data but only back to 2009 if VCH accept that agreement. It represented a reduction from the original \$692K to \$357K. VCH will review the case with the CFO and will inform the City about final resolution. (See Figure 2 in analysis section and power point presentation).

Analysis:

The analysis of the consumption data in cubic meters was created using the readings from LGH facilities department that seemed accurate and close to City invoices. Readings were basically matching until a significant discrepancy appeared in 2009 when the City started to invoice lower amounts. (City claiming about "missed zero") This data was compared with historical events in LGH areas/dependencies in the last 12 years and specific historical changes in the meter (replacement). It was found the new meter installed in 2012 is consistent with readings in 2003-2004 (period after the laundry was closed and the meter was modified). Using the new meter data the consumption is projected back in time and it is determined VCH was over-billed during 2004-2009 and the city under-billed during 2009-2012.

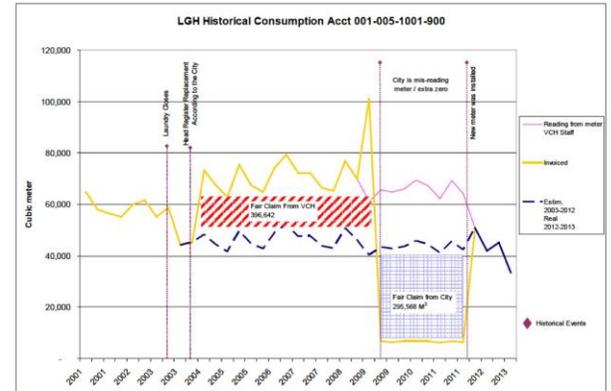


Figure 1. Original VCH facilities Analysis

City has proposed to use VCH model but only until 2009 when the meter started to be misread.

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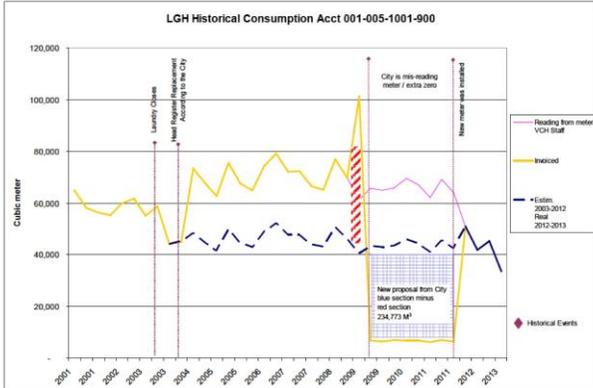


Figure 2. City's proposal

Conclusions:

- VCH has a strong argument and figures from analysis support the theory about a mechanical problem in the meter but it is based in mathematical calculation and there is not meter to test and probe the theory. City's recognized part of the arguments but they insist VCH can't probe leaking problems were not the cause of the difference.
- Indication from the City about water system problems or leaks internally at LGH is not logical. A leak of 20,000 cubic meters every 4 months is too big; no significant internal changes were made at the moment the new meter was installed in 2012 and only minor leaks were detected internally when VCH worked in a repiping project last year.
- Facilities can not establish what happened in 2004 and why the reading went up, according to our information there was a meter change but we don't have details to corroborate the version of the City's supplier indicating the meter was not modified.
- VCH has accruals for \$300K plus a credit in City's bills for \$83K due to overpayment last year.
- Legal dispute of the case can be resolved in favor of any part and the cost would be significant; in addition it will be in detriment of the good relations with the City.
- In the current situation there are three possible options :
 - o Settled the dispute in \$357K accepting City's offer.
 - o Accept City's offer but try to claim back some credit for the replacement of the pipe in 14th Street.
 - o Insist in VCH position and wait for City's reaction and possible Legal dispute. (Option not recommended)

When this whole matter was eventually revealed, the City was compelled to request an internal audit for systemic failure. This confidential audit was conducted by KPMG. The purpose of the audit was to determine how such a huge mistake could go undetected for such a long period of time, despite being questioned repeatedly by VCH. The KPMG audit was requested as a part of the FOI served on the City, but Ms. Graham fanned ignorance and declined to confirm she would allow that document in the release if pursued.

Isabel Gordon, who was required to fall on the sword for this one, was compelled to explain why the drop in annual utility income had not been detected, and like any good leader, claimed the buck stopped at her desk and accepted responsibility. But if the truth be known, her trusted second in command should also have discovered the mistake, and in my opinion was equally responsible. What is sad is that he was propelled into Isabel's role as a result of her departure, benefiting from his own failure. But the question I have is: Why didn't

any of this make it into our audited financial statements? This error is now known to range between \$357K and \$692K. Where I come from that's a lot of money. That is the equivalent of the City giving away a publicly owned house. If we're going to set about losing money, why don't we give it to someone that really needs it?