



**Office of the
Auditor General**
City of Ottawa

**INVESTIGATION OF MANOTICK
BUSINESS IMPROVEMENT AREA
EXPENSES - ROLE OF THE CITY OF
OTTAWA**

SEPTEMBER 2023

Acknowledgement

The team responsible for this investigation was comprised of Raymond Chabot Grant Thornton Consulting Inc. (external consultant), under the supervision of Joanne Gorenstein, Deputy Auditor General and my direction. My colleagues and I would like to thank those individuals who contributed to this project, and particularly, those who provided insights and comments as part of this investigation.

Respectfully,



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Introduction

As a result of a report to the City’s Fraud and Waste Hotline (FWHL), the Office of the Auditor General (OAG) undertook an investigation to assess concerns related to expenses incurred by the Manotick Business Improvement Area (MBIA).

Background and context

The OAG received allegations in relation to potential inappropriate expenses incurred by the MBIA. It is important to note that the procurement of goods and services, including approval thereof, is the sole responsibility of the MBIA. The MBIA Board of Management (Board) is responsible for managing the affairs of the MBIA and fulfilling the requirements of applicable municipal by-laws and related policies.

The results of our investigation related to the MBIA’s expenses were reported to the MBIA Board. As part of the investigation, we identified areas of improvement for the City as it relates to the support it provides to Business Improvement Areas (BIA). The purpose of this report is to communicate our findings and recommendations.

BIA Purpose and Structure

The *Municipal Act* provides a local municipality with the authority to designate an area as a Business Improvement Area (BIA). A BIA is a “made-in-Ontario” innovation that allows local businesses and commercial property owners and tenants (collectively known as “BIA members”) to join together to organize, finance, and carry out physical improvements and promote economic development in their district (with the support of the municipality). Ottawa currently has 19 BIAs located in urban, suburban, and rural areas. The purpose of a BIA is to:

- a) oversee the improvement, beautification, and maintenance of municipally-owned land, buildings and structures in the area beyond that provided at the expense of the municipality generally; and
- b) promote the area as a business or shopping district to attract residents and visitors.

BIAs work to identify and implement actions to support economic development and business growth and attract new businesses to the area.

BIAs engage in various activities to help achieve their mandate such as beautification, revitalization and maintenance, and marketing and promotion. Examples of actions BIAs

may take to achieve their mandate include streetscape improvements such as seasonal decorations, enhanced street cleaning, or showcasing their shops and services through marketing and promotional activities. BIAs may also organize special events to attract community residents and visitors to experience the area such as parades and festivals.

Under the governing by-law for BIAs, BIAs are required to have a Board that must consist of a minimum of five (5) directors and a maximum of fifteen (15) directors, appointed by City Council (or the General Manager of Planning, Real Estate and Economic Development as delegated authority). The Board's term of office runs concurrently with that of the Council appointing it, being four (4) years.

By-laws and Policies

Municipal and BIA by-laws and policies that govern BIA Boards relative to governance and financial management include the:

- a) BIA Governance By-law 2021-255 (BIA Governance By-law);
- b) *By-law 2018-399* (Code of Conduct for Members of Local Boards); and
- c) BIA policies pursuant to Subsection 270(2) of the *Municipal Act, 2001* with respect to sale and other disposition of land, hiring of employees, and procurement of goods and services.

The *BIA Governance By-law* provides standardized governance requirements for Boards of BIAs and includes, but is not limited to, board composition, roles and responsibilities of the Board, roles and responsibilities of the Executive Director, financial requirements, and policy requirements.

The above-noted by-laws and policies are intended to provide a standardized approach to BIA governance and practices.

City of Ottawa's Role re: BIAs

The City plays a role in certain BIA processes including annual budget approval, levy collection, payment processing for BIA expenses, and financial reporting.

Each year, each BIA Board prepares an annual budget which is approved by its members at the Annual General Meeting and by City Council. Upon approval of the annual budget by the Board and by City Council, the BIA tax rate is calculated to produce the levy amount that is needed to fund the annual budget. The levies are

collected by the City through the BIA members' property tax bill and are held by the City.

All expenses incurred and approved by the BIAs are paid through the City's standard payment process.

The City also prepares monthly financial reports and manages the annual audit for each BIA Board.

Investigation objective and scope

The objective of this investigation was to review expense transactions in relation to concerns raised in the report received through the FWHL.

In response to the concerns raised in the FWHL report, we examined documentation for a sample of expense transactions in 2022 to ensure they were approved, supported by adequate documentation and in line with the spirit of the *BIA Governance By-Law*.

The expense transactions raised in the FWHL report spanned a period from 2018 to 2022. It is important to note that the MBIA financial statements are audited by the City's external auditors, Ernst and Young. As such, the scope of our investigation was limited to reviewing a sample of expense transactions in 2022 as this year had yet to be audited. Our investigation focused on concerns of a financial nature only. Our investigation did not address other concerns raised in the FWHL report as these fell outside the purview of the Auditor General.

Readers are cautioned about the important distinction between an investigation and an audit. An audit is designed to provide a high level of assurance over its findings and will typically feature rigorous testing and analysis. While this investigation was conducted in a systematic and professional manner, the extent of activities undertaken by the OAG was narrow compared to an audit and focused solely on the concerns raised to our attention.

Conclusion

While the Board is independent and responsible for managing the affairs of its BIA, including fulfilling the requirements of applicable municipal by-laws and related policies, the City has taken on a role in collecting the cash (levies) from BIA members. Accordingly, the City has a level of responsibility and is in the best position to support

BIAs in effectively discharging their duties, including having appropriate expenditure management¹ policies.

The results of our work on the MBIA highlighted areas where the City can play a greater role in supporting BIAs and enabling strengthened expenditure management and governance, including:

- a) Providing fulsome guidance to BIAs to enable the development and implementation of comprehensive expenditure management policies;
- b) Reviewing all BIA expenditure management policies received to ensure alignment with expectations of sound expenditure management practices; and
- c) Ensuring mandatory onboarding training and refresher training is made available to all BIA Board members and staff on governance, roles and responsibilities and expenditure management.

¹ Expenditure management in this context relates to the procurement of goods and services, spending of available funds and the management of petty cash.

Investigation findings and recommendations

1. Support for BIA Expenditure Management Policy Development and Implementation

Pursuant to the *BIA Governance By-law*, Boards are responsible for managing the affairs of their BIA and fulfilling any requirements under the by-law and any other applicable City of Ottawa by-laws and legislative requirements. This includes adopting and maintaining policies with respect to the procurement of goods and services, the hiring of employees, and the sale and other disposition of land pursuant to Subsection 270(2) of the *Municipal Act, 2001*.

In [June 2021](#), City Council directed each BIA Board to adopt and provide mandatory governance documents to City staff by March 31, 2022, including policies with respect to the procurement of goods and services. Following City Council's direction, City staff notified the BIAs of the new documentation requirements and, to an extent, provided policy language guidance and templates to facilitate the implementation.

Upon review of the guidance provided by the City to the BIAs, we expected to find that the City provided more fulsome information to assist the BIAs to implement the mandatory requirements. For example, guidance could have been provided on what should be included in an effective expenditure management policy to ensure prudent use of funds (e.g., expense reimbursement practices that prescribe the types of eligible expenses, roles and responsibilities and expected documentation requirements to support expenses incurred).

In relation to the MBIA, per the City's requirement, we noted that a policy document was assembled and submitted to the City with respect to sale and other disposition of land, hiring of employees, and procurement of goods and services. However, the policy document only included the minimum requirements as per the *BIA Governance By-law*. While the policy document met the minimum requirements of the *BIA Governance By-law*, the policy lacked the fundamental elements of a sound procurement and expenditure management policy.

As part of our examination, we selected a sample of other BIAs to determine the existence of comprehensive procurement (and/or expenditure management) policies. Based on our review, 33% of our sample did not have comprehensive procurement policies in place. Per discussions with City staff, the City's responsibility was limited to

obtaining and retaining copies of all BIA policies and related amendments to meet the requirements of Section 58 of the *BIA Governance By-law*. There was no expectation for the City to review and comment on the policies.

It is important for all BIAs to have comprehensive expenditure management policies in place to guide acceptable financial practices in support of achieving the mandate of the BIA. Given the City's expertise with developing financial policies, the City is a useful resource for enabling BIAs to develop and implement their policies.

RECOMMENDATION 1 – PROVIDE COMPREHENSIVE GUIDANCE TO ENABLE THE DEVELOPMENT OF A SOUND BIA EXPENDITURE MANAGEMENT POLICY

The Director, Economic Development and Long Range Planning, in consultation with the Deputy City Treasurer, Corporate Finance Service, should develop comprehensive guidance material and policy examples to support BIAs with the development of a sound expenditure management policy that aligns with the spirit of the *BIA Governance By-law*, the mandate of BIAs and the City's expected spending practices. This could include leveraging comprehensive policies which have been established by other BIAs.

MANAGEMENT RESPONSE 1

Management agrees with the recommendation. Staff will commit to working with the Ottawa Coalition of Business Improvement Areas ([OCOBI](#)) to leverage BIA best practices with respect to procurement and expenditure management policies and establish a standardized guidance document for Executive Directors and Boards with the necessary tools and templates for each BIA to develop a comprehensive expenditure management policy. Staff will also look to the [Ontario Business Improvement Area Association \(OBIAA\)](#) for any relevant tools and templates to assist in the development of the guidance material.

This recommendation will be completed by Q2 2024.

RECOMMENDATION 2 – REVIEW PROCUREMENT POLICIES FOR ALL BIAS

The Director, Economic Development and Long Range Planning, in consultation with the Deputy City Treasurer, Corporate Finance Service, should review the expenditure management policy adopted by each BIA to ensure alignment with the spirit of the

BIA Governance By-law, the mandate of the BIA, and the City's expected spending practices.

MANAGEMENT RESPONSE 2

Management agrees with the recommendation. Staff will review the procurement policy adopted by each BIA under the *BIA Governance By-law* to ensure it meets the City's expectations for the expenditure management practices for BIAs.

This recommendation will be completed by Q2 2024.

2. Expenditure Management/Governance Training of Board Members and BIA Staff

To effectively fulfill their roles and responsibilities, BIA Board members and staff are expected to understand the organization, relevant by-laws, policies and key processes, and be familiar with expenditure management principles.

Based on our discussions with City staff, we understand that the Ottawa Coalition of Business Improvement Areas² (OCOBIA) provides orientation for new BIA Board members to provide an overview of BIAs including relevant by-laws and policies and roles and responsibilities of Boards. The City does not provide formal onboarding or training for new BIA Board members or staff related to the City's role and expectations of BIAs and their Board members. However, City staff informed us that there are resources (e.g., by-laws, reports, OCOBIA support) available to members.

Recognizing that the mix of skills and experience of Board members and staff will vary, the City has adopted an open-door approach for providing guidance to those who request it. Guidance may be related to governance and/or financial matters such as budgeting, financial reporting and other financial processes (e.g., payment process). The City's Economic Development Services and the Accounting Branch act as liaisons between the City and each BIA.

² OCOBIA is a unified voice of the 19 Business Improvement Areas within urban, suburban and rural Ottawa that represents more than 6,400 businesses and their 128,000 employees. Source: <https://ocobia.org/>.

Formal training is an opportunity to provide standardized messaging on principles of governance, expenditure management, roles and responsibilities, and key City processes relevant to the management of a BIA. Comprehensive onboarding and refresher training that is formalized and tailored to the audience can support a smooth transition and enable effective oversight and management of BIAs.

RECOMMENDATION 3 – PROVIDE MANDATORY ONBOARDING TRAINING AND PERIODIC REFRESHER TRAINING

The Director, Economic Development and Long Range Planning, in consultation with the Deputy City Treasurer, Corporate Finance Service, should ensure that mandatory onboarding training and refresher training is provided (by the City or outsourced) on a periodic basis for all BIA board members and staff to ensure, at a minimum, an appropriate understanding of their roles and responsibilities surrounding expenditure management, governance and the procurement of goods.

MANAGEMENT RESPONSE 3

Management agrees with the recommendation. Onboarding training will occur every four years in alignment with municipal elections and BIA Board elections. Refresher training can be provided mid-term. Staff will work with OCOBIA to coordinate onboarding and refresher training delivery to all BIAs utilizing the existing BIA Board Onboarding Package, supplemented by new or enhanced expenditure management guidance, tools and templates. All BIA Executive Directors will be required to participate in onboarding and refresher training. Further, those BIAs with finance/bookkeeping staff/support will be required to complete a review of any new procurement policies, tools and templates developed with those staff to ensure consistency across all BIAs.

Completion of this recommendation will be ongoing. Onboarding and refresher training will be reviewed, updated and delivered on an ongoing basis as identified in the management response. For this Term of Council's BIA board members, the training will be delivered by Q4 2024.

Appendix 1 – About the investigation

Investigation objective

The objective of this investigation was to review expense transactions in relation to concerns raised in a report received through the FWHL.

Scope

In response to the concerns raised in the FWHL report, we examined documentation for a sample of expense transactions in 2022 to ensure they were approved, supported by adequate documentation and in line with the spirit of the *BIA Governance By-Law*.

The expense transactions raised in the FWHL report spanned a period from 2018 to 2022. It is important to note that the MBIA financial statements are audited by the City's external auditors, Ernst and Young. As such, the scope of our investigation was limited to reviewing a sample of expense transactions in 2022 as this year had yet to be audited.

Our investigation focused on concerns of a financial nature only. Our investigation did not address other concerns raised in the FWHL report as these fell outside the purview of the Auditor General.

Investigation approach and methodology

To assess the merit of the concerns outlined in the FWHL, we conducted the following:

Review of information and documentation: This included a detailed review of the FWHL report, relevant by-laws, policies, and financial records extracted from the City's financial system, SAP.

Interviews, discussions and enquiries: Interviews, discussions and enquiries were held with former and current Board members, MBIA staff, City staff, and the City's external auditors.

Detailed testing: Testing of a sample of expenses including examination of supporting documentation.

Review of other relevant information: Other relevant information included City Committee reports, financial statements, and minutes of Board meetings.

The **Fraud and Waste Hotline** is a confidential and anonymous service that allows City of Ottawa employees and members of the general public to report suspected or witnessed cases of fraud or waste 24 hours a day, seven days a week.

www.ottawa.fraudwaste-fraudeabus.ca / 1-866-959-9309

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