Ottawa

Office of the Auditor General

Annual Report

Tabled at Audit Committee
April 8, 2019

Ottawa

Office of the Auditor General

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Mayor, Members of Audit Committee and Council,

I am pleased to present the Annual Report of the Office of the Auditor General of the City of Ottawa.

Respectfully,

Ken Hughes

Auditor General

Ottawa

Staff of the Office of the Auditor General

Ken Hughes

Sonia Brennan

Ed Miner

Chantal Amyot

Abhishek Gangwal

Sarah Parr

Louise Proulx

Margaret Sue

Nathan Sassi

Ines Santoro

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Overview of activities

In 2018, we completed audits and follow-ups that were in process at the end of 2017. We also began working on audits and follow-ups that had been previously approved by Council. Our Annual Report on the Fraud and Waste Hotline was presented to the Audit Committee in June 2018. In June 2018, we also presented follow-up reports to the Audit Committee. We also presented our 2019 Annual Audit Work Plan on April 8, 2019.

Eight new audits were completed since my last annual report in November 2017. These include:

- Audit of City Leases
- Audit of Compliance with Legislated Ambulance Service Documentation
- Audit of Corporate Security
- Audit of Public Works and Environmental Services Department – Contract Management
- Audit of Public Works and Environmental Services Department – Frozen Services and Hydrant Management and Maintenance
- Audit of Social Housing Registry
- Audit of Recreation, Cultural and Facility Services Department – Building Engineering and Energy Management
- Audit of Recreation, Cultural and Facility Services Department – Management Processes

It should be emphasized that recommendations arising from audits represent the Auditor General's suggested course of action to resolve the issues identified; however, once these recommendations and management responses are approved, they become direction from Council. As such, progress in implementing these recommendations has been viewed as fulfilling Council's direction.

As audits are developed, depending on the nature of the findings, it may be more suitable to issue some related audit elements in separate reports; for example, less significant issues may also be addressed through the issuance of management letters provided directly to management. Since the last Annual Report, we have issued one management letter related to audits.

Fraud and Waste Hotline

The City's Fraud and Waste Hotline is an anonymous and confidential vehicle for City staff and the general public to report suspected fraud or waste. Our Office continues to be responsible for the administration of the City's Fraud and Waste Hotline, which is available for employees and the public as part of the City's Fraud and Waste Policy. Our Office reviews all cases submitted through the Hotline; however, Council approval would be sought prior to conducting any specific audits that might arise from these reports. The bulk of the investigations related to the reports are done by City management and reviewed by the Office of the Auditor General (OAG). The OAG resources required to support the Hotline is roughly one and a half Full Time Equivalents (FTE) or significantly higher at times due to higher case volume and the nature of cases. We will be issuing a full report of the Hotline's 2018 activity at a future Audit Committee meeting.

Tabling protocol

The Auditor General reports directly to Audit Committee, a standing committee of Council and reports annually on all audit reports completed during the course of the year. This is generally to be done in the fall, unless it is an election year, in which case the report would be deferred until after the new Council has completed budget deliberations for the year. In addition to presenting audit reports annually, we also present a report on the activity of the Fraud and Waste Hotline. This is generally done mid-year. Our Office also conducts follow-ups on previously completed audits. These follow-ups present an evaluation of management's progress in implementing previous audit recommendations. Follow-ups will be presented as they are completed, generally once or twice a year. This allows the Audit Committee to focus discussion on this significant activity.

The by-law governing the OAG can be found in Appendix A.

Budget

The annual budget for the Office of the Auditor General is in accordance with the budget strategy for the Term of Council. The 2018 budget for the City of Ottawa Auditor General's Office was $1.9 million.

Executive summaries of each audit

As per protocol, the Auditor General is required to report on any audit recommendation where management and the OAG disagree. For this reporting period, there were no disagreements. The following section presents executive summaries for each of the following audits.

- Audit of City Leases
- Audit of Compliance with Legislated Ambulance Service Documentation
- Audit of Corporate Security
- Audit of Public Works and Environmental Services Department – Contract Management
- Audit of Public Works and Environmental Services Department – Frozen Services and Hydrant Management and Maintenance
- Audit of Social Housing Registry
- Audit of Recreation, Cultural and Facility Services Department – Building Engineering and Energy Management
- Audit of Recreation, Cultural and Facility Services Department – Management Processes

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.

Audit of City Leases

Purpose

The Audit of City Leases examined whether leased City-owned property are being managed efficiently and effectively and whether lease arrangements are in compliance with City policies and legislative requirements. The audit evaluated whether the system, practices and procedures supporting the Leasing Section are safeguarding City assets and maximizing revenue to the City when appropriate.

The Audit of City Leases was included in the 2018 Audit Work Plan of the Office of the Auditor General (OAG), approved by City Council on November 22, 2017.

Background and rationale

The Leasing Section is a business unit within the Corporate Real Estate Office (CREO) with a mandate to administer leasing procedures for the City as a whole that are consistent, transparent and equitable. In order to meet this mandate, sound governance and consistent leasing practices and procedures must be applied.

The Leasing Section facilitates the revenue and acquisition leasing process on behalf of client groups within the City. This includes receiving lease requests, lease negotiations, arranging renewals and terminations, recording transaction details in SAP, providing financial support and consulting on lease interpretation and conflict resolution.

The Leasing Section is led by the Program Manager who oversees five Real Estate Advisors (REA). The Manager of Realty Initiative and Development consults with and supports the Program Manager and the Director on leasing activities and execution of lease agreements. The Director of CREO provides direction, executes lease agreements within the delegation of authority, and represents CREO at Finance and Economic Development Committee and Council (FEDCO).

Figure 1: Leasing Section organization chart

In order to achieve City objectives, the Leasing Section arranges both revenue leases and acquisition leases.

A revenue lease refers to the leasing of City property to an outside group or individual. The City of Ottawa has a large inventory of property acquired over the years to support City services and activities. Properties are made available to community groups, private sector companies or other entities by means of a lease. As a result of amalgamation in 2001, the City inherited numerous lease agreements made by former municipalities. In

2017, a total of 260 revenue leases generated $8.2 million of revenue; whereas, in 2016, 272 revenue leases generated $6.6 million of revenue. The increase of almost $2 million was due to the increase in lease revenue from the Lansdowne retail lease.

An acquisition lease is entered into on behalf of a City client group that requires space not available from within the City's portfolio. The client group is responsible for providing the lease requirements and to justify and secure budget funds for the required space. The Leasing Section is responsible for reviewing the request with the Accommodations Branch of CREO to determine whether the program can be accommodated within City-owned space, identifying a suitable property and securing a lease. In 2017, the City spent $25.2 million on 174 acquisition leases; whereas, in 2016, $25.9 million was spent on 179 acquisition leases.

In 2005, the Office of the Auditor General conducted an Audit of Real Estate Management that included within the scope an examination of policies and procedures, leasing activities, documentation standards and system limitations.

Findings

Our audit included interviewing City staff, reviewing lease files and examining SAP reports to the extent they were available. Limitations were encountered because SAP is not inherently a real estate management program and could not produce information required for the audit. We were unable to obtain a complete listing of the lease files that we planned to sample. This was a significant limitation to our ability to perform the audit. Moreover, copies of SAP reports generated in 2016 and 2017 for the lease expiry process were not retained. Accordingly, we were unable to test the termination and renewal process.

The audit focused on processes, practices and controls in six key areas, which were selected, based on risk:

- Departmental governance and oversight;
- Revenue leasing processes and practices for commercial, community and residential leases;
- Processes to ensure that internal space is identified and used prior to entering into an acquisition lease;
- Billing and collection processes;
- Bookings and subleases entered into by client departments; and
- Compliance with City by-laws and legislative requirements.

The key findings of the audit are as follows:

1. Lack of a leasing policy

A policy for the leasing of City-owned properties does not exist. CREO does not have clearly defined and communicated roles and responsibilities in relation to their Leasing function.

In the past, there were instances when the Leasing Section was only made aware of legacy leases established by former municipalities when disputes arose. Some client departments withhold available space within facilities for future use instead of notifying the Leasing Section. Other clients trade space with other departments without consulting the Leasing Section or even enter into their own leasing arrangements. Client groups that attempt to manage leases without consulting the Leasing Section do not have the necessary real estate expertise and may be exposing the City to risk or may not be maximizing lease revenue.

A leasing policy would define CREO's role as the Corporate landlord within the City, prevent the activities mentioned above and ensure that the Leasing Section is engaged by client groups when necessary. A policy could provide increased direction on determining lease rates, building operating cost allocations and define eligibility criteria for prospective community lease tenants.

This finding was previously noted in the OAG's 2005 Audit of Real Estate Management. It was recommended that management ensure appropriate policies and procedures are put in place for Leasing to ensure a consistent and effective approach. In the 2009 Follow-up to the Audit of Real Estate Management, it was found that policies and procedures were not yet documented for Leasing. Though a leasing flow chart and process were documented, they were not comprehensive enough to ensure a consistent approach to leasing.

2. Non-compliance with the City's *Records Management Policy and Procedures*

A review of 27 lease files showed that files were often incomplete, and decisions were not always documented and retained. Key documents that were missing included property valuation, proof of insurance, lease terms summary, manager sign-off and support for other key business decisions. Moreover, some files were not actively monitored throughout the lease term as evidenced by the absence of documentation over many years. The maintenance of lease files is not in compliance with the City's *Records Management Policy* and *Procedures*. The policy states that any document that contains "work-related decisions and actions are Official Business Records (OBRs) that

must be captured in Records Management System (RMS) or Business Information Management System (BIMS)".

Staff indicated that certain documents that were missing from the files could be in a REA's email or on their desk. This is not in compliance with the *Records Management Policy* and *Procedures* where it states that Outlook should not be used to keep OBRs.

Over the life of the lease, there are different REAs assigned to work on a file. A file with missing key documents would make it impossible for a new REA to understand what happened in the past, including justification for decisions, support for determining the rental rate and communications with the client group. In addition, incomplete documentation would hinder the Program Manager's review of the lease file.

The issue of documentation standards was previously noted in OAG's 2005 Audit of Real Estate Management. It was found that approximately one-third of files were incomplete in terms of containing all required documentation. The 2005 audit recommended the establishment of a checklist and sign-off procedure to ensure all steps are completed and properly documented. This would assist management's ability to monitor performance and facilitate the transfer of files between staff.

While checklists were created for commercial and residential leases, they are not signed-off and consistently used by staff to ensure that all leasing steps are completed and properly documented.

3.   Inadequate evidence of oversight within the Leasing Section

The CREO Handbook was created in 2009 as per a recommendation in the 2005 Real Estate audit report. It was recommended that management should ensure that appropriate policies and procedures were put in place for leasing and other key activities to ensure consistent and effective approaches would be followed by staff. This handbook contains a Leasing section that outlines procedures and guidelines for revenue and acquisition leases. The handbook also contains a process checklist to "ensure that all staff are processing the transactions in the same format and following approved policies and procedures." Other key information contained in the Handbook include authorities governing Leasing, roles and responsibilities, types of City properties and delegated authorities.

Decisions related to the day-to-day operations such as setting up the terms of a new lease or renewing an existing lease are left to the discretion of the REA assigned to the file, with limited oversight from the Program Manager. The lack of Program Manager

review prior to committing the City to a lease agreement is contrary to CREO Handbook procedures.

The CREO Handbook requires the Program Manager to review the following items:

1. Draft lease agreement;
2. Delegated Authority Report (DOA);
3. Agreement Summary; and
4. Final lease agreement.

Draft lease agreements were rarely kept on file, and there was no documented evidence of the Program Manager's review of key lease terms. In comparison with two of the older lease files that we examined, there was evidence of the previous Program Manager's review of draft lease agreements, including comments and markup giving evidence to review of the key terms of the agreement.

The DOA report was signed off by the Program Manager in each of the files that we sampled. This report is created when a new lease or renewal has been completed. It contains high-level information such as the background, consultation, environmental implications and financial implications. The DOA report is often signed at the same time as the final lease agreement and sometimes after the lease is already signed and the term has commenced. Therefore, the DOA report is used more as an information document, rather than a review of the lease terms prior to committing to the lease.

The Agreement Summary is a single page document that lists the tenant's address, property information, lease parameters, SAP accounting information and consideration details. The document was not found in every lease file; and when it was present, we did not always see evidence of the Program Manager's sign-off.

Final lease agreements were signed-off by the Program Manager. However, at times, the sign-off date was after the term of the lease had already commenced.

The limited oversight is concerning as REAs are performing their duties in an environment where key procedures are seen by staff as guidelines. Failure to perform key procedures would not be detected and corrected. In addition, when REAs have the ability to set lease terms with limited oversight, this makes the process vulnerable to conflicts of interest.

Currently, management does not review a listing of expired leases or leases on overhold[1] in a given period. Expired leases would benefit from management review in order to ensure that tenants of expired leases have in fact vacated the property or that they are continuing to pay while remaining on overhold or awaiting a lease renewal. Leases on overhold require management review to determine whether the property should continue to be leased on a month-to-month basis at renegotiated rates or whether there is better use for the City property.

The audit noted that there is adequate quarterly reporting on transactions within the Leasing Section to the Finance and Economic Development Committee. The 2016 and 2017 quarterly reports contained a list of new, amended, renewed and extended revenue leases. The total amount expended along with the individual that approved the transaction were disclosed.

4. Procedures for revenue leases as outlined in the CREO Handbook are not consistently followed

Leasing procedures and checklists are outlined in the CREO Handbook. The audit found that the existing procedures were lacking guidance for the determination of rental rates and direction for management oversight. There was also a lack of guidance around monitoring the provisions contained within the leases throughout the lease term, and the billing and collections process.

Furthermore, we observed that procedures and checklists that were meant to be mandatory critical steps were viewed by staff instead as optional guidelines. There was a wide variation in the way each lease file was managed and how procedures were followed and documented.

The CREO Handbook identifies the following five critical steps for the revenue leasing process:

1. In order to determine the rental rate, market research must be conducted to determine an accurate market value of the property.
2. For any new tenants occupying City public buildings or residential property, a criminal record check and a credit check is required. For existing tenants,

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[1] A lease goes into "overhold" when the term of a commercial lease expires and the tenant continues to occupy the leased premises at the landlord's consent; the tenancy becomes a month-to-month lease.

confirmation must be made with Accounts Receivable to ensure that the account is in good standing prior to renewals.

3. For non-standard lease templates, CREO needs to consult with Legal Services to review and approve the draft lease agreement.
4. At the conclusion of the negotiation of the lease agreement, the Program Manager will review and approve the draft Delegated Authority Report, the Agreement Summary and the draft lease agreement.
5. The completed lease agreement and Delegated Authority Report must be sent to the appropriate Delegated Authority for signature.

A sample of new lease files were selected to assess compliance with these steps.

Only 38 per cent of sampled files contained a complete market valuation. For the remaining files, we were unable to determine the basis for the rate charged on the lease. Without a complete market valuation, there is the risk that the City could be charging below market value for its properties and thereby decrease the annual revenue collected by the City.

None of the sampled files contained any evidence of a criminal record check or a credit check. A criminal record check is needed to provide the City with critical information to evaluate a prospective tenant. Without the completion of a credit check, there is less assurance over the ultimate collection of the rental revenue and increased risk of having to involve Legal Services with collections and eviction procedures.

Only 13 per cent of sampled files showed evidence of a complete and meaningful Program Manager review of the required documents. Without a meaningful review of draft versions of the Agreement Summary, the Delegation of Authority Report and the Lease Agreement, errors made on key components of the executed lease agreement could go undetected. This was identified in one instance where the term of the lease in the final executed lease agreement was incorrect.

In all sampled files, the City official with the appropriate signing authority as per the Delegation of Authority Report signed the lease.

5. Insurance certificates required under lease agreements have not been received or requested

The audit found that the monitoring of insurance coverage on City-owned properties was ineffective. All sampled lease agreements contained a requirement for the tenant to obtain insurance coverage. Only 33 per cent of the files had complete documentation of insurance coverage. There is a risk that tenants have not been in compliance with the

terms of the lease and acquired the necessary insurance. This could make the City liable for any damages that would have been covered by the tenants' insurance policy.

6.   Inconsistent management of residential lease files

The CREO Handbook identifies the following six key steps in the residential leasing process:

1. Review the tenant's application;
2. Complete the Residential Lease Agreement Template;
3. Prepare a DOA report seeking approval from the Program Manager;
4. Sign the Residential Lease Agreement with the lessee;
5. Have the lessee complete the Pre-Authorized Payment Plan; and
6. Request proof of insurance.

At the time of the audit, the Leasing Section only had four residential leases. In the case of one residential lease file reviewed, there was no evidence of five out of the six key steps. There was only evidence of a single step where the REA appeared to have reviewed the tenant's application. This file was missing a copy of the residential lease agreement between the tenant and the City. A legal lease agreement is important because it dictates the rights and obligations of the tenant and landlord. See table 1 below for additional details. In contrast, in the second sampled residential lease file, there was evidence of all six key steps performed and documented in the lease file.

Table 1: Details of a sample residential lease file

Lease file: Residential
- In 2009 and 2010, the City spent $1.2 million to acquire eight residential properties that were located in the vicinity of a trunk sewer that was experiencing differential structural settlement (i.e. the ground was sinking).   - One of the eight properties continues to be inhabited by a tenant.   - No residential lease agreement between the tenant and the City exists.   - The only lease agreement on file was signed on July 10, 2005 between the tenant and the former owner of the property. Upon purchase of the property, the City assumed the existing residential tenancy agreement.   - The City never asked the tenant to provide proof of insurance. Given the nature of the residential property and the known differential structural settlement issues, this poses risk to the City.

7.   Lack of guidance on leasing to community groups

There is no consistent framework in place for leasing City space to community groups. The Leasing Section has not developed a checklist with key steps required to initiate, renew and/or terminate a community group lease, nor a community lease agreement template with standard terms and conditions. There is no policy containing eligibility criteria that must be met in order to qualify to rent City space at below market rent.

Moreover, no financial assessment is performed on community groups that are interested in renting City space. While some groups receive a subsidy from the City and requesting a higher rent amount would only result in them requiring a larger subsidy, other groups have sources of revenue that would enable them to pay for operating costs or even a percentage of the fair market value rate.

Leasing to community groups should be done in accordance with City priority and should complement the City's mandated programs and services. However, the City has no process in place to assess and identify gaps in services where below market value community leases would most benefit its residents.

While CREO reports to FEDCO on all lease transactions, including new community leases, they are not advised of the subsidy amounts for below market rent leases. The Leasing Section does not track nor report the opportunity cost of providing City space to community groups at a discount.

8.   Overhold leases are inadequately monitored and rental rates are rarely renegotiated

The Leasing Section identified 27 leases that have been on overhold for an average of 32 months. The longest overhold periods pertained to two leases, each of which had been in overhold for over 15 years.

By default, each of the expired leases are extended under the same terms and conditions of the original lease and tenants continue to pay the same rent. The lack of renegotiation of lease rates has the potential to cost the City additional rental revenue. Moreover, continuing leases on overhold for a lengthy period of time may not be the best use of City property.

The Leasing Section uses either a short form or long form lease template for commercial leases. Only the long form template contains an overholding clause that requires the monthly rent during the overholding period to be 150 per cent of the amount payable during the last month of the term. The CREO Handbook provides no

procedures on how overhold leases are to be administered and which lease template is to be used.

Of the overhold leases examined, 80 per cent did not have their rent rates renegotiated, and 60 per cent did not have any documentation in the file for over eight years. During the overholding period, lease files were often reassigned to different staff that did not create the original lease and due to the lack of documentation in the file, would not have a complete understanding of the history of the lease. Without this knowledge, staff would have difficulty understanding what was to be done going forward. It was also noted that Program Manager review and approval is not required prior to continuing a lease on overhold.

Table 2: Details of a sample overhold lease file

Lease file: Overhold commercial lease
- In 1991, the Regional Municipality of Ottawa-Carleton (RMOC) purchased 194 acres of land from the National Capital Commission (NCC) for $250,000 with the intention of using the property as a future snow dump.   - In 1990, the NCC was leasing 92 acres of the land to a farmer for $237 per month.   - In 1992, the RMOC signed a lease for the same 92 acres for $158.33 per month. It is unclear why staff decided to charge a lower rent than what the tenant was previously paying the NCC.   - The remaining 102 acres purchased by the City is designated as a protected wetland and cannot be leased out for farming purposes.   - In 1993, a new lease was signed for a rental rate of $170 per month.   - In 2001, another lease was signed with the rent continuing at $170 per month.   - The lease expired on March 31, 2003 and has been on overhold ever since.   - No effort was made to renegotiate the rent rate over a 20-year period. In fact, the monthly rent charged over the last 20 years is less than the rent charged by the NCC in 1990.   - There is evidence in the file that an REA attempted to determine a fair market value per acre rate for the property. However, rental rate renegotiation was never pursued with the tenant.   - Based on the fair market value estimates found in the file, over the last 20 years, the City lost an estimated amount between $30,000 to $180,000 of lease revenue.   - The tenant stopped paying the City as of February 28, 2017 despite continuing to occupy and utilize the land.   - Upon investigation, the missing lease payments amounting to $3,230 were caused by a temporary staff member not following a manual control in the billing process.

9.   Outdated generic cost per square foot

In 2013, the City of Ottawa conducted a study that identified that the average operating cost for City property was approximately $10 per square foot. When market value is not determinable or when leasing to community groups at below market value rates, the Leasing Section looks to cover the operating costs of the space at a minimum. The 2013 rate is still being utilized on current leases. Without an updated study to determine the average cost per square foot, the City is likely incurring costs above the previously appropriate $10 per square foot rate.

10.   Lack of inventory of City property that tracks vacancies

In 2017, the City spent $25.2 million on acquisition leases. In order to avoid unnecessary spending and maximize the use of City property, it is important for staff to verify that there is no available space within the City prior to looking externally for an acquisition lease. While CREO does keep an inventory of City-owned assets in SAP, this listing is not complete and does not track vacancies.

The acquisition leasing checklist within the CREO Handbook indicates that when entering into an acquisition lease, the REA is to ensure that the "request has been reviewed by the Corporate Asset Management Division (now "Accommodations Branch") to determine whether or not the program can be accommodated within City-owned space." The audit found that there are instances where the Accommodations Branch is not consulted prior to an acquisition lease because of the specific space requirements needed. In instances where the Accommodations Branch is consulted, the discussion and results are not always documented in the lease file.

Inquiries of possible available space within the City are directed to the Section Manager of Accommodations and Planning, who based on her experience, knowledge and understanding of City facilities often determines that there is no available space within the City. Other than the information contained in Archibus[2] on the City's administration buildings, there is no mechanism to manage other valuable City property and track whether they are occupied or vacant. For other City facilities, the Accommodations Branch has CAD (computer-aided design) drawings. However, these drawings may not

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[2] ARCHIBUS is an integrated workplace management system that will allow Accommodations to quickly access a centralized repository of the City's administration buildings (e.g. City Hall, Ben Franklin, etc.). Accommodations has begun inputting data into the system, but does not expect to realize full functionality until early 2019.

be up to date and do not give any indication as to whether there is any leasable space within the facilities.

11. Billing and collection of rental income is not always timely and accurate

As of July 1, 2018, all of the City's revenue leases are a predetermined amount that are to be paid periodically throughout the lease term. During the scope period of the audit, there was one lease agreement that had a variable rental amount calculated based on the tenant's sales revenue. The audit found that the reported revenues were questionable and that collection was always delayed. Details of this lease are outlined in table 4 below.

Table 3: Details of a lease agreement with a variable rental amount

Lease file: Cafeteria within City building
- Lease agreement was signed on June 26, 2014, for a period of three years, with two extensions of one year each.   - The cafeteria was 1,878 square feet and located within a City building.   - It was to operate five days per week for a minimum of 52.5 hours.   - The annual operating rent was $6,000 per year. The second component was a rental amount calculated at 3 – 4 per cent of the tenant's net sales.   - On a quarterly basis, the tenant was to provide audited revenue statements to the City and make payment for the variable rental amount.   "Audited revenue statements" as required by the lease agreement were never requested from the tenant. The tenant's GST/HST return were accepted instead. It was incorrectly assumed that the GST/HST return provided assurance that the sales revenue figure was accurate.   - In 2018, the tenant expressed interest in extending the lease agreement for another seven years. The delegated authority report indicated that "under the original contract, the operator was to provide audited revenue statements to the City on a quarterly basis. Over the years, this was problematic with the City having to send constant reminders to the operator to provide the revenue statements and the net sales proceeds." Despite having never received audited revenue statements and having to send constant reminders, the lease was extended.   - There was no explanation in the file as to why the lease was not opened up to a Request for Proposal (RFP) once the 2014 contract expired.

Lease file: Cafeteria within City building

- In 2016, the tenant reported $156,875 in sales revenues or $650 per day ($169,379 in 2017). These amounts appear to be low given the significant expenses with running a cafeteria.
- Reported revenues are also significantly lower than what the tenant expected on their proposal, where they estimated revenue for 2017 of $282,000. Despite this, the tenant requested a lease extension. Staff never questioned the low revenues reported by the tenant.
- The extension was granted, and the rent as of July 1, 2018 was changed to a flat amount of $1,000 + HST/month with annual increases of 0.5 per cent. This was calculated based the historical sales revenue claims made by the tenant.
- A comparable 1,303 square foot cafeteria servicing a similar number of City employees in another building was paying $4,755 per month. This is significantly more than the $1,000 per month paid by the tenant. There was no evidence in the lease file as to why the significantly lower rent was justified.
- The percentage of sales revenue rent payment was always paid late. Payment was not made for many months and even over a year after the quarter ended. This is in violation of the lease agreement where it stipulates that payment is to be remitted "on a quarterly basis (together with the Operator's audited revenue statements)".
- The invoice for the variable rent was always issued late because of the tenant's delay in providing proof of their sales revenue figure for the quarter. The REA failed to follow-up in a timely manner with the tenant when the sales revenue figure was not provided. This resulted in the significant delay in the ultimate collection of the rental payment.
- The lease file did not contain evidence of all insurance certificates required for the duration of the lease.

When examining the billing process, the audit found that while billing details entered into SAP were accurate, a manual control in the billing process is prone to error. As part of the billing process, the REO is to manually identify the leases that expired in the month and contact the REA assigned to the lease file for direction as to whether to continue, renew or terminate the lease. If these leases are to continue, the lease end date must be adjusted in SAP for it to show up on the Rent Roll report sent to Finance for issuing invoices to tenants. If the REO fails to notice that the lease is at its expiration date in SAP and does not adjust the end date, an invoice will not be issued.

In 2017, the manual control in the billing process was not always followed by staff. This resulted in missed payments on an overhold lease. No invoice has been issued to the

tenant since February 2017, and no rent has been collected even though the tenant continues to use City property. Up until September 30, 2018, the City did not collect on $3,230 of lease revenues.

12. Lease arrangements are not consistently in compliance with the Ontario Municipal Act

The leasing of municipal property is guided by the Ontario Municipal Act, Commercial Tenancies Act and by the City's official plan and policies. The Commercial Tenancies Act outlines the relationship, rights and obligations between commercial landlords and tenants. The Leasing Section is in compliance with this Act.

The Ontario Municipal Act, section 106 states that the municipality shall not assist industrial or commercial enterprises by leasing or selling any property of the municipality at below fair market value. Our examination of commercial lease files found very little documentation supporting the rental rates determined by the REAs. In most files, there is no justification that rates charged to tenants are at or above the fair market value. We would have expected to see evidence of research done for comparable properties and consultation with CREO's Valuations Unit. Of the commercial overhold leases sampled, 75 per cent did not have their rent rates renegotiated during lengthy overholding periods and are likely not representative of current market rates. When commercial lease rental rates are below the fair market value, the City is not in compliance with the Ontario Municipal Act.

Conclusion

This report raises concerns on how the City manages its revenue lease portfolio. Based on our review of a sample of lease agreements, it is our view that key processes are lacking in certain areas and not followed in others.

While the CREO Handbook is a good starting point containing key procedures and checklists, it needs to be updated and enhanced with additional procedures to ensure that City leases are managed efficiently and effectively. Currently, key requirements in the CREO Handbook are not being followed. The audit found that there was often no consultation with the Valuations Unit or research to ascertain market rent, oversight review and approval was insufficient, insurance requirements were not met and background check requirements were not fulfilled.

We have recommended that CREO Handbook procedures need to be applied as mandatory processes rather than optional guidelines. Increased management oversight

is also required to ensure that lease terms are justified, and key decisions are reviewed before the City enters into leasing agreements.

The Leasing Section would benefit from a leasing policy that defines its role and responsibilities as the Corporate landlord within the City and recognizes the Ontario Municipal Act requirements.

Our audit found that lease files were insufficiently monitored; and in some cases, appeared to be forgotten over a number of years. This was especially apparent upon examination of overhold leases. Most of the leases did not have renegotiated rental rates despite lengthy overhold periods, and there appeared to be no activity on some files for several years.

The implementation of the recommendations made in this report will help the City manage its revenue leases more effectively and efficiently, address control deficiencies identified during the course of this audit and, where appropriate, generate additional revenue.

Potential savings

The following are potential saving and revenue maximization opportunities for City Leasing:

- Conducting thorough fair market value assessments prior to determining lease rates on new commercial and residential revenue leases would maximize the revenue from leased property.
- Automatic rate increases and or renegotiations of lease rates would maximize the revenue collected on overhold leases.
- Recouping missing lease payments since March 31, 2017 (i.e. 19 months missing) on the farmland lease would increase leasing revenue.
- Regular monitoring of ongoing leases would ensure that billings are made on a timely basis, and revenue is collected without delay.
- Conducting an updated study on the City's operating cost per square foot and applying this rate as a minimum for community leases with the financial ability to pay would ensure that costs are covered by the tenant.
- Conducting financial assessments on groups applying for below market community leases would determine the financial capacity of the applicant organization. With this knowledge, the lease rate could be maximized accordingly.

Recommendations and responses

Recommendation #1

That CREO develop a leasing policy for application across the City. The policy should include:

- The Leasing Section's role as the sole owner of Corporate real estate;
- Responsibilities and accountabilities for CREO's Leasing Section; and
- A description of the bookings and sub-lease criteria that client groups must adhere to for all rentals.

Management response:

Management response:

Management agrees with this recommendation.

CREO will develop a City-wide Leasing Policy that will include the parameters outlined in the Recommendation. This will be completed by Q4 2019 as part of comprehensive policy development and implementation.

Recommendation #2

That management update the CREO Handbook to include detailed procedures required for the negotiation of leases, the determination of rental amounts, the Program Manager's review and approval of key documents and lease terms, the monitoring of provisions contained within the leases and the billing and collection process.

Management response:

Management agrees with this recommendation.

Detailed procedures as outlined in the Recommendation will be updated in the CREO Handbook by Q4 2019 as part of comprehensive policy and procedure development.

Recommendation #3

That management ensure leasing procedures are clearly identified and differentiated from guidelines. That all Leasing Section staff be provided with training to ensure understanding of the procedures and the key controls within.

Management response:

Management agrees with this recommendation.

Further to management's response to Recommendation 2, procedures (formal processes) and guidelines (best practices) will be clearly differentiated and developed as part of comprehensive policy and procedure development. CREO senior staff will also provide training to all Leasing Section staff to ensure understanding of the procedures and the key controls within. This will be completed by Q4 2019.

Recommendation #4

That management develop a lease file system that is in compliance with the *Records Management Policy and Procedures*, consistently applied throughout the department and clearly identifies the documentation that must be retained. Consideration could be given to keeping electronic files. All Leasing Section staff should be provided with training on the standards on maintaining lease files.

Management response:

Management agrees with this recommendation and it has been partially implemented.

Training was provided in Q4 2018, by Information Management, to all Leasing Section staff on the standards related to maintaining lease files.

A lease file system that is in compliance with the City's Records Management Policy and Procedures will be developed by Q3 2019. This system will enhance existing record keeping and will clearly identify the documentation that must be retained to ensure consistent application across the department. Via this process, management will also assess opportunities and the feasibility of streamlining records management to move towards more electronic files.

Recommendation #5

That management ensure REAs are advised of their assignments and are held accountable for maintaining the required documentation during the lease term, the renewal period and any overholding period.

Management response:

Management agrees with this recommendation.

CREO senior staff will work with Information Management to establish the required documentation during the lease term, the renewal period and any overholding period as per the City's Records Management Policy and, will clarify assignments and accountabilities with REAs on an ongoing basis. This will be completed by Q2 2019.

Recommendation #6

That management ensure that review takes place prior to the signing of a new lease or of a renewal. Included in the lease file should be evidence that key terms in the draft lease agreement were reviewed and approved.

Management response:

Management agrees with this recommendation and it has been implemented.

Management ensures that review takes place prior to the signing of a new lease or renewal. This review is documented by the Program Manager signing the staff report. The staff report is the public document authorizing the appropriate authority to execute the lease agreement on behalf of the City. This practice will be formalized by Q4 2019 as part of comprehensive policy and procedure development.

Recommendation #7

That management periodically review a listing of expired leases and leases on overhold in a given period.

Management response:

Management agrees with this recommendation.

Staff will run reports on expired leases and leases on overhold via the SAP Real Estate Module on a quarterly basis. These listings will be provided to senior CREO staff for review and direction. This process will be outlined in guidelines being developed for CREO staff. This ongoing process will be initiated, and therefore deemed complete by Q2 2019.

Recommendation #8

That management provide enhanced training on the SAP Real Estate Module to REAs.

Management response:

Management agrees with this recommendation.

ITS will provide enhanced training on the SAP Real Estate Module to REAs by Q2 2019. Management will also review the current system to determine whether it is adequate for all of Real Estate Services' information needs.

Recommendation #9

That REAs conduct market research that is reviewed by the Valuations Unit. Evidence should be documented and retained in lease files and reviewed by the Program Manager prior to the signing of a lease agreement or renewal.

Management response:

Management agrees with this recommendation and it has been implemented.

REAs do conduct market research and coordinate with the Valuations Unit. REAs have been directed to ensure that appropriate evidence of that market research is retained in the project file and is reviewed by the Program Manager. This will be formalized by Q4 2019 as part of comprehensive policy and procedure development.

Recommendation #10

That REAs ensure that a criminal record check and a credit check is received from tenants interested in occupying City public buildings or residential properties.

Management response:

Management agrees with this recommendation.

Requirements for tenant criminal record and credit checks will be incorporated into the City-wide Leasing Policy and Procedures being developed as outlined in management's response to Recommendation 1. This will be completed by Q4 2019.

Recommendation #11

That REAs retain a copy of the Agreement Summary, Delegation of Authority Report, draft Lease Agreement and final Lease Agreement in each lease file with evidence of the Program Manager's review.

Management response:

Management agrees with this recommendation and it has been implemented.

CREO has worked with Information Management to clarify which documents referenced in the Recommendation are Official Business Records (OBRs) as per the City's Record Management Policy. Evidence of the Program Manager's review is documented by the Program Manager signing a copy of all staff reports that authorize execution of Lease Agreements. This will be formalized by Q4 2019 as part of comprehensive policy and procedure development.

Recommendation #12

That management establish responsibility and accountability for monitoring insurance certificates. Procedures should be developed and implemented to ensure that REAs request, track and retain insurance certificates for the duration of the lease agreement.

Management response:

Management agrees with this recommendation.

Management is currently developing a corporate-wide Insurance Certificate Policy that will establish responsibility and accountability for monitoring insurance documents with client departments.

Corresponding procedures will ensure that REAs request, track and retain insurance certificates for the duration of the lease agreement.

As part of comprehensive policy and procedure development, both the Insurance Certificate Policy and CREO-specific procedures will be completed by Q4 2019.

Recommendation #13

That management ensure staff request proof of insurance for 2072 Sunland Drive.

Management response:

Management agrees with this recommendation.

Management has requested proof of insurance for this property and expects to receive it by the end of Q1 2019.

Recommendation #14

That management develop specific and measurable eligibility criteria to assess applicant community groups. A financial assessment should also be conducted for all groups interested in entering into a community lease. Evidence of completion of the eligibility review and financial assessment should be retained in the lease file.

Management response:

Management agrees with this recommendation.

Management will develop specific and measurable eligibility criteria to assess applicant community groups by Q4 2019.

The requirement for financial assessment and evidence of completion of the eligibility review, will be incorporated in the City-wide Leasing Policy to be completed by Q4 2019 as part of CREO's comprehensive policy and procedure development.

Recommendation #15

That management establish priorities for providing below market rent space to community groups.

Management response:

Management agrees with this recommendation.

Management will establish priorities for providing below market rent space to community groups by Q4 2019 as part of CREO's comprehensive policy and procedure development. Such criteria will be presented to Council for approval.

Recommendation #16

That management develop procedures to be included in an updated CREO Handbook that requires rental rates to be renegotiated during overholding periods. Program Manager's review and approval should also be required prior to allowing a lease to continue on overhold and for subsequent years while the lease continues on overhold.

Management response:

Management agrees with this recommendation.

Detailed procedures that require rental rates to be renegotiated during overholding periods will be updated in the CREO Handbook by Q4 2019 as part of comprehensive policy and procedure development.

The Program Manager's review and approval will be confirmed by email and/or other formal correspondence, which will be retained in the file as Official Business Records.

Recommendation #17

That management consider having an overholding clause in both the long form and short form commercial lease agreement template. If the clause is waived, the exception should be documented in the file and sign-off must be provided by the appropriate level of approval.

Management response:

Management agrees with this recommendation.

In consultation with Legal Services, management will consider having an overholding clause in both the long form and short form commercial lease agreement template. If the clause is waived, the exception will be documented in the file and sign-off will be provided by the appropriate level of approval. This will be completed by Q2 2019.

The process of documenting the waived clauses will be formalized by Q4 2019 as part of comprehensive policy and procedure development.

Recommendation #18

That REAs renegotiate new leases in a timely manner when it has been determined that a formal lease with the tenant will continue or resume.

Management response:

Management agrees with this recommendation and it has been implemented.

As a business practice, lease renewal activities are prioritized based on potential revenue generated. REAs have been directed to renegotiate new leases as per the Recommendation and with the support of other City departments, as required.

Recommendation #19

That management renegotiate the farmland lease based on current fair market value research and endeavour to recoup the missed lease payments since March 1, 2017.

Management response:

Management agrees with this recommendation.

Commencement of negotiations with regard to the farmland lease will begin, as per the Recommendation, by Q2 2019.

Recommendation #20

That management set out the procedures that must be followed prior to lease expiry to ensure that the City does not lose revenue.

Management response:

Management agrees with this recommendation.

Management will set out the procedures that must be followed prior to lease expiry by Q4 2019 as part of CREO's comprehensive policy and procedure development.

Recommendation #21

That management update the 2013 study to determine the current operating costs per square foot at City properties. When appropriate, the cost per square foot should be used as a minimum rent to ensure costs are being covered.

Management response:

Management agrees with this recommendation.

In partnership with Recreation, Cultural and Facility Services, CREO will coordinate an update of the 2013 study to current rates. It is expected that these updated rates will accurately reflect current operating costs in facilities. When appropriate, the cost per square foot will be used as a minimum rent as per the Recommendation. This will be formalized by Q4 2019 as part of comprehensive policy and procedure development.

Recommendation #22

That management ensure there is a complete, accurate and up-to-date listing of City land and property. The listing should be used to keep track of any vacancies. The Accommodations Branch should use this listing to help the Leasing Section identify available space within the City prior to entering into acquisition leases.

Management response:

Management agrees with this recommendation.

The Accommodations function was transferred to CREO in 2016 as part of a City-wide reorganization, which has improved the relationship between accommodations and leasing staff; enhancing its role as the corporate landlord. In 2017, the software platform, Archibus, was purchased and is now being implemented to document the use of space in the City's four main administration buildings.

Management will use tools such as SAP and Archibus to establish a complete, accurate and up-to-date listing of City land and property to assist the Accommodations Branch in implementing this Recommendation.

To facilitate training and the establishment of processes for the development and maintenance of such a listing with ITS, this recommendation will be completed by Q4 2019.

Recommendation #23

That REAs always document their consultations with the Accommodations Branch as to whether there is any available lease space within the City prior to entering into an acquisition lease.

Management response:

Management agrees with this recommendation.

Staff will document all consultations with the Accommodations Branch in staff reports as of Q1 2019. This will be formalized by Q4 2019 as part of comprehensive policy and procedure development.

Recommendation #24

That the Leasing Section ensure tenants are in compliance with the terms of their lease agreements (payment terms, requirements to provide documents, proof of insurance, etc.).

Management response:

Management agrees with this recommendation.

As part of CREO's comprehensive policy and procedure development, management will develop detailed procedures to ensure compliance as outlined in the Recommendation. This will be completed by Q4 2019.

Recommendation #25

That management ensure that training is provided on how to complete the billing process. A secondary review of the manual procedures involved in the billing process should also be considered.

Management response:

Management agrees with this recommendation.

With the support of ITS, management will ensure that training is provided to relevant staff on how to complete the billing process. As part of this process, a secondary review of the manual procedures involved in the billing process will be considered and potentially formalized. This will be completed by Q3 2019.

Recommendation #26

That management finalize the "collection of overdue accounts" process as soon as possible.

Management response:

Management agrees with this recommendation.

As indicated by the auditor, there is currently a 'collection of overdue accounts' process in place in the Leasing Section. In consultation with Revenue Services, management will finalize the process by Q2 2019.

Recommendation #27

That management develop detailed procedures to guide REAs on how to determine, support and document a fair market value rental rate for every new commercial lease and commercial lease renewal to ensure compliance with the Ontario Municipal Act.

Management response:

Management agrees with this recommendation.

As is longstanding practice, CREO will continue to leverage the expertise of its Valuations Unit and the accredited appraisers in that unit to conduct market value assessments for the Leasing Unit.

Management will develop detailed procedures to complete the requirements of the Recommendation by Q4 2019 as part of CREO's comprehensive policy and procedure development.

Recommendation #28

That CREO notify MPAC about the tenants at 5441 Hawthorne Road. Once the assessment is complete, CREO should begin collecting property taxes to maintain compliance with the Assessment Act.

That CREO seek a legal opinion with the City Solicitor's Office on the matter of property tax collection and the *Services Contract with a rental component for tenancy.*

Management response:

Management agrees with this recommendation.

CREO will notify MPAC about the tenants at 5441 Hawthorne Road. Following receipt of supplementary assessment information from MPAC, Revenue Services will begin billing and collecting any property taxes owing.

In Q2 2019, CREO will seek a legal opinion with the City Solicitor's Office on the matter of property tax collection and the *Services Contract with a rental component for tenancy,* and from that opinion, determine next steps, as appropriate.

Recommendation #29

That CREO update the Handbook to include alerting MPAC to new commercial tenants when applicable and provide training to relevant staff who will be responsible for negotiating and executing leases where property tax may be a factor.

Management response:

Management agrees with this recommendation.

As per management's response to Recommendation 2, detailed procedures as outlined in the Recommendation will be updated in the CREO Handbook by Q4 2019.

Senior CREO staff will provide training by Q2 2019 to relevant staff who will be responsible for negotiating and executing leases where property tax may be a factor. To support timely operations, the practice of notification to MPAC will commence by Q3 2019 for new leases.

Recommendation #30

That CREO review other similar commercial leases to confirm that property tax allocations are in compliance with the Assessment Act.

Management response:

Management agrees with this recommendation.

CREO will review active commercial leases to confirm that property tax allocations are in compliance with the Assessment Act, with the support of Revenue Services, as required. As this requires extensive review of all active commercial leases, staff will notify MPAC on an ongoing basis as the review progresses. The full review of commercial leases will be completed by Q3 2020.

Audit of Compliance with Legislated Ambulance Service Documentation

Introduction

The Audit of Compliance with Legislated Ambulance Service Documentation was included in the 2016 Audit Plan for the Office of the Auditor General (OAG), approved by Council in December 2015.

Background

Since amalgamation in 2001, the City of Ottawa has assumed responsibility for the delivery of paramedic services as defined by the *Ambulance Act* of Ontario. The *Ambulance Act* of Ontario references the requirement to complete documentation in accordance with the *"Ontario Ambulance Documentation Standards"*.

The Ottawa Paramedic Service (OPS) must follow Provincial Ambulance Service Documentation Standards for both Ambulance Call Reports (ACRs) and Incident Reports (IRs). ACRs document whenever ambulance services are provided. Information on a completed ACR can be used for clinical, administrative, research and legal purposes. IRs are used to capture details related to unusual circumstances and events relevant to ambulance services such as circumstances that resulted in harm to a patient or any other person transported in an ambulance or cases of suspicious or unexpected death likely to result in a coroner or police investigation.

The Province conducts re-certification reviews of all ambulance services every three years in addition to ad hoc reviews/inspections. The latest OPS certification review was conducted in April 2016, and it included a detailed review of compliance with Documentation Standards. The City was re-certified. However, the review did find documentation errors on approximately six per cent of the forms tested and made recommendations for improvement.

The OAG chose not to repeat the testing done during this review; rather, we focused on the major changes that have occurred since then. These changes included:

- New Provincial Standards which came into effect April 1, 2017; and
- A new hosted electronic Patient Care Record (ePCR) system that also went live April 1, 2017.

Prior to April 1, 2017, the OPS used a customized commercial ePCR system that resided on City servers. This system was designed to meet the pre-April 1, 2017 Provincial Standards. The new fully hosted ePCR system was competitively procured in 2016 and replaced the previous version. As this new system is critical to the City's ability to comply with the Standards, we reviewed selected aspects of the system.

Audit objectives and scope

The overall objective of this audit was to assess whether the key systems, practices and procedures at the City provide reasonable assurance that the City was complying with Provincial Ambulance Documentation Standards.

Due to the extensive compliance testing done by the Province, the objectives of this audit were to:

- Assess that the hosted ePCR solution provides the functionality and security (i.e. availability, integrity and confidentiality) to completely and accurately process ACRs and IRs to meet Ambulance Documentation Standards; and
- Assess the processes that ensure that ACRs and IRs are compliant with Ambulance Documentation Standards.

The scope of the audit included the following:

- OPS systems and practices related to Ambulance Documentation from April 1, 2017 to completion of audit fieldwork (February 2018); and
- The ePCR system provider's controls, and those of related sub-contractors, which ensure security over City Ambulance Documentation data (OAG testing limited to the extent of access and information contractually available to the City).

Findings

Security monitoring and technical security controls

Given the private and confidential nature of patient records, and the increased security risks associated with moving to a hosted ePCR solution, the audit expected to find practices and controls to mitigate these risks. In reviewing security monitoring and technical controls, we applied audit tests at the following three levels: Device (i.e. the [devices] used in the ambulances), Application (i.e. xxxx, the ePCR system) and Hosting Provider (i.e. xxxx).

The audit identified opportunities to improve security of the ePCR system and data on the [devices].

We found that the security profile of the OPS' [devices] needs to better reflect the risks associated with the ePCR system and the data. In addition to running [the ePCR system], [devices] are configured with additional City-wide applications and functionality. While this additional functionality can serve a variety of practical and appropriate activities, allowing these additional applications also means that the devices are exposed to relatively more security threats compared to a device that is restricted solely to ePCR system functionality. Additionally, we found that the xxxx.

There is an also opportunity to improve security over remote access to [the ePCR system]. xxxx.

We found that neither the City nor [the hosted solution provider] have conducted independent vulnerability assessments or penetration testing on the ePCR system. To validate the effectiveness of security controls and monitoring within the hosted environment, we conducted a series of technical audit tests that replicate potential cyber attacks. xxxx.

The audit identified a risk of a missing [device] not being detected and investigated in a timely manner. OPS has implemented physical security and inventory management controls to track the [devices]. However, OPS does not track the whereabouts of individual [devices] in real time. Additionally, OPS does not conduct a periodic physical inventory reconciliation of [devices].

ePCR system design

There is a risk that paramedics may not complete all the required fields. The ePCR system contains all 141 fields required by the Standards. Some ACR fields were designed to record a specific code to assist in capturing data and improving accuracy. We found that for 11 fields, the ePCR list of available codes is incomplete. Thirty per cent of the required fields are hard coded, completed as a part of the login process or auto-populated (e.g. fields that are time stamped). A further 25 per cent of the fields were designated as mandatory, as such, they cannot be bypassed. However, the remaining 45 per cent of ePCR required fields are neither mandatory, nor hard coded. Having this many fields not required or hard coded can lead to incomplete reports.

We found the OPS manual completed IR forms may not include all of the information required by Provincial Documentation Standards. The OPS completes roughly 6,000

IRs each year, and technical challenges have prevented the integration of an electronic IR form into the current ePCR system. The manual forms completed by paramedics do not include four required fields. Missing these fields could result in staff not fully completing the manual IRs when the nature of the incident is such that they are required.

Monitoring compliance

The audit found the inadequate monitoring of ePCRs to identify where IRs should have been created, and this could place the City at risk of non-compliance with Provincial requirements. OPS is required to audit its ACRs to determine if an IR should have been completed. The OPS has a quality assurance (QA) unit and a process to review a random sample of ePCRs quarterly and assess if all required IRs were submitted. However, this process is retrospective and has a lag time that ranges from a few days to more than three months. In June 2017, the QA unit reported that IRs remained outstanding from its review of ePCRs for the period from April to December 2016.

The Province also requires that service providers such as OPS audit ACRs to determine if they are complete and accurate. These audits are to include recommendations to staff based on the results. The QA unit conducts detailed audits of ePCRs, both at the record level, where individual ACRs are selected and reviewed for specific issues and at the system level, where all records are analyzed to identify issues and anomalies. During 2017, the number of records analyzed decreased significantly. Management indicated that this was the result of shifting of resources and the impact of the implementing [the ePCR system].

ePCR retention

The City's Information Technology Services (ITS) maintained and supported xxxx, the predecessor to the current hosted solution, and continues to do so. OPS indicates that there are approximately 600,000 ACRs in the xxxx database, and they will remain there until migrated to the hosted [the ePCR system] data warehouse. In Phase 2 of [the ePCR system] implementation, [the hosted solution provider] is to map and migrate the xxxx data into [the ePCR system]. Under the contract, [the hosted solution provider] will retain all ePCRs in [the ePCR system] for 10 years, which is longer than the Provincial requirement of five years. While a plan and timeline are being developed to migrate the xxxx records, this work is tracking behind schedule; and there are risks associated with continued delays due to having to maintain the old system.

Conclusion

Overall, OPS has met Provincial Documentation Standards and has maintained its certification status. The migration to a new hosted ePCR platform, [the ePCR system], has gone well to date, but system security and other functionality requires improvement.

OPS should ensure that patient information continues to be safeguarded by xxxx and inventory tracking of the [devices]. Further development and testing of [the hosted solution provider's] online security protocols should be a priority. Additionally, OPS should ensure that the IR form is successfully migrated into [the ePCR system], and the electronic version contains all the required fields.

Recommendations and responses

Recommendation #1

That the City reduce the vulnerability of [devices] to malicious software, data theft as well as unauthorized sharing of data through non-malicious means. This should include revising the existing OPS specific baseline security profile that applies to all of OPS [devices]. xxxx.

Management response:

Management agrees with this recommendation.

The City will revise the existing OPS specific baseline security profile for all OPS [devices]. The timeline for completion is expected to be no later than the end of Q1 2019.

Recommendation #2

That the City, as part of developing an ePCR-specific baseline security profile:

a. xxxx
b. xxxx

Management response:

Management agrees with this recommendation.

The City will work with its ePCR system provider on technical requirements. The timeline for the implementation of an ongoing solution will be determined in

consultation with the system provider, but is expected to be no later than the end of Q2 2019. As an interim measure, XXXX.

Recommendation #3

That the City work with its ePCR system provider to confirm and formalize security governance practices and requirements for XXXX. This may require amending the Service Level Agreement with the ePCR system provider.

Management response:

Management agrees with this recommendation.

The City will engage its ePCR system provider to confirm and formalize security practices. The timeline for completion will be determined in consultation with the system provider, but is expected to be no later than the end of Q1 2019.

Recommendation #4

That the City identify and assess opportunities to engage periodic third-party testing and application security code review of the ePCR system and hosted environment.

Management response:

Management agrees with this recommendation.

The assessment will be completed by the end of Q1 2019.

Recommendation #5

That the City follow up with [the hosted solution provider] so that all required field codes are built into the ePCR system.

Management response:

Management agrees with this recommendation, and it has been implemented.

The City has followed up with [the hosted solution provider] and has confirmed that all required field codes are present within the existing ePCR solution.

Recommendation #6

That the City ensure that, the IR meets the requirements of the Documentation Standards, whether or not an ACR is completed.

Management response:

Management agrees with this recommendation.

The City plans to introduce electronic incident reporting by the end of Q3 2018 with all required fields for the Documentation Standards.

Recommendation #7

That the City review the data security impact on both IRs and ACRs when the IR module is implemented in the ePCR system.

Management response:

Management agrees with this recommendation.

The data security impact will be reviewed as part of the eIR implementation to be completed no later than the end of Q4 2018.

Recommendation #8

That the City implement a regular process of physically counting [devices] to confirm their location, perhaps on a cyclical basis. Further, the costs and benefits of real-time tracking of [devices] through technologies such as Global Positioning System (GPS) or Radio-frequency Identification (RFID) should be considered.

Management response:

Management agrees with this recommendation.

Physical counting of [devices] and tracking through an asset management solution (FDM) is current practice. An RFID trial is currently underway that could also be applicable for real-time tracking of [devices]. The trial period and a review of the cost/benefit of introducing GPS or RFID tracking on devices will be completed by no later than the end of Q3 2019.

Recommendation #9

That the City increase ACR auditing at both the record and the system level.

Management response:

Management agrees with this recommendation.

Management will review the resource requirements needed to increase ACR auditing and how they can be accommodated within existing or future resources by Q4 2018.

Recommendation #10

That the City implement the electronic IR as soon as possible.

Management response:

Management agrees with this recommendation.

The electronic IR platform will be implemented by no later than Q3 2018.

Recommendation #11

That the City establish a procedure to regularly review accesses to all restricted areas and to remove accesses when staff changes occur.

Management response:

Management agrees with this recommendation, and it has been implemented.

A review of access to all restricted areas was undertaken in Q1 2018. A revised procedure has been implemented for the regular review of access on a quarterly basis.

Recommendation #12

That the City finalize and implement the data migration work plan with the hosting service provider as soon as possible. Further, the City should periodically confirm if the 10-year minimum retention period is appropriate in light of legislated requirements.

Management response:

Management agrees with this recommendation.

A transition plan is currently under development with the data transition scheduled to occur prior to the end of Q4 2018. The City will periodically confirm the 10-year retention period in accordance with the legislated requirements.
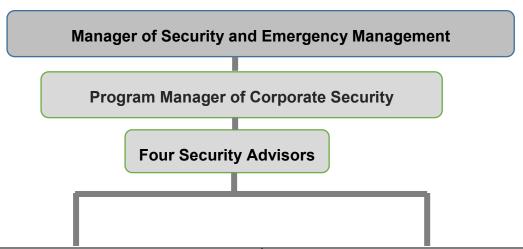
Audit of Corporate Security

Purpose

The primary objective of the audit was to assess the efficiency and effectiveness of City operations related to Corporate Security. The audit evaluated the adequacy and effectiveness of the governance, internal controls and risk management practices related to physical security management. The Audit of Corporate Security was included in the 2017 Audit Plan of the Office of the Auditor General approved by City Council on December 14, 2016.

Background and rationale

The City of Ottawa's Corporate Security (CS) unit is responsible to provide a safe and secure workplace for City of Ottawa employees, volunteers, clients and assets through the delivery of security services. Sound governance, internal controls and risk management practices are essential to ensure appropriate physical security management. This includes incident management and investigations, event security planning, threat and risk assessments, and security system design, installation, management and monitoring.

The following chart has been developed to communicate the key services that Corporate Security oversees. The Program Manager of Corporate Security reports to the Manager of Security and Emergency Management (SEM). There are four full-time security advisors who report to the Program Manager of Corporate Security.

Manager of Security and Emergency Management

Program Manager of Corporate Security

Four Security Advisors

Done internally	Contracted out externally

• Security audits at City facilities to assess overall health of security equipment
• Internal investigations resulting from a security incident or a fraud and waste case. The nature of the incident will dictate if it is investigated by a security advisor or outsourced.
• Manage the service providers for contracted security guards
   ○ Provide and coordinate guard services for Council and Committee meetings, special events, security patrols, alarm response
• Manage contracted security guards at the Security Operations Centre (SOC) and Photo ID Centre
• Manage the design, installation and repair of access control equipment, surveillance systems, intrusion alarm systems, etc.
• Provide advice and guidance on the design and construction of new builds or retrofits where the above equipment may be installed
• Security education and training for City employees
• Develop Security Operations plans for large-scale events
	• The Security Operations Centre (SOC) monitors the City's Integrated Security Management System, 24 hours a day, 7 days a week and is the initial contact point for Corporate Security. The SOC is staffed by contracted personnel. The SOC handles:
	   ○ Service requests to repair damaged security equipment
	   ○ Alarm monitoring
	   ○ Temporary door/gate access modifications
	• Facility security guards
	   ○ Charged back to respective facility who utilizes their services
	• Photo ID Centre (contracted personnel)
	   ○ Chargeback for creation of photo ID access cards for non-City employees
	• Mobile alarm response received by the SOC
	• Service provision for repair, maintenance and installation of equipment used in Integrated Security Management System (CCTV, Access Control, Intrusion System)

For 2016, CS had a budget of $1,990,000, of which $1,227,426 was allocated for purchased security services. Total overall purchases of security services amounted to approximately $2,500,000, with the balance of funds being recovered from other City client departments, primarily Recreation, Cultural and Facility Services Department.

The Corporate Security unit is comprised of the Program Manager of Corporate Security and four security advisors.

Findings

The audit focused on processes, practices and controls in four key areas, which were selected based on risk:

- Governance, roles and responsibilities;
- Physical security risk management processes and practices;
- Physical access to facilities, information and assets; and
- Employee awareness and compliance with policy and practices regarding physical security.

The key findings associated with each area are as follows:

1. **A governance and organizational structure to support an effective security program has not been sufficiently developed and documented**

We expected CS to have an established governance and organizational structure to support an effective security program with documented security policy, procedures and standards that are applied universally across the organization. Additionally, we expected that CS would present the Community and Protective Services Committee and Council with sufficient information to provide a complete picture of activities, incidents, achievements and outstanding risks, as well as the number of service requests received and processed.

Policy

A by-law of the City of Ottawa respecting the delegation of authority to various officers of the City delegates Security and Emergency Management (SEM) the authority to negotiate, approve, conclude, and execute agreements related to the provision of corporate security services. There is no substantive security related policy to assign responsibility and authority or provide a clear role and mandate for CS. Roles, responsibilities and accountabilities of key stakeholders are not well defined and communicated.

During the course of the audit, Security and Emergency Management engaged a consultant to conduct a benchmarking study of the corporate security function of selected major municipalities in Canada, and to compare the results with the Corporate Security unit of the City of Ottawa. A total of 10 municipalities responded. As stated in the *Security and Emergency Management Corporate Security Benchmarking Study, (the Study)*, Toronto, York and Vancouver have adopted comprehensive corporate security policies.

The Study states that in general Ottawa has significant policy gaps relative to the other municipalities. All other municipalities contacted have developed some security related policies, with photo ID policies in place everywhere except Ottawa and one other municipality. Ottawa also lacks an overarching Corporate Security Policy and a Physical Security Policy.

CS plans

While CS plans have clear objectives, they do not address the scope of services one would expect to see. Plans do not address known security risks or address strategies, goals, objectives and timelines for addressing those risks.

Reporting

Regular reporting to oversight bodies is important to ensure that key decision makers and those responsible for governance are aware of their risks and play a part in accepting or addressing known risks. Information provided to Community and Protective Services Committee and Council is limited to the annual report. This report is very high level and does not permit Committee and Council to appreciate the scope of work carried out by CS, the number of incidents documented within the City, the work left undone, such as security audits and the absence of on-site visits. CS activities and highlights should be provided to the Community and Protective Services Committee and Council, including trends and problem facilities that may warrant more attention from CS.

When requested for support, CS participates in the conduct of fraud and waste investigations within the City through providing camera footage, access card history or other information. External investigative services are utilized to investigate labour relations cases where surveillance of an employee is warranted. The results of these supporting services are forwarded to the originating City department and Labour Relations for inclusion in the investigation report and for final action. However, security

risks, incidents and the number of investigations supported are not routinely reported to the Community and Protective Services Committee.

2. Physical security risk management processes and practices are in place

There are several risk management processes and practices established within CS, including monitoring and responding to alarms in a timely fashion, providing additional security for high profile Council meetings and performing threat assessments for major events.

Alarms

Alarms come into the Security Operations Centre (SOC) in real time, and the SOC is staffed 24/7. The SOC receives approximately 1,000 alarms per month.

When an alarm is received at the SOC, staff verify the alarm and mobile patrol will be dispatched if necessary.

Duress alarms are personal alarms used by individuals in vulnerable situations such as reception counters, client service centres, lone worker situations, Ottawa Public Library, sexual health centre). They are treated as "life safety events", and the SOC will make one attempt to contact the site by phone to verify the alarm, then will immediately contact Ottawa Police Service (OPS).

Our testing found that all of the alarms were satisfactorily resolved in a timely manner.

Although the number of false alarms had been greatly reduced, it was still high. Corporate Security did not differentiate alarms by cause/type until late 2016. From January 1 to October 31, 2017, of 1,669 mobile patrols dispatched, in 1,421 cases, or roughly 85 per cent of the time, the alarm was false. Each dispatch of the mobile patrol costs $40, which amounts to almost $57,000 for false alarms in the 10-month period noted.

We contacted three other municipalities (Mississauga, Hamilton and Vancouver) who advised that they had similar problems with high rates of false alarms, primarily due to propping of doors for convenience.

Security Operations Centre

CS has a primary and an alternate SOC facility capable of coordinating and sustaining response to emergency situations. However, the CS Emergency Operations Plan (EOP) to identify areas of responsibility in an emergency or disaster and Continuity of

Operations Plans (COOP) to describe how essential functions will be continued and recovered are only in draft state.

Major event security

The City has established procedures for major event threat assessments. These are conducted by the Special Events Advisory Team (SEAT), guided by the 2013 Special Events By-law. SEAT reviews events that are outdoors where 500+ people are present at any given time considering factors such as the political environment, number of attendees expected, sale of alcohol, etc. SEAT develops requirements of the event organizer and coordinates the city services response in support of event operations. CS is involved in the review and assessment of any event at a City of Ottawa location.

To ensure the safety and security of staff and facilities, when there are events that may draw protesters or special meetings of Council, OPS is requested to provide an officer on site or is provided with "situational awareness" so that they can be on standby.

3.   **Systems and processes are in place to limit access to City facilities, to appropriate and approved individuals: however, more oversight is required**

CS uses several tools and practices to control physical access to facilities, information and assets. These include issuance of approved access cards, conducting facility security audits, the use of security guards, cameras and electronic security standards.

Access cards

The primary means to limit access to City facilities is the issuance of an approved access card. Changes need to be made to current processes to ensure CS has oversight of the ID access card issuance process and that the termination of ID access cards are performed in a timely manner.

Responsibility for issuing access rights falls primarily on a single contracted commissionaire, acting as the photo ID clerk with little oversight. Given the high turnover in this position, it is important for CS to exercise oversight.

Of the contractor and volunteer access cards sampled, none had expiration dates programmed. Seasonal workers and student access cards are often not cancelled until months after termination. In 4 out of the 10 of the sampled terminations, the time between the retirement/termination date and the cancellation of the ID access card was greater than five weeks.

We found that a secured file room door that required dual authentication (an access card as well as a PIN code) allowed unauthorized persons access. In comparison, for the IT data centres, access readers have automated monthly reports generated showing staff that have access, and any staff that should not have access are removed. This would be a good practice for CS to adopt.

Security audits

Security audits are undertaken to ensure the physical security of persons and assets at City sites by proactively identifying security risks and threats to develop a remedial action plan to address them. The City has only performed security audits on 72 out of a total of 836 City of Ottawa buildings in the last nine years (9 per cent). There is no risk-based process to select priority facilities for security audits. CS only performs security audits at the request of facility and departmental managers.

In September 2017, CS conducted a Threat and Risk Assessment (TRA) for City Hall: *Security Enhancements, Safeguarding Against Vehicular Threats*. The identified risks will be appropriately addressed once the measures identified have been fully implemented. The audit noted that one risk area was not considered. CS advised that this risk area will be reviewed in 2019 to assess the remaining threats in order to develop remedial security measures to reduce the risk to the facility and its occupants.

For the few security audits conducted, there is no requirement for departments to implement the recommendations; and it is up to departments to pay for installing any equipment recommended. Unaddressed risks should be documented, escalated and accepted or rejected at an appropriate level of authority. In addition, CS needs to develop criteria for determining which facilities should be subject to security audits, with risk being the primary criteria.

CCTV cameras, SOC and guards

We conducted unannounced site visits at three works yards. There were sufficient CCTV cameras in evidence, lighting was sufficient and fences were in good condition. At one site, City vehicles were not locked, and keys were found in the ignition of one of three trucks examined.

Other means to limit access to City facilities are the use of guards, cameras and electronic security equipment standards.

Guard services are contracted to staff the SOC, provide facility security, mobile security response and issue access cards.

The SOC is staffed by two contracted personnel 24/7, and there are well-documented operating procedures in place. There is also a back-up SOC in place. Both sites were well organized, equipped and operated.

Guard services are contracted to provide mobile security response and alarm investigation to all City sites 24 hours a day, 7 days a week. The City has also engaged a contractor to provide guard services at the three major administrative buildings: City Hall, Ben Franklin Place and 100 Constellation, and there are good Standard Operating Procedures for each facility.

For contracted guard staff, there are documented problems with turnover and a lack of bilingual capacity. The guard staff at City Hall appears low in the off hours even after going to three, based on the size of the facility.

A City staffed guard service would be preferable, so there would be a dedicated team of professional security officers to be developed and trained for future requirements. City staff would be especially beneficial to provide key front-line security functions e.g. Security Operations Centre staff, photo ID clerk and security guards, particularly at City Hall.

There are approximately 1,200 cameras installed at City facilities (~130 at City Hall). They are for motion detection and not identification and prevention; although, they do act as a deterrent. CS was allocated $350,000 per year for four years for camera upgrades; and at the end of the initiative in 2018, approximately 90 per cent of cameras will have been upgraded.

Our testing determined that cameras provide adequate coverage of key areas of most major facilities. Images were good enough for a general view, but it would be difficult to confirm facial identity.

During our audit work in December 2017, we examined camera views at four locations; Walter Baker Sports Complex, Ottawa Public Library Main Branch, Cyrville Road Elections Office and Champagne Fitness Centre. Of the four client counters where cash handling occurs, the camera views were not clear enough to assess the actual cash handling. However, it is important to note that the volume or value of transactions processed at the client counters may not necessitate high-resolution cameras.

As a result of the Investigation into Three Reported Client Service Centres Deposit Shortages, Tabled at Audit Committee – June 22, 2017, CS responded to the two camera related recommendations. CS updated the quality and angles of security video

cameras at the client service centres to ensure deposit preparation is recorded and details can be seen including denominations of notes.

It would still be beneficial to develop a risk-based plan to upgrade cameras in any remaining cash handling areas.

CS has developed electronic security equipment standards for facilities, similar to physical security standards. However, CS cannot compel branches to implement the standards; they can only recommend, as there is no policy to support their authority.

4. While CS has developed a Protective Measures Program (PMP), more work is necessary to ensure individual City facilities implement the program and that staff receive more training related to their security obligations

Auditors expected to find that City employees were aware of the PMP and that a plan was in place for implementation across all City facilities.

In 2013, challenges with regards to warden[1] recruitment, retention and training were identified. Consequently, the City moved from a volunteer-based program for building evacuations to a self-serve program to eliminate the requirement for the Emergency Warden Program.

On October 22, 2014, a series of shootings occurred at the Canadian National War Memorial and Parliament Hill. City Hall was placed in Secure Facility status while police searched for the shooter. An 'After Action Review' report examining the City of Ottawa's response recommended that the City establish formal procedures for threats requiring enhanced security measures.

The PMP defines the following protective measures, as per a best practice review:

- Building Evacuation;
- Shelter in Place;
- Secure Facility and
- Lockdown.

The new PMP policy has been posted on Ozone (the City's intranet) and communicated to City employees via email. PMP e-training is available on Ozone; however, it is not mandatory for staff.

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[1] Wardens were the volunteer staff at a facility who aided and ensured that other staff exited the facility in the event of a fire or other emergency.

The PMP is comprehensive, and the three major administrative buildings have successfully implemented PMP. However, there is currently no schedule to target when each individual City facility plans to implement PMP.

Auditors also expected to find that City employees are occasionally made aware of their requirements in relation to compliance with policies and practices regarding physical security.

As part of orientation for new staff, there is a presentation that includes three slides on general corporate security, security and emergency management and safety in the workplace.

For the three municipalities we contacted (Mississauga, Hamilton and Vancouver), none provides significant security related information to new hires at orientation.

Conclusion

Corporate Security generally makes good use of tools and practices to limit access to facilities to appropriate, approved individuals and facilities and assets are protected through the utilization and implementation of physical security measures.

One area of significant risk identified by this audit are the processes and controls over access card termination. The weaknesses identified require prompt attention from management.

Other areas where improvement is needed includes the development of a Corporate Security Policy, as well as, more substantial planning and objective setting for Corporate Security. With respect to security audits, coverage of risk and follow through is not currently robust. In addition, there needs to be more comprehensive reporting to the Community and Protective Services Committee and Council on all security related activities, especially for unmitigated risks identified.

The City meets many expectations in relation to physical security risk management processes and practices. However, we identified room for improvement regarding formal documentation related to Business Continuity and Disaster Recovery Plans.

We found that the Protective Measures Program is comprehensive and has been implemented at the City's three major administrative sites. However, there is no plan to ensure its implementation at remaining City facilities. Additionally, there are improvements required to ensure employees receive sufficient training to ensure they

are aware of their requirements in relation to compliance with policies and practices regarding physical security.

Recommendations and responses

Recommendation #1

That Corporate Security develop security policy, procedures and standards for universal application across the City. The policy should include clear roles, responsibilities and accountabilities for Corporate Security.

Management response:

Management agrees with this recommendation.

Development of the security policy, procedures and standards is included in the 2019 Corporate Security work plan and, given the scope of work, will be completed by no later than Q2 2020.

Recommendation #2

That Corporate Security provide the Community and Protective Services Committee and Council with sufficient information to provide a complete picture of activities, incidents, achievements, trends and outstanding risks as well as the number of service requests received and processed.

Management response:

Management agrees with this recommendation.

Additional information will be included as part of the 2018 Security and Emergency Management Annual Report, which is expected to be tabled at the Community and Protective Services Committee in Q2 2019, and in subsequent Annual Reports thereafter.

Recommendation #3

That Corporate Security develop risk-based plans necessary to ensure sufficient security related work such as facility security audits and site visits, inclusive of required funding and the impact of not proceeding, for presentation to management and Council. The plans should identify the higher risk activities not conducted currently to meet minimum expectations.

Management response:

Management agrees with this recommendation.

A feasibility review is underway as part of the ongoing Security and Emergency Management Service Review, which is expected to be tabled in Q2 2019. Any funding and/or resource implications resulting from this review will be identified for inclusion in the 2020 draft budget process for consideration.

Recommendation #4

That Corporate Security analyse false alarms on a regular basis and consider implementing a chargeback to facilities with disproportionate false alarms in order to further reduce their frequency and the unnecessary work in the Security Operations Centre (SOC) and wasted resources on unnecessarily dispatching mobile patrols.

Management response:

Management agrees with this recommendation.

Corporate Security is actively working with client groups, collecting metrics and providing reports to select client groups to action security-related trends in their respective areas. Corporate Security will consider the effectiveness and implementation of a chargeback to facilities by Q3 2019.

Recommendation #5

That Corporate Security work with the Office of the City Clerk and Solicitor to review the current practices, develop and document guidelines for the augmentation of security for high profile Council meetings.

Management response:

Management agrees with this recommendation.

Corporate Security has reviewed current practices and provided feedback for the Office of the City Clerk and Solicitor's consideration. The completion of a revised guideline is expected by the end of Q2 2019.

Recommendation #6

That Corporate Security complete the Business Continuity and Disaster Recovery Plans and a Security Emergency Plan for implementation in 2019.

Management response:

Management agrees with this recommendation and it has been implemented.

The Security and Emergency Management Emergency Plan and the Security and Emergency Management Continuity of Operations Plans were completed as part of the Office of Emergency Management's re-accreditation process in 2018.

Recommendation #7

That Corporate Security improve control over the ID card and access control systems to create an effective tool for recording who, when and for how long access was granted by:

- Programming standardized fields into the system to enable future searches.
- Conducting spot checks to monitor and ensure that the photo ID clerk is verifying the delegated authority.
- Amending the Photo ID Card Policy and Procedures to require the delegated authority to provide a termination date for contractors, volunteers and seasonal employees.
- Annually initiating a risk-based review of access to doors to ensure that the list of people who have access is appropriate.
- Ensure notifications of termination are processed by Corporate Security in a timely manner.
- When an access card is terminated, removing all the individual access points the individual previously had access to. This should also be formalized in the Photo ID Card Policy and Procedures.

Management response:

Management agrees with this recommendation.

The standardization of fields and amendments to the Photo ID Card Policy and Procedures, as described in the recommendation, are complete. Additional resources are required to action the remaining Photo ID items. Two (2) additional FTEs have been included in the 2019 draft budget for consideration by Council.

Recommendation #8

That Corporate Security review the outstanding threats not addressed in the City Hall TRA and develop mitigation measures in order to address the risks identified.

Management response:

Management agrees with this recommendation.

A business case is in development for the procurement of a consultant in Q2 2019, subject to approval, to address these threats and to propose mitigation measures.

Recommendation #9

That Corporate Security develop a policy to ensure that recommendations emanating from facility security audits be subject to implementation.

Management response:

Management agrees with this recommendation.

Development of the policy is included in the 2019 Corporate Security work plan and, given the scope of work, will be completed by no later than Q2 2020.

Recommendation #10

That Corporate Security develop plans for risk-based, cyclical, security audits at City facilities and security awareness refresher training at yards.

Management response:

Management agrees with this recommendation.

A feasibility review is underway as part of the ongoing Security and Emergency Management Service Review, which is expected to be tabled in Q2 2019. Any funding and/or resource implications resulting from this review will be identified for inclusion in the 2020 draft budget process for consideration.

Recommendation #11

That Corporate Security work with Supply Services to ensure that low price is not the sole basis for awarding guard contracts in order to improve overall quality of service and public impression.

Management response:

Management agrees with this recommendation and it has been implemented.

Corporate Security issued one security guard contract in 2018 and the basis of selection was best value, not lowest price. Three additional security guard solicitations are under development for 2019, each of which will also be awarded on the basis of best value.

Recommendation #12

That the City validate the current outsourcing of Corporate Security functions by preparing a business case with all alternatives identified, costed, analyzed and compared with a resulting supported recommendation. Such an evaluation would address the potential introduction of proprietary (in-house) guard staff for high-risk activities such as City Hall facility security, ID card issuance and Security Operations Centre staffing.

Management response:

Management agrees with this recommendation.

The recommended analysis is underway as part of the ongoing Security and Emergency Management Service Review, which is expected to be tabled in Q2 2019. Some of the analysis respecting ID card issuance specifically, has been completed and two (2) additional FTEs to bring these services in-house, have been included in the 2019 draft budget for consideration by Council. Any remaining funding and/or resource implications resulting from the broader analysis will be identified for inclusion in the 2020 draft budget process for consideration.

Recommendation #13

That Corporate Security develop a risk-based plan to upgrade cameras in any remaining cash handling areas and upgrade bandwidth to improve image quality.

Management response:

Management agrees with this recommendation.

Corporate Security will consult Corporate Services to determine the risk tolerance in any remaining cash handling areas and if any camera upgrades are required. Given the number of site visits and risk assessments that are required, this will be completed by Q4 2019.

Recommendation #14

That the City identify a senior manager (member of the executive) to "Champion" security within the organization by demonstrating management's commitment to security. Someone who will foster security awareness amongst employees at all levels and raise the profile of security across the entire organization and help ensure that all major initiatives are considered through the lens of security.

Management response:

Management agrees with this recommendation and it has been implemented.

The General Manager of Emergency and Protective Services has been designated as the security champion, in collaboration with all members of the Senior Leadership Team.

Recommendation #15

That Corporate Security develop requirements to provide adequate information for new employee orientation to raise awareness of obligations related to security at the City, followed up with a mandatory webinar and testing within 30 days with the City.

Management response:

Management agrees with this recommendation.

Additional security-related information has already been added to new employee orientation. Corporate Security will work with the Service Innovation and Performance Department on the development of a webinar and testing no later than Q4 2019. The rollout of the eLearning module to staff will be determined at that time, based on capacity.

Recommendation #16

That Corporate Security develop a risk-based plan to monitor and ensure that a Protective Measures Program is developed by all City facilities.

Management response:

Management agrees with this recommendation.

The Protective Measures Program has been implemented and its rollout to all facilities is ongoing, based on risk. Full implementation of the recommendation would expand the scope of services offered by Corporate Security and will be considered in the context of the ongoing Security and Emergency Management Service Review, which is expected to be tabled in Q2 2019. Any funding and/or resource implications resulting from this review will be identified for inclusion in the 2020 draft budget process for consideration.

Recommendation #17

That Corporate Security develop a strategy to encourage City staff to take the online training related to the Protective Measures Program processes.

Management response:

Management agrees with this recommendation. A strategy will be completed by Q4 2019.

Audit of Public Works and Environmental Services Department – Contract Management

Purpose

The Audit of Public Works and Environmental Services Department (PWESD) – Contract Management examined the efficiency and effectiveness of PWESD's contract management activities.

The Audit of Environmental Services (Part II) – Operational Review, subsequently renamed Audit of PWESD, was included in the 2017 Audit Plan of the Office of the Auditor General, approved by City Council on December 14, 2016. This audit of PWESD's contract management activities, along with an audit of Frozen Services and Hydrant Management and Maintenance, were completed in accordance with the 2017 Audit Plan.

Rationale

From January 2016 to April 2018, PWESD managed over eleven hundred contracts (or purchase orders) with suppliers for a value of over $262 million. These purchase orders were for goods and services such as snow removal services, engineering services, construction materials, the supply of heavy equipment, among many others. Procedures for contracting at the City of Ottawa are set out within the City's Purchasing By-law and other guidance materials. Departmental managers are responsible for identifying the need for specific goods/services that are required from a supplier. Supply Services is responsible for advising and supporting managers in the supplier selection process and is ultimately responsible for issuing the contract with the supplier.

Once a contract, or purchase order (PO) is in place, the departmental director or delegated manager is then responsible for managing the contract. The purpose of contract management is to ensure that the supplier delivers the goods and services ordered in accordance with the terms and conditions of the contract. Key contract management activities include accepting the delivery of goods and services in accordance with the terms and conditions of the contract, resolving disputes, managing contract changes, communicating effectively with suppliers, keeping Supply Services

apprised of major contract issues, and approving payment of invoices after determining that deliverables are acceptable.

Sound contract management practices are important to ensure that adherence to relevant laws, by-laws and policies, as well as helping to ensure that contracted goods and services provide the City with value for money.

Findings

The audit focused on assessing the following contract management activities:

- Communicating specifications/expectations and monitoring supplier performance;
- Ensuring supplier's adherence to relevant laws, by-laws and policies;
- Inspecting and accepting goods or services prior to payment;
- Managing contract changes (amendments, change orders or scope changes); and
- Resolving disputes.

Key findings associated with each activity are as follows:

1. Communicating specifications/expectations and monitoring supplier performance

The City ensures "best value" for taxpayers' dollars, when vendors deliver goods and services on time, and at the agreed price per quantity, quality, and in accordance with the contract requirements. To achieve best value requires a number of important practices, protocols and considerations, including the following:

- Contracting documents (e.g. solicitations, contracts/purchase orders, etc.) should clearly communicate the relevant specifications and expectations for contract deliverables; and
- There is an effective monitoring program whereby contract deliverables and milestones are assessed against agreed specifications and expectations.

A) Communication of specifications/expectations

The audit team examined contracting documents (e.g. solicitations, contracts/purchase orders, etc.) to identify if they included clear requirements regarding the City's specifications and expectations for the contracted goods or services.

Of the 35 files examined, 22 were the result of a formal request; Request for Proposal "RFP", Request for Standing Offer "RFSO" or Request for Tender "RFT". Of these 22,

all were found to include clearly established specifications, including technical requirements where applicable, and expectations for contract deliverables within the solicitation documents as well as the resulting PO.

For the 13 sole-source contract files examined, the findings were less positive. POs associated with 2 of these contract files (representing approximately 27 per cent of the total value of these 13 contracts) included only a reference to the specifications and requirements set out directly on the supplier's quote/estimate. Auditors noted that the language set out in these quotes/estimates presented a potential risk insofar as they lacked clear descriptions of the requirements, for example, they were vaguely worded.

In addition to technical specifications and requirements, the audit also examined the extent to which monitoring provisions were included in PWESD contracts with suppliers. This testing indicated that the existence of such provisions varied depending on the selected contracting mechanism. Contracts resulting from formal requests (RFP, RFSO or RFT) were more likely to include adequate monitoring provisions compared to sole-source contracts. Even when sole-source contracts were found to include monitoring provisions, they were found to be relatively less robust, for example, monitoring was established by the supplier's proposal or via reference to the City's General Terms and Conditions for Contracts.

B)   Monitoring supplier performance

There are a number of effective practices and techniques (e.g. periodic meetings, interim reporting, quality testing etc.) to monitor supplier performance such that any issues or concerns are identified and addressed in a timely manner. Many of these techniques are described in the City's June 2017 *Contract Administration and Reporting on Supplier Performance* guide. In addition, the City has developed a Vendor Performance Management (VPM) program including VPM Guidelines that set out specific expectations for monitoring their suppliers. The audit team's examination of VPM documentation indicated that these guidelines reflected a number of effective and appropriate contract management practices. VPM is currently being rolled out within PWESD.

Audit testing revealed that 34 of 35 contract files examined included at least some evidence of effective monitoring against agreed specifications and expectations. However, the extent and nature of documented monitoring activities varied considerably as they ranged from basic, for example, included only minutes of a meeting and/or

email chain, or did not address all contract deliverables, to highly effective. For the latter, we found that consistent with VPM Guidelines there were formal meeting agendas, documentation of report review results, use of tracking sheets, on-site quality testing and inspections, formal notifications of contract violations/ unacceptable performance, requests for corrective actions, etc. Further examination of these results revealed that the extent and nature of documented monitoring was impacted by the nature of the good/service and the underlying contract. For example, files for larger, multi-year service contracts were more likely to include evidence of sound monitoring than contracts for the one-time delivery of a good.

Though the documentation was generally less rigorous in nature than the 21 files referenced above, testing of 13 sole source contracts revealed that 11 files contained at least some evidence of documented contract monitoring.

As PWESD has not established minimum requirements and expectations for monitoring contracts, there is a range of inconsistent practices that have been implemented across the Department. This situation increases the likelihood that some contracts will not be sufficiently monitored; resulting in avoidable cost over-runs, quality gaps or delays.

2. Ensuring supplier's adherence to relevant laws, by-laws and policies

Section 7 of the City's General Terms and Conditions (Ts & Cs) for contracts requires that all contractors and their employees who provide goods, services or facilities to the City comply with applicable legislation, City by-laws, and policies. These range from the Occupational Health and Safety Act, Accessibility for Ontarians with Disabilities Act to the City's Policies on Ethical Purchasing and Bilingualism. By submitting a bid for a City solicitation, bidders confirm that they have read these Ts & Cs and agree to be bound by them in any resulting contract. For sole-source contracts, suppliers are required to sign a contractual acknowledgement that refers to these Ts & Cs. Testing indicated that such contractual acknowledgements were signed by vendors during contract negotiations.

Interviews conducted by the audit team revealed that compliance monitoring responsibilities for PWESD contracts are shared between PWESD and Supply Services. For example, the Strategic Procurement group within Supply Services is responsible to ensure that a supplier has appropriate insurance and complies with WSIB requirements.

Audit testing of 35 contract files revealed that none of the files contained evidence of identified compliance issues or follow up that would support the existence of effective compliance assessment. Further, interviews with PWESD management indicated that the Department had not developed a process to monitor suppliers' compliance with applicable legislation, by-laws and policies. This finding is consistent with other recent audits completed by the Office of the Auditor General and indicates an increased risk that incidents of non-compliance will not be identified and addressed in a timely manner.

3.   Inspecting and accepting goods or services prior to payment

Section 3 of the City's General Ts & Cs for contracts provides that the City reserves the right to determine, at its sole discretion, whether goods or services were performed to the City's satisfaction before advancing any payment to a supplier. Similarly, the City's *Contract Administration and Reporting on Supplier Performance* guidelines state that "… departmental staff should review or inspect the goods and services for compliance with the specifications or work plan described in the contract documents…Before the supplier's invoice is approved for payment."[1]

Audit testing of a sample of contract files was conducted to identify if payments are made to the contractor only after the completion of a satisfactory inspection of contract deliverables.

Of the 35 files tested during the audit, 32 had at least one contract deliverable where the contractor had reached a milestone or had provided a good or service. Of these, nearly 16 per cent (five contracts representing a total value of over $4.2 million) lacked evidence of inspection and approval of the contract deliverable prior to payment of the supplier's invoice. While it is conceivable that the inspection and approval occurred but was not documented, there is an increased risk of making payment for deliverables that are later discovered as unacceptable.

4.   Managing contract changes (amendments, change orders or scope changes)

Changes to a contract can result from a revised delivery date, change in scope of work, amended price quotation or amended proposal for additional work. Contract changes may be called amendments, change orders, or scope changes. In addition to requirements set out in the City's General Ts & Cs for contracts and Purchasing By-law,

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[1] Page 3 of the City's Contract Administration and Reporting on Supplier Performance, June 2017

the City's Purchasing Manual requires that project managers provide Supply Services with a detailed rationale for the change before the change would be approved.

For 19 of the 35 contract files selected for audit testing, there were changes since their original approval. Examination of these files revealed that documentation of the rationale for each change was provided, but this rationale varied widely in terms of extent and nature, for example, letters, emails, additional proposals/quotes/estimates, or some combination thereof. Furthermore, 9 of the 19 files were missing one or more required documents or other details supporting the change. Failure to comply with requirements or otherwise applying proper diligence when documenting rationale for a contract change can increase the risk that contract changes may not be in the City's best interest or otherwise properly justified.

5.   Resolving disputes

Disagreements with suppliers over contractual requirements can lead to significant and/or costly delays as well as additional administrative, legal or other costs incurred by the City. In some cases, contract disagreements can escalate to include costly litigation.

The audit identified that processes for dispute resolution and escalating contract issues are set out in the City's *Contract Administration and Reporting on Supplier Performance* guidelines. Interviews with both PWESD and Supply Services personnel indicated that disputes over contract requirements in PWESD were infrequent and, when they did occur, they very rarely required escalation to Supply Services or the City's Legal Services branch. These assertions were supported by audit's testing of contract files. Of the 35 contract files examined during the audit, 2 contained evidence of a disagreement regarding contractual requirements. For one of these files, the matter had subsequently been resolved, and evidence was provided to support adherence to the City's Contract Administration Guidelines. For the other file, the dispute was still under discussion between PWESD and the supplier.

Conclusion

Overall, the audit identified evidence that PWESD had implemented a number of contract management activities that reflect requirements and good practices while also helping to ensure that the City receives value for money. These activities included monitoring of supplier performance during the term of a contract, and inspecting goods or services prior to payment and formal processes for contract changes. For some of

the contracts examined, the audit identified evidence of highly effective and well-documented contract management, which was consistent with the City's recently developed Vendor Performance Management (VPM) guidelines.

However, the audit procedures also revealed that PWESD had not developed clearly established expectations for how contract management should be applied, implemented and documented across the Department. As such, the audit found that contract files exhibit a wide range of contract management activities, including examples of contract files that were missing, or significantly lacking in, evidence of effective monitoring. The audit also identified other gaps and opportunities for improvement regarding the establishment of clearly defined deliverables, and monitoring vendor compliance with applicable legislation, by-laws and policies.

Potential savings

This audit identified a number of opportunities for potential savings. These include efficiencies that could be realized by adopting a risk-based approach to help ensure that PWESD's contract management activities focus on those contracts posing the highest risk of preventable cost overruns, quality or timeliness issues. The audit also identified opportunities to better ensure that suppliers that are party to sole sourced contracts are clearly and consistently meeting the City's requirements and expectations. While such process improvements would be expected to generate cost savings over time, the audit did not quantify these amounts due to lack of information.

Recommendations and responses

Recommendation #1

> That PWESD develop a risk-based (i.e. based on dollar-value, nature of good/service, etc.) framework to support consistent monitoring of supplier performance (if not already subject to VPM).

Management response:

> Management agrees with this recommendation.

> PWESD will work with Supply Services to develop a risk-based framework to support consistent monitoring of supplier performance. The Departments will work together to examine the existing contracts, with the goal of identifying and

establishing criteria that will trigger appropriate monitoring of supplier performance for higher risk contracts.

In the interim, PWESD and Supply Services have developed contract management training in response to the recommendations contained in the 2017 Audit of Roads Services – Contract Management, which addresses best practices – including the effective monitoring of supplier performance. This training is currently being delivered to Roads Services contract managers. Moving forward, PWESD and Supply Services will deliver similar training to the other Service Areas within PWESD.

This recommendation will be implemented by Q2 2020.

Recommendation #2

That PWESD, in conjunction with Supply Services, take steps to accelerate and expand further roll out of VPM:

- Include applicable contracts within all PWESD branches;
- Include a wider range of contracts, such as all professional services; and
- Develop communications and training to support adoption of good practices set out in the VPM Guidelines.

Management response:

Management agrees with this recommendation.

The VPM program will be expanded to include all applicable contracts within all PWESD Service Areas by the end of 2019. The expansion of VPM to other commodities will be undertaken in accordance with Supply Services' VPM Expansion Strategy and associated risk assessments.

Communications and training related to the Contact Administration Policy (which reflect VPM Best Practices) has already been developed for Roads Services and is currently being delivered to its contract managers. This training was developed in response to the recommendations contained in the 2017 Audit of Roads Services – Contract Management. Moving forward, PWESD and Supply Services will deliver similar training to the other Service Areas within PWESD.

This recommendation will be implemented by Q4 2019.

Recommendation #3

That PWESD develop a risk-based (i.e. based on dollar-value, nature of good/service, etc.) framework to support consistent monitoring of supplier compliance with applicable legislation, by-laws and policies.

Management response:

Management agrees with this recommendation.

PWESD will work with Supply Services to develop a risk-based framework to support consistent monitoring of supplier compliance with applicable legislation, by-laws and policies. The Departments will work together to examine the existing contracts, with the goal of identifying and establishing criteria that will warrant a periodic review of compliance with applicable legislation, by-laws and policies, as outlined in the contractual documents.

This recommendation will be implemented by Q2 2020.

Recommendation #4

That for sole-sourced contracts, PWESD should introduce a process whereby these contracts are reviewed to determine if specific compliance requirements (i.e. beyond the City's Ts & Cs) should be applied.

Management response:

Management agrees with this recommendation.

PWESD and Supply Services will review the Department's current sole source contracts. Based on this review, the Department will identify criteria to be used to determine whether supplemental terms and conditions may be required during the future procurement of specific goods and/or services.

This recommendation will be implemented by Q4 2019.

Recommendation #5

That PWESD, for sole-sourced contracts, introduce a process whereby such contracts are reviewed to ensure that the City's specifications and expectations are sufficiently clear to support effective performance inspections and payment approval activities.

Management response:

Management agrees with this recommendation.

PWESD and Supply Services will review the Department's current sole source contracts. Based on this review, the Department will determine whether there are specific types of goods and/or services that require more detailed information to be requested by the contract manager during the initial quotation/proposal stage of future procurements with respect to specifications, inspections, and/or payments (e.g. milestone payments).

This recommendation will be implemented by Q2 2020.

Recommendation #6

That PWESD develop a risk-based (i.e. based on dollar-value, nature of good/service, etc.) framework to support consistent inspection prior to payment of invoices.

Management response:

Management agrees with this recommendation.

PWESD will work with Supply Services to develop a risk-based framework to support consistent inspection prior to payment of invoices. While inspection prior to payment is already a standard practice, management recognizes that certain risk-based criteria may necessitate additional measures for inspection and documentation prior to invoice payment.

In the interim, PWESD and Supply Services have developed contract management training in response to the recommendations contained in the 2017 Audit of Roads Services – Contract Management, which addresses best practices – including the inspection of goods and/or services prior to payment. This training is currently being delivered to Roads Services contract managers. Moving forward, PWESD and Supply Services will deliver similar training to the other Service Areas within PWESD.

This recommendation will be implemented by Q2 2020.

Recommendation #7

That PWESD develop a risk-based (i.e. based on dollar-value, nature of good/service, etc.) framework to support consistent requirements for the documentation of the rationale for contract amendments.

Management response:

Management agrees with this recommendation.

PWESD will work with Supply Services to develop a risk-based framework to support consistent requirements for the documentation of the rationale for contract amendments. The Departments will work together to examine the existing contracts in place, with the goal of identifying and establishing criteria that will trigger more detailed information and documentation requirements for future contract amendments.

This recommendation will be implemented by Q2 2020.

Audit of Public Works and Environmental Services Department – Frozen Services and Hydrant Management and Maintenance

Purpose

The Audit of Public Works and Environmental Services Department (PWESD) – Frozen Services and Hydrant Management and Maintenance examined the efficiency and effectiveness of PWESD's management of costs related to frozen water services. It also examined the management and maintenance of the City's fire hydrants in support of their availability and functionality, while protecting the water supply from theft and contamination.

The Audit of Environmental Services (Part II) – Operational Review, subsequently renamed Audit of PWESD, was included in the 2017 Audit Plan of the Office of the Auditor General, approved by City Council on December 14, 2016. This audit of PWESD's contract management activities, along with an audit of Contract Management, were completed in accordance with the 2017 Audit Plan.

Management of costs associated with frozen water services

Due to Ottawa's cold winters, water service pipes can be exposed to periods of severe and uninterrupted cold that can cause underground water service pipes to freeze and prevent water from reaching residents and businesses. Incidents of freezing can occur on sections of pipe that are part of the City's public drinking water system, such as City water mains, or on privately owned service pipes that are the responsibility of the property owner. Prevention of frozen services is more cost-effective for the City and for property owners than remediation following an incident.

One way to help prevent freezing incidents on City water mains is through construction activities (i.e. water main replacement and rehabilitation) whereby pipes are replaced, lowered and/or insulated by the City's Infrastructure Services (IS) Department. Aligning construction activities to prevent frozen service has the potential to reduce the City's overall costs. It is PWESD's responsibility to share frozen services information with Infrastructure Services in support of this alignment.

Also, as part of its responsibility to manage costs associated with frozen services, PWESD maintains a multi-phased notification system designed to help prevent such incidents. Under this system, properties that are "at risk" of experiencing a frozen service are contacted by mail and provided with information on steps they can take to reduce the likelihood of such an incident. Where the risk of freezing is on public property, the City covers the property owner's cost to run water[1]. PWESD tracks all incidents of freezing to update their list of "at risk" properties and maintains first response capabilities whereby technicians can be deployed to provide remediation service to homeowners and businesses that have experienced a frozen service.

As frozen service incidents on City property are both costly to remediate and inconvenient for effected properties, it is important that PWESD's prevention, monitoring and remediation activities are both effective and efficient.

Management and maintenance of hydrants

The Water Distribution unit within PWESD is responsible to maintain over 22,000 fire hydrants. The accessibility and functionality of these hydrants is critical to helping ensure that Ottawa Fire Services (OFS) is equipped in the event of an emergency. There is a wide range of factors impacting functionality of a hydrant such as snow cover, accidents, improper usage, aging components, and related hydrant maintenance activities can include routine inspections and tests, repairs and other general maintenance activities (e.g. painting, thawing, snow removal, etc.). Given the OFS's reliance on functional and accessible hydrants, it is imperative that inspection and maintenance of these hydrants is both timely and completed to a high standard.

The City also maintains a Flusher Hydrant Program whereby up to 35 hydrants are designated as "flusher hydrants." Under this Program, the City issues permits to businesses requiring non-potable water for services such as street cleaning or pool filling. Unauthorized use of flusher hydrants can result in fines. Obtaining water from a flusher hydrant requires that the permit holder access and attach their equipment to the hydrant. This exposes the hydrant to the risk of damage through improper use and may expose the water supply to contaminates as the permit holder's tank may come in contact with the water supply. It is important that PWESD has effective processes to

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[1] Even at a slow rate, moving water is less prone to freezing compared to still water.

mitigate the risk of theft, improper hydrant usage and contamination associated with this Program.

Findings

Area 1: Frozen water services

The audit focused on assessing the following items as they relate to the management of costs associated with frozen services:

- Impact of frozen service history on water main replacement and rehabilitation;
- Timely and effective notifications to homes and businesses at risk; and
- Assessing the effectiveness and efficiency of prevention, monitoring and Remediation activities.

Key findings associated with each of these items are as follows:

1. **Impact of frozen service history on water main replacement and rehabilitation**

Each year, the City's Infrastructure Services (IS) Department undertakes water main replacement and rehabilitation (e.g. lowering the service, insulating the pipe, etc.). To the extent such work is planned, it is driven by an annual plan that established priorities. Priorities are based on a number of factors, with the most important factor being the age of the water main. The history of frozen water services is another factor in replacement and rehabilitation if such work can greatly reduce or eliminate the risk, and related costs, of frozen service incidents. Providing information on frozen services is the responsibility of PWESD. Moreover, it was expected that PWESD would consider the impact of water main replacement and remediation on its own frozen service prevention activities and programs.

The audit found that PWESD was providing lists of addresses identified as "at risk" of frozen services to the Asset Management Branch (AMB). While there was no formally agreed schedule for providing these lists, it was generally provided once per year upon request from AMB. Notwithstanding this sharing of information, the audit also determined that frozen service history is not a significant factor in AMB's prioritization of planned water main replacement or rehabilitation. This was confirmed by audit's review of a sample of 2018 projects, which revealed that none were identified as priorities because of their history of frozen services. Further audit testing revealed examples

where water main work was completed along a street where frozen services were known to occur, yet the water main work did not extend to the "at risk" addresses. As such, it is unclear what if any value or efficiencies are being gained, or even expected, in sharing frozen services information.

Without establishing clear expectations related to the rationale and objective of sharing frozen services information, there is a risk that opportunities to coordinate water main construction activities will be missed and result in additional costs and/or lost opportunities for efficiency.

2.   Timely and effective notifications to homes and businesses at risk

Remediating a frozen services incident is costlier than preventing the incident in the first place. Moreover, when the incident occurs on sections of pipe that are part of the public drinking water system, the cost of remediation falls directly to the City. While variables such as frost depth, snow cover, and depth of existing water lines cannot be controlled, a proven way to help prevent a freezing incident is to keep the water moving by continuously running water at a slow rate. This is the premise for PWESD's *Let Water Run* program whereby owners of "at risk" addresses are notified about their risk of a freezing incident and providing them with information about how to mitigate the likelihood of such an event. This includes a request that the property owner continuously run their water as a way to reduce the likelihood of freezing. Addresses that are identified as "at risk" appear on a notification list, which is maintained by PWESD. For the winter of 2017/18, the notification list contained 2,091 addresses. Each address identifies if the risk of freezing is related to public or private water lines and at which frost depth the owner will be notified by mail. Where the risk of freezing is on public property, the City covers the property owner's cost to run water from the time of notification to April 15.

Given the opportunities for cost savings potential to avoid the disruption created by a frozen service event, the audit expected the PWESD would have effective processes and practices to ensure the timely notification of "at risk" property owners under the *Let Water Run* program. It was noted that PWESD had developed standard operating procedures that would result in notification letters being sent to property owners that were identified on a formal "notification list". However, audit examination revealed that the process and rationale for updating this notification list was neither clear nor effective. For example, there was no mechanism to ensure that an address with a history of frozen services was included on the list. Audit testing revealed examples of

addresses experiencing frozen services four or more times in the last 10 years, but that were not on the list. There was also no evidence that the list was being updated to account for addresses no longer "at risk due" to water main remediation or replacement activities undertaken by IS.

To the extent the list includes properties that may no longer be "at risk", it represents an unnecessary water cost to either the City or the property owner. On the other hand, to the extent the list is missing properties, there is a risk of a potentially preventable frozen incident resulting in a costly remediation, to either the City or the property owner.

3. **Assessing the effectiveness and efficiency of prevention, monitoring and remediation activities**

The audit also expected that PWESD would demonstrate an ability to assess the effectiveness and efficiency of their frozen services prevention, monitoring and remediation activities. While information on costs related to these activities was found to exist, there was no evidence that PWESD was using this information to support cost analysis and related decision-making. For example, there was no evidence of analysis regarding the effectiveness of the *Let Water Run* water program, nor any analysis of prevention costs compared to the costs of remediating frozen services. In the absence of such analysis, there is a risk that the investment in these activities is achieving the intended results including the objective of cost-efficiency.

Area 2: Management and maintenance of City hydrants

The audit focused on assessing the following key activities:

- Management and Maintenance of Hydrants; and
- Management of the Flusher Hydrant Program.

Key findings associated with each of these key activities are as follows:

1. **Management and maintenance of hydrants**

The Water Distribution unit within PWESD is responsible to manage and maintain over 22,000 fire hydrants that can be accessed by Ottawa Fire Services (OFS) in the event of an emergency. The costs of hydrant management and maintenance vary from year to year, based on a number of factors including the amount of snowfall. For the four years from 2014 to 2017 inclusive, these costs were over $11.5 million. Given the serious implications of malfunctioning or inadequate hydrants in the event of an emergency, the

audit expected PWESD to have adopted formal hydrant management and maintenance activities that were based on an appropriate standard and in compliance with applicable by-laws.

The audit identified that PWESD has adopted the American Water Works Association (AWWA) Practices for hydrant maintenance. Further, it was identified that PWESD has developed Standard Operating Procedures and formal roles and responsibilities regarding hydrant inspections and maintenance. However, it was also noted that a re-organization of PWESD in 2016 shifted accountabilities related to hydrant management and maintenance resided from a single supervisor and a dedicated hydrant group, to seven different functional groups each with its own supervisor and allocated geographic locations (known as "beats"). This shift has led to risks and concerns related to inconsistencies in the frequency of hydrant inspection activities from beat to beat across the City, as well as an overall decline in the average number of winter inspections compared to pre-2016. This concern is consistent with the December 2016 OAG Audit of the Environmental Services Department which noted that departmental units lacked effective processes to schedule and monitor activities to ensure work is completed in a timely and efficient manner.

Examination of documentation evidencing mandatory hydrant inspections revealed that such documentation was being captured and maintained only until late 2016, at which point PWESD discontinued use of the mobile devices that were used to capture and record these activities. While Water Services has indicated that re-introduction of mobile devices is under consideration, without these devices, the current paper-based approach to documentation of inspections and maintenance is not demonstrating conformance with AWWA practices and creates a potential risk scenario whereby the City cannot demonstrate inspection of a specific hydrant that is later discovered to be inoperable or deficient. This observation is consistent with the November 2017 OAG Audit of Road Services Branch, which raised concerns over missing information and errors associated with paper-based systems.

The audit also examined PWESD's efforts to assess the effectiveness, efficiency and ongoing improvement of hydrant management and maintenance and found little evidence that PWESD was undertaking such assessments despite having access to relevant information. In fact, it was identified that management reporting, including benchmarking, was less prevalent than in prior years. In the absence of regular

performance reporting and related analysis, management is not in a position to reliably assess the effectiveness and efficiency of hydrant management and maintenance.

2.   Management of the Flusher Hydrant Program

Under the Flusher Hydrant Program, the City creates a list of hydrants (35 in the summer, and fewer in the winter) that are designated flusher hydrants. Permits are then issued to businesses that require non-potable water for services such as street cleaning, road construction or pool filling. Permit holders must obtain water only from designated flusher hydrants and must report each draw of water to the City for tracking and invoicing purposes within 24 hours. In addition to unreported or unauthorized access, when permit holders access and attach their equipment to a hydrant, it is exposed to damage through improper use. Moreover, the water supply could be exposed to any contaminates that may exist within the permit holder's tank. Based on these risks, the audit expected to find effective practices, supported by training, as well as clearly communicated roles, responsibilities and accountabilities applicable to permit holders and the PWESD personnel responsible to monitor and track usage under the program.

The audit identified that PWESD has assigned one employee with full-time responsibility to monitor the 35 flusher hydrants. This individual travels across the City to observe flusher hydrants and record details of permit holder's use of the hydrants. Given the volume of hydrants, their geographic distribution and the frequency of tank fills, it is not practical for one individual to observe all users of the flusher hydrants. While other PWESD personnel are routinely tasked with monitoring flusher hydrants when their other workloads permit, audit determined that records developed by these individuals were insufficient to demonstrate the effectiveness of their monitoring. Moreover, there was evidence that flusher hydrant monitoring activities do not reflect an efficient use of City resources. For example, audit testing revealed that a single flusher hydrant was identified as having 2,760.5 hours of monitoring time allocated to it during 2016 and 2017 compared to a total of 9,724.75 hours across all 35 flusher hydrants.

In terms of training, audit identified that permit holders are provided with an information package on how to operate hydrants and on program requirements, but that no training is provided to that group. This increases the likelihood that permit holders may unknowingly cause damage to a hydrant and/or expose the water supply to contaminants. A concern was also identified regarding the completeness of paper trails required to support billing when permit holders are able to leave a voice message that

may be missing critical information such as company name, with their reported usage rather than submit a written form.

Finally, a significant concern was raised in connection to a formal response to a 2014 inquiry made through the City's Fraud and Waste Hotline. The response to this inquiry included a commitment that Water Services "…would develop a business case to review various technological and business practices available to sustain water revenue and reduce water theft while not exposing the City to undue risk and liability."[2] This business case was scheduled for presentation to the Environment and Climate Protection Committee and to Council in 2017 but it was deferred and has not been updated since March 2017. This business case was expected to outline long-term options for the Flusher Hydrant Program (e.g. maintaining the current system or moving to bulk water filling stations at one or more key locations) and will identify the option, which is the most cost efficient, effectively mitigates risks and provides the greatest level of service for the clients. As such, the delays in completing the business case may be delaying important strategic decisions impacting the entire Flusher Hydrant Program.

Conclusion

Overall, the audit identified evidence that PWESD had developed a number of formal and informal practices and procedures intended to support the management of costs associated with frozen services and the ongoing availability and functionality of hydrants.

In terms of frozen services, we identified efforts to share relevant information (i.e. a listing of addresses identified as being "at risk" of frozen services) with Infrastructure Services (IS) as an input to their water main replacement and rehabilitation plans. However, the audit also identified concerns regarding the integrity of this information and the value derived from sharing it with IS. The audit also noted that management did not conduct the analysis necessary to provide a view of the effectiveness or efficiency of efforts to manage the costs of frozen services.

In terms of the management and maintenance of City hydrants, we found that the City had established an effective hydrant maintenance program, which reflected appropriate standards and requirements. However, in recent years the frequency of hydrant

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[2] Water Services – Flusher Hydrant Program Review, Draft Version 2.1 - March 2017

maintenance activities has varied widely across the different regions of the City. Further, there were gaps in hydrant maintenance records and management is not conducting the analysis and reporting required to support the identification and mitigation of problematic conditions or trends (e.g. wide discrepancies in the frequency of hydrant maintenance across the City that could increase the risk of inoperable or inaccessible hydrants).

Finally, regarding the Flusher Hydrant Program, the audit identified that PWESD had implemented some monitoring to mitigate risks related to the unauthorized or unreported use of water, improper usage of hydrants and contamination of the water system. However, we also noted concerns regarding training offered to permit holders and the sufficiency of documentation supporting the monitoring of flusher hydrants. We also identified potentially serious concerns regarding the extent to which monitoring activities reflected an efficient use of City resources. Finally, we noted that a commitment to develop a business case for Council regarding the long-term direction of the Flusher Hydrant Program had not been met resulting in the deferral of important decisions regarding the future of the program.

Potential savings

This audit identified a number of opportunities for potential savings. These include efficiencies that could be realized by improving the accuracy of "at risk" addresses included on frozen services notification list and enhancements to PWESD's ability to assess the effectiveness and efficiency of frozen services prevention, monitoring and remediation activities. The audit also identified a need for PWESD to complete its review of the Flusher Hydrant Program that is intended to identify the strategic direction that will optimize the cost-efficiency of that Program. While such improvements would be expected to generate cost savings over time, the audit did not quantify these amounts due to lack of information.

Recommendations and responses

Recommendation #1

> That the Water Services Branch collaborate with the Asset Management Branch on the frozen service information to communicate requirements and expectations.

Management response:

Management agrees with the recommendation.

PWESD and the Asset Management Branch will work together to strengthen the current information-sharing process between the two Service Areas, particularly with respect to any capital replacement/rehabilitation work that may address prior frozen service issues on public property. This recommendation will be implemented by Q3 2019.

Recommendation #2

That PWESD formalize processes to update (add/delete) the notification lists based on relevant inputs (history of freezing incidents, First Response activities/input, AMB activities, etc.).

Management response:

Management agrees with the recommendation.

PWESD will work to review and formalize the existing process for updating the frozen service notification lists. This review will also examine and consider opportunities to remove properties from the list in instances where there has been water main replacement/rehabilitation work completed along properties with a history of frozen services on public property. This recommendation will be implemented by Q3 2019.

Recommendation #3

That PWESD develop and implement a strategy and related tools to identify, track and assess the effectiveness and efficiency of PWESD's efforts to prevent, monitor and remediate frozen services.

Management response:

Management agrees with the recommendation.

PWESD will review and make improvements (where feasible) to the existing tools and processes for monitoring the effectiveness and efficiency of its frozen services activities. PWESD will also examine the possibility of making an amendment to the *Water By-law* that would allow the City to charge property owners for non-compliance with a Let Water Run notification in instances where remediation work is required. This recommendation will be implemented by Q2 2020.

Recommendation #4

That PWESD establish, track and enforce minimum standards for hydrant winter maintenance and for completion/entry of documentation.

Management response:

Management agrees with the recommendation, and it is currently being implemented.

PWESD staff is in the process of reviewing and revising the existing hydrant winter maintenance standards.

PWESD is also working on the PWESD Mobility Project for all Service Areas. In the interim, until a mobile solution is developed and deployed for Water Services – the Service Area will work with data entry staff to establish appropriate standards for completion/entry of data, based on available resources. This recommendation will be implemented by Q3 2019.

Recommendation #5

That PWESD take action to expedite the implementation of a mobile solution for purposes of supporting effective completion and documentation of hydrant management and maintenance.

Management response:

Management agrees with the recommendation, and it is currently being implemented.

The PWESD Mobility Project deployed Samsung tablets in November 2018 to the Wastewater Collection's Linear Unit. These tablets utilize a mobile app solution to assist with work planning and scheduling activities. The tablets allow access to real-time data and information regarding our City's Wastewater Collection assets. The group has also modified their business processes to move away from a paper-based work management solution to an automated mobile solution, allowing staff to receive and manage work electronically. Once the Mobility Project Team is finished working with the Linear Unit, the Project will be expanded to Water Distribution's Hydrants Unit beginning in April 2019, with a go-live target date of November 2019. This recommendation will be implemented by Q4 2019.

Recommendation #6

That PWESD perform analysis (trends, KPIs, etc.) related to hydrant maintenance.

Management response:

Management agrees with the recommendation.

Water Services will review its Key Performance Indicators (KPIs) for hydrant maintenance with a focus on internal continuous improvement. This recommendation will be implemented by Q4 2019.

Recommendation #7

That PWESD implement a training program for permit holders and address gaps in Flusher Hydrant Program monitoring, including mandatory documentation of monitoring activities/results.

Management response:

Management agrees with the recommendation.

Water Services is currently making program changes to the Flusher Hydrant Program, which are expected to be completed by Q4 2019. Once the program changes are finalized, training materials will be developed and delivered to permit holders. This recommendation will be implemented by Q2 2020.

Recommendation #8

That PWESD take steps to complete the Flusher Hydrant Program review and provide the resulting report to Committee and Council.

Management response:

Management agrees with the recommendation, and it is currently being implemented.

PWESD is finalizing the Flusher Hydrant Program Business Case, which is expected to be complete by Q2 2019. Once completed, external consultation with industry proponents and Ottawa Fire Services may be required. In light of this, it is anticipated that a report with any proposed program changes will be brought forward to Committee and Council by Q4 2019.

Audit of Social Housing Registry

Purpose

The Audit of the Social Housing Registry (SHR) examined the integrity, security and availability of Ottawa's Centralized Waiting List (CWL) of households which are eligible for social housing under the Ontario Housing Services Act (2011). This audit was included in the Office of the Auditor General's (OAG's) 2017 Audit Work Plan as approved by City Council in December 2016. The audit was underway in 2017 when a decision was taken to suspend the audit in light of the flooding of the building which houses the Registry's offices. The audit recommenced in 2018.

Rationale

Since 2001, Ontario municipalities have been responsible for social housing. Specifically, the *Housing Services Act, 2011* (HSA) requires the City of Ottawa to establish, administer and fund social housing in Ottawa. Part of this responsibility is to ensure that at least 16,502 subsidized rental housing units are available to eligible low and moderate-income households.

The City has contracted the Social Housing Registry of Ottawa ("the Registry" or "the SHR"), a local non-profit organization, to manage and maintain a Centralized Waiting List (CWL) of eligible households. Thousands of applications are received from households by the Registry every year. Each application is assessed for eligibility and, if eligible, prioritized based on a variety of factors and placed on the CWL. Eventually they are offered housing by social housing providers based on their priority when an appropriately sized unit becomes available.

The ongoing availability and integrity of the CWL, and the consistent enforcement of rules related to eligibility and assignment of priority status, are crucial to support fair and equitable access to social housing. In addition, maintaining the security and privacy of applicants is also very important given the highly personal and confidential information collected as part of an application.

Findings

The audit focused on the following items as they relate to the integrity, security and availability of a Centralized Waiting List (CWL):

- Protection of applicant information and continuity of services;
- Efficiency and effectiveness of SHR operations;
- Compliance with applicable acts, regulations and other requirements; and
- Maintaining the Centralized Waiting List.

Key findings associated with each of these items are as follows:

Protection of applicant information and continuity of services

The SHR regularly receives personal information (e.g. income, medical notes, police records, etc.) in support of a household's application. As such, the audit examined controls to ensure that applicant's information, whether in electronic or hard copy format, is secure and protected. The also audit examined plans and safeguards to support the continuity of services in the event of a disruption.

Audit interviews, observation and document review revealed an appropriate level of security awareness among SHR personnel as well as the existence of formal procedures regarding the handling and protection of personal/confidential information.

Electronic information stored on the CWL server which is secured in a locked room and access to electronic files is controlled by a central coordinator. In 2018, upgrades to the CWL server were made to ensure it met the City's security standards. In terms of backups, Ottawa Community Housing (under a service agreement with SHR) stores weekly electronic backups of the CWL. These backups are not encrypted and are physically transported by the SHR systems coordinator to OCH on a weekly basis. These backup practices are not sufficiently robust and create a number of risks.

Hard copies of applicant files are maintained in a central file room within SHR which is locked each evening. Moreover, access to SHR's offices is secured with locked doors and a security system which is armed after hours. While no major issues were identified, the SHR's file room does lack a tracking system (e.g. sign-in/sign-out sheet). A tracking system would reduce the risk of a lost file.

The SHR has also established a plan to support business continuity in response to a disruptive event. However, it has not been updated and lacks sufficient detail regarding the steps to be taken to ensure continuation of services. A proposed new Registry

Service Agreement between the City and the SHR is expected to include provisions to develop a Business Continuity Plan to support the Pandemic/Emergency Plan.

Efficiency and effectiveness of SHR operations

The audit expected that the City would have tools and practices to support oversight regarding the efficiency and effectiveness of Registry operations.

The audit found evidence of frequent communications, periodic reporting and other interaction between the City and the Registry. It also found that the City has taken steps to enhance its Service Agreement with the Registry to further strengthen reporting and better support continuity of operations in the event of a disruption. However, the audit also identified that the reports provided by the Registry were not being effectively used by the City to support oversight or to identify trends or risks. Further, the audit found that the City does not have any formal mechanisms or processes in place to ensure that the Registry is complying with the Registry Service Agreement. Missing/weak controls in this area increase the risk that the City would not be aware of any compliance, efficiency or other concerns associated with the Registry's operations.

There is an initiative currently underway to introduce new technology to host the CWL. While this new system, which will be hosted and administered by the City, is expected to introduce a number of efficiencies, some potential concerns were identified. These relate to the risk of operational disruptions, hardware requirements and the need for training and testing. The City is expected to work closely with the Registry and housing providers to ensure that implementation plans address these concerns.

Compliance with applicable acts, regulations and other requirements

The OAG expected to identify policies, procedures and practices to ensure that both the City and the SHR maintain compliance with the HSA, applicable regulations and City Directives.

Key to this expectation was an effective *Service Manager Policy and Procedure Manual* which addresses the City's obligations under the HSA and a *Registry Service Agreement* which outlines the Registry's obligations to the City. Both of these documents are out of date. While the Registry Service Agreement was in the process of being updated during the audit, there is a risk that the roles and responsibilities set out in the Service Manager Policy and Procedure Manual may no longer align with Provincial requirements.

Maintaining the Centralized Waiting List

We expected to see that the SHR's operations ensure that applicant information is appropriately assessed, maintained, and reported; and that mechanisms were in place to support the ongoing integrity of the CWL.

We found that SHR staff were following the procedures set out in the SHR's Policy and Procedures document. Detailed testing of a sample of files indicated the following:

- The Registry's service standard of inputting information of eligible applicants within 10 days was being met;
- Required applicant documentation was obtained and filed;
- File documentation included support for any denial of priority status; and
- Files are actively updated to ensure information is as current as possible.

While the SHR's Policy and Procedures document was found to fully support Provincial priorities (SPP), there was a gap in terms of re-assessing the eligibility of applicants with local priority (LP) status. Our interview found a reliance on the experience of employees to update these files. The lack of documented procedures creates a risk that some of these files may no longer be eligible for LP status.

Finally, though the SHR does not have a formal "program" in place to assure the integrity of information within the CWL, the audit identified a number of effective quality control processes and practices in place at the Registry. These processes and practices include:

- Annual (at least) validation and updating of an applicant's file;
- Quarterly and annual reports to Housing Services; and
- A formal review process where applicant can dispute and validate decisions related to their files.

Conclusion

Overall, we found effective controls to support the integrity, security and availability of the Centralized Waiting List (CWL). These controls are supported by formal procedures, standards, physical and technological safeguards, training, quality control, oversight and other mechanisms. In particular, our testing of CWL electronic records found them to be supported by the appropriate documents.

However, the audit also identified a number of areas where improvements are needed both within the City and within the Registry. These include updating service agreements

and procedures, implementing more robust electronic file backup procedures, improving physical file management practices and active monitoring by the City of the Registry's compliance with requirements. In some of these areas, the City and/or the Registry have already begun to address the issues, while others require further attention.

Potential savings

This audit identified opportunities for potential savings. These include efficiencies that could be realized through the introduction of the new CWL system and improvements to the City's oversight practices which could identify additional opportunities for efficiency. While such improvements would be expected to generate cost savings over time, the audit did not quantify these amounts due to lack of information.

Recommendations and responses

Recommendation #1

That the Registry, with support from the City, explore and implement an alternative process for the backup and safeguarding of electronic information within the CWL.

Management response:

Management agrees with this recommendation.

The City has led the development of a new web-based, encrypted CWL IT system, which is in the final stages of development and testing. Implementation is scheduled to occur in Q4 2019. This system will replace the current Lotus Notes IT system used by the SHR. This new IT system has the highest level of data storage and IT security protocols available in Canada.

Until such time as the new web-based IT system is fully functional, City staff continue to work with the Registry to develop safeguarding processes and alternate backup of electronic information currently stored within the existing Lotus Notes CWL database. To date this includes the development of a formal data backup and data transfer protocol, including the implementation of a locked security data case, for the transfer of backup data to the alternate storage site.

Recommendation #2

That the Registry implement a tracking system/log for the file room to ensure files are properly accounted for.

Management response:

Management agrees with this recommendation and it has been implemented.

The Registry has implemented a formal tracking system for files within the central file room. This includes both a sign in/out log book located at a designated area within the file room, along with a weekly electronic scan and electronic storage of the log book. Staff are required to sign out a file when removing the file from the file room and then signing the file back in when it is returned.

Recommendation #3

That the City incorporate into the new Registry Service Agreement mechanisms to better support continuity of Registry operations in the event of a disruption and to provide information that will better support the City's monitoring and oversight.

Management response:

Management agrees with this recommendation.

The City continues to work with the Registry to finalize the updated Service Agreement to meet City requirements. This will be completed by Q3 2019. The updated Service Agreement clearly identifies and outlines a protocol in the event of a disruption, with the right to require the Registry to perform services from an adequate City-owned facility until such time as the Registry's office becomes suitable to serve clients.

The Service Agreement also requires an extensive and enhanced list of reports to better support monitoring and oversight. The new web-based IT system will allow the City direct access to information and will provide an IT platform to facilitate robust, multi-dimensional reports.

Recommendation #4

That the City formalize processes to assess the Registry's compliance with the Registry Service Agreement.

Management response:

Management agrees with this recommendation.

The City has a number of processes in place to monitor compliance with the Service Agreement. City staff are regularly in direct contact with the Registry to assess compliance. This includes formal and informal site visits, regular and

annual operational reports, daily communication (both written and verbal), Service Manager Directives and Guidelines, and the review of audited financial statements.

City staff will implement an annual formal operational review process to assess the Registry's compliance with the Service Agreement by Q3 2019.

Recommendation #5

That the City update the Service Manager Policy and Procedure Manual and ensure that roles and responsibilities align with Provincial requirements and those in the new Registry Service Agreement.

Management response:

Management agrees with this recommendation.

The City anticipates that the Province will be revising relevant provincial legislation in 2019. Once these legislative revisions occur, City staff will work with the Registry to update the Service Manager Policy and Procedure Manual to reflect both the provincial and new Service Agreement roles and responsibilities by Q4 2019.

Recommendation #6

That the Registry formally document procedures to review and update files with local priority status to ensure applicants continued local priority eligibility.

Management response:

Management agrees with this recommendation.

The Registry has protocols and utilizes a number of formal documents to review eligibility for a local priority status and to update and to ensure ongoing eligibility for such status. This includes, but is not limited to: specific applications and supporting verification documentation for each local priority, verification specialist (staff) checklists and sign-off forms confirming the status of eligibility, along with processes to ensure ongoing eligibility verification at the household annual review.

City staff will work with the Registry to formally document these processes in a procedure to be included within their Policy and Procedure manual by Q2 2019.

Audit of Recreation, Cultural and Facility Services Department – Building Engineering and Energy Management

Purpose

The audit examined key management systems, practices and processes within Building Engineering and Energy Management (BEEM) to ensure the unit is effectively contributing to the achievement of defined City energy efficiency and operational goals.

The Audit of Recreation, Cultural and Facility Services Department (RCFS) was included in the 2017 Audit Plan of the Office of the Auditor General (OAG), approved by City Council on December 14, 2016.

Rationale

BEEM, a unit of the Recreation, Cultural and Facility Services Department has a mandate of "Optimizing tomorrow's energy use today" and has an overarching goal to align the City's energy demand with opportunities to capitalize on conservation measures.

BEEM supports the City of Ottawa in meeting obligations to comply with the Province of Ontario's Green Energy Act, which includes a requirement for municipalities to develop an Energy Conservation and Demand Management Plan at least every five years to provide information about how the municipality will conserve energy. In 2015, the City developed its initial Energy Conservation and Demand Management Plan, which presents the strategy for conservation for electricity, natural gas, oil, propane and water for the five-year period 2015 – 2019.

Aligned with the Energy Conservation and Demand Management Plan, the City developed a 2015 – 2019 Energy Management and Investment Strategy with the goal of managing the City's increasing demand for energy while implementing reduction measures to offset this demand and increase efficiencies. BEEM is responsible for implementing this Council-approved strategy based on annual capital funding of $1 million with this investment intended to be used to implement energy reduction retrofits, which will deliver a 5.5-year simple payback and yield.

Given the broad objectives of BEEM, the audit aimed to assure Council of the adequacy of BEEM management practices in guiding the delivery of its services in meeting these objectives.

Findings

The audit focused on management processes, practices and controls in three key areas, which were selected based on risk:

- Mandate and strategic direction;
- Planning and management of energy efficiency initiatives; and
- Monitoring and reporting on the results of energy efficiency initiatives.

The key findings associated with each area are as follows:

1. **BEEM does not have a view of the size or priority of the addressable opportunity for energy efficiency in relation to the City's nearly 900 facilities and over $60 million annual spend on utilities**

Current term of Council expectations and directions for BEEM are defined in the 2015 City Energy Management and Investment Strategy and include an expectation that BEEM identify, develop and implement energy saving opportunities on behalf of the City of Ottawa. This strategy, based on a $1 million per year capital investment for energy efficiency projects, further summarizes the expected areas of BEEM focus, annual investments by area and expected benefits to be generated by area (e.g. lighting upgrades).

The audit found that BEEM projects are selected independent of the guidance provided by the 2015 Investment Strategy. Further, the audit found that BEEM does not have a systematic approach for identifying and prioritizing energy efficiency opportunities across City facilities. As the focus in BEEM project selection is driven by the $1 million annual capital budget as well as the 5.5-year payback expectation, BEEM does not maintain a view of energy efficiency project opportunities that extend beyond the current year.

In the absence of a systematic approach for identifying and prioritizing energy efficiency opportunities across the City, RCFS management are not able to demonstrate that BEEM funds are being invested in areas of highest priority or greatest energy efficiency benefit to the City, for example, relative to the City's $60 million expenditure on utilities.

2. Oversight roles and requirements for BEEM operations have not been fully implemented

Oversight of BEEM operations is provided by a BEEM unit lead who reports to the Director of Facility Operations Services (FOS) who in turn reports to the General Manager of the RCFS Department.

The BEEM unit lead oversees development of an annual plan of proposed energy efficiency projects and is responsible for monitoring and overseeing day-to-day BEEM operations and the completion of planned projects.

Based on analysis of the BEEM planned and actual project history for years 2015 – 2017 and 2018 (plan only), the audit observed:

- While there is a provision defined in the 2015 Energy Management and Investment Strategy that BEEM prepare business cases for the proposed investments ($1 million in capital spend per year) and these be presented for consideration by Council, the audit found no evidence that BEEM is satisfying this provision as there has been no reporting to Council in this regard.
- There was a significant difference between the BEEM projects planned for a given year and those that were completed during that year. The decision for which projects are included in the annual plan, or the in-year substitution of projects in the annual plan, resides with the BEEM unit lead. The role of those with oversight, including the Director of FOS and the General Manager of RCFS, is not clear in relation to the approval or amendment of the annual plan.

3. The BEEM unit employs an *ad hoc* and informal approach to selecting energy efficiency projects

The audit found that the process for planning energy efficiency initiatives is *ad hoc* and informal and is not based on a broader or systematic assessment or prioritization of City-wide energy efficiency opportunities. Based on a one-year focus, the planning process does not take into consideration longer-term opportunities.

In some cases, planned BEEM projects are supported by the development of project concept documents, which define the project scope, recommended energy efficiency solution, project costs and expected project savings. Beyond the preparation of concept documents for some projects, BEEM has not defined expectations or implemented common requirements for the approval and initiation of energy efficiency projects. In

addition, BEEM has not fully defined or consistently implemented standard project requirements, for example, preparation of a project plan, production of status reports, production of project completion reports, etc.

4. **The BEEM unit employs an *ad hoc* and informal approach to evaluating the results of energy efficiency projects**

The audit found that BEEM's reported financial savings resulting from energy efficiency improvement projects are normally not calculated from before-and-after actual usage data but are instead estimated on a notional basis. For example, for a given project, BEEM will consider the energy consumption specifications, e.g. kWh of power consumed, of an existing piece of equipment, which are then compared to those of an upgraded piece of equipment. Beyond this estimate of project benefits, BEEM does not employ a systematic approach to evaluating the specific results of its energy efficiency projects, partly due to difficulty in isolating these figures, as well as the effort required to complete formal evaluations of results. Instead, BEEM project managers conduct *ad hoc* reviews of the results of some of their projects to compare energy usage before and after the completion of a project.

In relation to the calculation of project payback periods, the audit found that BEEM only includes the capital cost of a project and does not include consideration of BEEM internal costs such as project management. Not recognizing any of these internal costs in project cost and payback calculations results in the understatement of project costs and overstatement of project benefits.

Beyond the annual measurement of expenditure performance against the $1 million capital budget and notional measurement of the 5.5-year payback, the audit found that BEEM has not measured or reported against the broader performance expectations, e.g. $725,000 in annual savings, 250,000 cubic metres in natural gas reductions, defined in the 2015 Investment Strategy.

Conclusion

BEEM has a far-reaching goal to align the City's energy demand with opportunities to capitalize on conservation measures. As defined in the City's Energy Management and Investment Strategy, resources provided to the BEEM unit to execute this strategy included annual capital funding of $1 million, to be used on energy efficiency initiatives with a minimum 5.5-year payback.

The audit found that BEEM management systems, practices and processes have generally been established to support delivery against its financial objectives, including the $1 million annual budgeted capital funding provided to BEEM and the BEEM focus on delivery of projects with a minimum 5.5-year payback. The audit found, however, that opportunities exist to strengthen current management systems, practices and processes.

These opportunities include clarifying expectations for BEEM in relation to a broader based assessment of City-wide energy efficiency opportunities. Management attention is also required to address opportunities to improve BEEM management processes relating to the prioritization of energy efficiency opportunities, development and approval of BEEM annual and longer-term plans, approval of BEEM projects and business cases and the measurement and reporting on BEEM activities and results.

Recommendations and responses

Recommendation #1

That the Department clarify BEEM's mandate and objectives to confirm if the focus of BEEM should be on broad-based assessment and response to City-wide energy efficiency opportunities.

Management response:

Management agrees with this recommendation.

The City's Corporate Services Department is implementing a Corporate Energy Management Office to assume the lead on a broad range of energy-related initiatives that are currently decentralized. In collaboration with key stakeholders and decision-makers, the Corporate Energy Management Office will be responsible for developing a corporate energy policy to govern the prioritization of energy projects, project implementation, monitoring, and reporting on benefits; and compiling, analyzing and disseminating energy data and information between different operational areas and Corporate Finance (including utility spend, consumption, incentive dollars earned, funding secured, rebate analysis, and budget analysis).

By Q3 2019, and within the context of the creation of the new Corporate Energy Management Office, RCFS will refine BEEM's mandate and objectives with a focus on infrastructure project management expertise, delivery and oversight.

Recommendation #2

That the Department clarify BEEM requirements and establish supporting processes in respect of the:

- Identification of broader energy efficiency opportunities City wide;
- Prioritization of energy efficiency opportunities;
- Development and approval of annual and longer-term plans;
- Approval of energy efficiency projects and business cases;
- Substitution of planned energy efficiency projects; and
- Measurement and reporting on BEEM activities and results.

Management response:

Management agrees with this recommendation.

RCFS will work with the Corporate Energy Management Office and corporate partners involved to clarify roles and responsibilities with regards to city-wide energy efficiency opportunities and related strategic processes by Q4 2019.

RCFS will also leverage the preferential partnership relationship that the City maintains with Hydro Ottawa through the Master Service Agreement to optimize the benefits to the City of Hydro's energy retrofit and project delivery expertise.

Audit of Recreation, Cultural and Facility Services Department – Management Processes

Purpose

The audit examined key management systems, practices and processes within the Recreation, Cultural and Facility Services Department (RCFS) to ensure they support the delivery of effective and efficient operations.

The Audit of Recreation, Cultural and Facility Services Department was included in the 2017 Audit Plan of the Office of the Auditor General (OAG), approved by City Council on December 14, 2016.

Rationale

The goal of RCFS is to provide access to high-quality recreation and cultural services, in collaboration with the community, in well-maintained spaces to contribute to Ottawa's quality of life, vibrancy and cultural identity and to improve health and economic well-being.

RCFS was reorganized under a broader City initiative in 2016, the key change being RCFS assumption of expanded responsibility for facilities management and the planning of new parks related to growth and new development. Currently, RCFS delivers a broad range of services to the residents of Ottawa including:

- Recreation and culture funding – RCFS provides $10 million in annual financial grants and contributions to 140 community recreation and 250 local not-for-profit cultural organizations;
- Recreation and culture programming and delivery – RCFS delivers recreation and cultural programs to more than 215,000 participants annually and operates a wide range of City recreational and cultural facilities;
- Facilities management – RCFS maintains 867 City-managed buildings. These include City Hall, police headquarters and stations, fire headquarters and stations, public libraries and other administrative buildings; and
- Parks and facilities planning – RCFS provides project oversight to parks and recreation building planning programs within the City, including the Cash-in-lieu of Parkland program.

RCFS budget for 2018 is approximately $301 million. One-third of this amount, $101 million, is recovered from other City departments for facility management services provided by RCFS, and an additional $68 million primarily represents revenues from the provision of recreation and cultural programs and services. RCFS services are delivered by its 1,721 full-time staff, which increases to a headcount of more than 4,700 due to the Department's use of part-time staff.

The effective and efficient delivery of high-quality recreation and cultural services, in well-maintained spaces, are key contributors to Ottawa residents' quality of life, vibrancy and cultural identity. The audit aimed to assure Council of the adequacy of management practices guiding the delivery of these services.

Findings

The audit focused on processes, practices and controls in three key areas, which were selected, based on risk:

- Departmental governance and oversight;
- Strategic and operational planning processes; and
- Performance measurement, monitoring and reporting processes.

The key findings associated with each area are as follows:

1.   Opportunities exist to improve the current RCFS Strategic Plan

The audit found that the current priorities of RCFS are rooted in the City's 2015 – 2018 Strategic Plan. In connection with the 2016 City reorganization, which expanded the scope of RCFS to include Facility Services, RCFS re-examined and refocused its priorities for the remaining term of Council. This revised set of priorities which included elements such as the modernization of recreation services (recreation infrastructure standards), parks and recreation facility upgrades and a renewed action plan for arts, heritage and culture was endorsed by the City Manager.

While these term of Council priorities represent the current Strategic Plan of RCFS, the audit found that there is opportunity to improve the current Strategic Plan:

- RCFS priorities and supporting strategies are not defined beyond the 2018 end of term of Council, limiting the longer-term guidance provided by a strategic plan;
- The 2016 reorganization of RCFS was based on specific objectives including increased collaboration within the Department, establishment of consistent

standards for service delivery, and improved integration between building operations, maintenance and programming to improve client service. Strategies for addressing these expectations have not been defined; and

- While RCFS continues to make progress in defining broad improvement strategies including the development of a Sports Strategy and development of Recreation Infrastructure Standards, how these strategies will be executed has not been defined.

In the absence of an updated strategic plan, it is not clear how senior department management are able to collectively focus their efforts, and the efforts of their staff, and effectively allocate departmental resources to those areas of highest priority.

2. **Key RCFS management committees, including the Departmental Leadership Team, are not fully satisfying their defined role**

Since the 2016 City reorganization, RCFS has established key governance committees to support delivery against departmental objectives. These committees include the Departmental Leadership Team (DLT), a senior management forum, that is expected to play a strategic advisory and oversight role and focus on issues of longer-term significance for the Department. The audit found that DLT is primarily focused on operational matters, for example, employee eligibility for smartphones, media training candidates, City lease issues, etc., versus matters relating to the long-term effectiveness of the Department.

Given the current operational focus of DLT, it is not clear how DLT is supporting RCFS in positioning itself to respond to future challenges and opportunities in meeting its mandate.

3. **RCFS does not maintain a department operational plan, for example, annual plan. Similarly, RCFS functional units, director/manager led organizations, do not maintain detailed operational plans.**

The scope of RCFS operations and services is broad and complex. In delivering on its mandate and scope of services, the operating units of RCFS are highly varied in terms of their client base, their focus and their operational characteristics. As illustration:

- The City-Wide Programs, Aquatics and Specialized Services unit and the Community Recreation and Cultural Programs unit focus on effective and efficient

delivery of recreation and cultural programs to citizens and the identification and response to emerging program needs;

- The Facility Operations Services unit focuses on timely, efficient and cost-effective response (proactive and reactive) to City facility maintenance needs; and
- The Parks and Facilities Planning Services unit focuses on compliant planning, and timely, cost effective and compliant delivery of City park/facility projects.

While each of these units is unique, each has performance expectations, challenges, opportunities and constraints that must be managed in order to deliver effective and efficient operations.

Relative to this operational environment, the audit found that RCFS does not maintain a department operational plan that articulates, for example, its specific objectives, key activities, resource requirements and performance targets, including timelines for activities. Similarly, RCFS functional units do not maintain detailed operational plans for their areas that could serve to support monitoring of the status and progress against operational objectives.

4.   Since the 2016 reorganization, RCFS has not undertaken an update of its strategic and operational risks. In addition, RCFS has not defined departmental requirements or processes for the identification, assessment and mitigation of strategic and operational risks.

Prior to the 2016 City reorganization and in response to a City requirement for departments to maintain and submit a risk register, the former Parks, Recreation and Culture Department maintained an annually updated risk register that was used to summarize and prioritize key strategic and operational risks facing the Department and to capture and monitor related mitigation actions.

The City process for coordinating the annual risk register exercise by departments was discontinued for 2017; however, departments were identified as being responsible for managing their own risks using the guidelines and tools available.

The audit found that RCFS has not, since 2016, undertaken a review of the strategic and operational risks that might impact the Department's ability to meet its objectives. Further, RCFS has not defined the requirements for, nor implemented a process for the periodic identification, assessment and mitigation of strategic and operational risks.

While RCFS does not maintain a thorough and systematic approach to identifying and addressing strategic and operational risks, ad hoc examples were noted of RCFS management focus on operational risks such as those relating to health and safety incidents arising from recreation and cultural programs or within City facilities.

5. **RCFS has not defined performance measures to enable target setting or ongoing monitoring and assessment of the efficiency, effectiveness or impact of RCFS programs and operations**

The audit found that RCFS has implemented basic elements of performance measurement, primarily focusing on financial performance measurement and the measurement of the status of "term of Council" initiatives.

While this information provides some insight into RCFS operations, there are significant opportunities to improve the management insight generated through broader performance information to enable RCFS management to assess and communicate its performance against the broad mandate and objectives of the Department. Areas of opportunity to improve management insight include the definition and implementation of performance measurement related to:

- The **efficiency** of RCFS program and service delivery such as program and service costs and FTE resources invested relative to program and service volumes and program participation;
- The **effectiveness** of RCFS program and service delivery, for example, the "reach" of programs and services; and
- The **impact** of RCFS program and service delivery in contributing to the mandate expectations of improving Ottawa's quality of life, cultural identity, vibrancy, economic well-being and improved health.

The audit found that the Business and Technical Support Services unit of RCFS is in the early stages of engaging RCFS functional leads to identify how they can better assist in supporting operational requirements including performance measurement and business analysis. This remains a work in progress.

Conclusion

RCFS has a broad mandate in delivering a range of services to the residents of Ottawa with this mandate having recently been expanded, through the City's 2016

reorganization to include facilities operations services and parks and facilities planning services.

The audit found that RCFS has established some management systems, practices and processes to support the delivery of operations and support RCFS in meeting its mandate and strategic objectives. The audit found, however, that opportunities exist to significantly strengthen current departmental management systems, practices and processes.

These opportunities include renewing its Strategic Plan to provide guidance beyond 2018; ensuring that current departmental governance, the Department Leadership Team, is focused on the matters impacting the long-term effectiveness of the Department; developing and maintaining operational plans to support management of progress against operational objectives; implementing processes to support the management of operational and strategic risks; and broadening departmental performance measurement processes to support the ongoing monitoring and assessment of the efficiency, effectiveness and impact of RCFS programs and operations.

Recommendations and responses

Recommendation #1

That the Department renew its Strategic Plan to:

- Define RCFS priorities beyond those identified as current term of Council priorities;
- Define the strategies and tactics for achievement of the objectives and related benefits defined for the 2016 reorganization for RCFS (i.e. increased collaboration with the Department, establishment of consistent standards for service delivery and improved integration between building operations, maintenance and programming to improve client service); and
- Incorporate the strategies and tactics that RCFS will undertake to implement the broad concepts defined in the current term of Council initiatives (e.g. Sports Strategy (completed), Recreation and Infrastructure Standards (in process)).

Management response:

Management agrees with this recommendation.

RCFS has identified its key initiatives to address the corporate strategic priorities for the 2019-2022 term of Council. If approved, RCFS will allocate the required resources to ensure completion of these initiatives.

RCFS will also develop a departmental strategy to complete outstanding priorities from the previous term of Council, initiatives aimed at the integration of facility operations with programming and, priority departmental policy and program improvements by Q3 2019.

Recommendation #2

That the Department ensure that its key internal governance group (i.e. Departmental Leadership Team) is meeting its defined mandate for providing strategic advice and focus on the long-term effectiveness of the Department.

Management response:

Management agrees with this recommendation, and it has been implemented.

Management believes that the Departmental Leadership Team focused on an appropriate blend of tactical and strategic priorities in the period following the 2016 reorganization, with a required emphasis on ensuring service continuity to the public and proactively addressing frontline employee transitional issues.

The 2017 DLT meeting snapshot provided to the OAG covered the period after the 2016 reorganization. Immediately following the realignment, DLT's focus was to maintain service continuity under new reporting relationships and the establishment of new operational policies and procedures to meet the blended Department's needs. DLT also assumed responsibility for some operational matters in the absence of decision-making structures that were in place in PRCS and Public Works prior to the reorganization. Some time was required to identify a governance structure for the Department's newly expanded areas of responsibility and the priority to integrate business lines at the strategic and tactical levels, and DLT acted as an interim authority during this period.

An Extended Departmental Leadership Team (EDLT) is now in place and has taken on responsibility to consider and decide operational matters. Both DLT and

EDLT have developed Terms of References to clearly define the mandate and focus of each group, with DLT focusing on strategic and corporate matters and EDLT focusing on the Department's tactical and operational issues. Individual branches have also developed governance structures to consider their operational matters and to escalate branch positions to EDLT.

Moving forward, DLT will ensure that primarily strategic and corporate matters are considered and that this is reflected in meeting agendas and minutes.

Recommendation #3

That the Department define requirements and implement processes for the development, maintenance and monitoring of RCFS Department and function operations plans.

Management response:

Management agrees with this recommendation.

RCFS will develop operational plans for each of the Department's business lines by Q4 2019. These plans will articulate the key action items, resources and time requirements to achieve strategic and operational objectives, as well as opportunities for service enhancements, rationalization, revenue generation and efficiencies.

Recommendation #4

That the Department define departmental risk management process requirements and supporting roles and responsibilities.

Management response:

Management agrees with this recommendation, and it has been partially implemented.

Management advises that a departmental risk registry was developed as part of the corporate process and it was updated in Q1 2018 to capture the 2016 reorganization. It remains relevant with respect to the broad risks faced and mitigation measures developed to address these.

RCFS will complete an update to the departmental risk registry list and will document the risk management process by Q3 2019.

RCFS will continue to work collaboratively with the Service Innovation and
Performance Department and other departments through the BSS Integration
Team to monitor and mitigate risks identified as corporate risks and horizontal
risks.

Recommendation #5

That the Department define and implement performance measures that support
assessment of the efficiency, effectiveness and impact of the full scope of RCFS
operations.

Management response:

Management agrees with this recommendation.

RCFS will work with each of its business line owners to develop key performance
measures that provide measures of efficiency, effectiveness and impact by Q4
2019. RCFS will strive to develop base-year data using 2019 performance for all
measures. RCFS will also work to establish new sources of performance measure
data as part of the replacement of its automated facility booking and program
registration system.

A regular seasonal tracking tool to report the determined performance measures
will be produced by Q1 2020 to report the key projects and programs using 2019
information as the baseline wherever possible.

RCFS will also monitor the development of corporate performance measures
relating to the transformation of culture, empowerment, barriers to engagement,
and servant leadership, and will incorporate these into its measures when they
become available.

Appendix A – By-law No. 2013-375 and No. 2015-11

A by-law of the City of Ottawa to establish the position and duties of Auditor General of the City of Ottawa, including statutory powers, and to repeal By-law No. 2009-323.

The Council of the City of Ottawa enacts as follows:

DEFINITIONS

1. In this by-law, "Auditor General" means the Auditor General of the City of Ottawa.

ESTABLISHMENT OF THE POSITION OF AUDITOR GENERAL

2. The position of Auditor General for the City of Ottawa is hereby established for the purposes of Part V.1 of the Municipal Act, 2001, S.O. 2001, c.25, as amended, with the statutory duties and functions as set out in Part V.1 of the Municipal Act, 2001, S.O. 2001, c.25, as amended, and in this by-law.

APPOINTMENT OF AUDITOR GENERAL

3. (1) City Council shall by-by-law appoint a person to the position of Auditor General for a non-renewable term to be determined by Council, and shall specify the terms and conditions of such appointment.

   (2) The current Auditor General of the City of Ottawa is appointed as the Auditor General of the City of Ottawa for a fixed term of seven (7) years, which shall commence on December 15, 2013, and shall continue until December 31, 2020, unless terminated earlier by Council.

   (3) The appointment of a person to the position of Auditor General may be made, suspended or revoked only by a two-thirds majority vote of all members of City Council.

   (4) The Auditor General must be designated in Ontario as a chartered accountant, a certified general accountant, or a certified management accountant.

ACCOUNTABILITY

4. The Auditor General is independent of the City administration.

5. The Auditor General shall report to City Council, or to a Committee of Council as may be directed by City Council.

RESPONSIBILITIES

AUDITS

6. (1) Subject to and in accordance with the provisions of this By-law, the Auditor General shall be responsible for assisting City Council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in municipal operations.

(2) Despite subsection (1), the responsibilities of the Auditor General shall not include the matters described in clauses 296(1)(a) and (b) of the *Municipal Act, 2001*, S.O. 2001, c.25, as amended.

(3) The Auditor General shall be responsible for carrying out financial (excluding attest), compliance, and performance audits of:

(a) all programs, activities and functions of all City departments and agencies, and of the offices of the Mayor and Members of Council;

(b) local boards of the City as defined in Part V.1 of the *Municipal Act, 2001*, S.O. 2001, c.25, as amended, and as may be further prescribed in Schedule "A" to this by-law;

(c) municipally-controlled corporations as defined in the *Municipal Act, 2001*, S.O. 2001, c.25, as amended, and as may be further prescribed in Schedule "B" to this by-law;

(d) grant recipients as defined in Part V.1 of the *Municipal Act, 2001*, S.O. 2001, c.25, as amended; and,

(e) any other agencies, boards, commissions and corporations as Council may from time to time create or identify.

(4) At the request of Council or a board of directors, the Auditor General may conduct financial (excluding attest), compliance and performance audits of autonomous organizations that have an agreement with the City that contains provisions for an audit by the City.

(5) The audit work plan shall be approved by Council. Approved audits shall be conducted at such time and to the extent that the Auditor General considers appropriate, and the Auditor General shall establish such protocols and procedures that are necessary for the conduct of such audits, consistent with the *City of Ottawa Audit Standards* (modified from the Standards for the Professional Practice of Auditing), as approved by Council on June 13, 2012.

(6) The Auditor General shall not call into question or review the merits of the policies and objectives of Council.

INVESTIGATIONS OF FRAUD, MISAPPROPRIATION AND OTHER SIMILAR IRREGULARITIES

7. The Auditor General shall be responsible for the administration of the Fraud and Waste Hotline relating to any suspected acts of fraud, theft, misappropriation or other similar irregularity in accordance with the Corporate Policy on Fraud and Other Similar Irregularities as approved by City Council, and the Auditor General shall establish such protocols and procedures that are necessary for the conduct of such investigations.

DUTY TO FURNISH INFORMATION

8. In accordance with subsection 223.20(1) of the *Municipal Act, 2001*, S.O. 2001, c.25, as amended, the City, the local boards referred to in Schedule "A", the municipally-controlled corporations referred to in Schedule "B", and the grant recipients shall give the Auditor General such information regarding their powers, duties, activities, organization financial transaction and methods of business as the Auditor General believes to be necessary to conduct his or her duties under this by-law.

ACCESS TO INFORMATION

9. In accordance with subsection 223.20(2) of the *Municipal Act, 2001*, S.O. 2001, c.25, as amended, the Auditor General is entitled to have free access to all

books, accounts, financial records, electronic data processing records, reports, files and all other papers, things, or property belonging to, or used by the City, a local board referred to in Schedule "A", a municipally-controlled corporation referred to in Schedule "B", or a grant-recipient, as the case may be, that the Auditor General believes to be necessary to perform his or her duties under this by-law.

NO WAIVER OF PRIVILEGE

10. A disclosure to the Auditor General under Sections 8 or 9 does not constitute a waiver of solicitor-client privilege, litigation privilege, or settlement privilege.

ANNUAL AUDIT PLAN

11. (1) In each year subsequent to the year of appointment, the Auditor General shall submit an annual audit plan for the next following year to City Council for information by December 31st of each year.

(2) The Auditor General may, at his or her discretion, prepare a longer term audit plan for submission to City Council.

(3) No deletions or amendments to the annual audit plan shall be made except by the Auditor General.

(4) Despite subsection (3), the Auditor General may, if requested by City Council or a board of directors, audit and report on additional matters.

REPORTING

12. (1) No later than December 31st of the next year following the tabling of the audit plan prescribed in subsection 11(1), the Auditor General shall provide to City Council a Notice of Tabling of the Annual Report.

(2) The Auditor General may, as directed by Council or at his or her discretion, report on a more frequent basis to City Council or any Committee thereof.

Ottawa

OFFICE OF THE AUDITOR GENERAL

13. (1) The Auditor General is authorized to establish an Office of the Auditor General including a managerial hierarchy and administrative policies and procedures.

(2) The Auditor General is authorized to appoint, promote, demote, suspend and dismiss, subject to any applicable personnel policies adopted by Council, all employees of the Office of the Auditor General.

(3) The Auditor General is authorized to review the performance of personnel within the Office of the Auditor General subject to any personnel policies applicable to the employees of the City.

(4) The Auditor General is authorized to retain the services of any individual or corporation for the purposes related to the operation of the Office of the Auditor General and to execute all agreements and contracts required for the provision of such services subject to the provisions of the City's Purchasing By-law.

ANNUAL BUDGET

14. (1) The annual budget of the Office of the Auditor General shall be in accordance with the budget strategy for the Term of Council.

(2) Requests by City Council or a board of directors pursuant to subsection 11(4) shall be subject to the provision of appropriate funding.

DUTY OF CONFIDENTIALITY

15. The Auditor General and any person acting under his or her instructions shall be subject to the duty of confidentiality provided in Section 223.22 of the *Municipal Act, 2001*, S.O. 2001, c.25, as amended.

IMMUNITY FROM TESTIMONY

16. Neither the Auditor General nor any person acting under the instructions of the Auditor General is a competent or compellable witness in a civil proceeding in connection with anything done under Part V.1 of the *Municipal Act, 2001*, S.O. 2001, c.25, as amended, or of this by-law.

REPEAL

17. By-law Number 2009-323 of the City of Ottawa entitled "A by-law of the City of Ottawa to establish the position and duties of the Auditor General of the City of Ottawa and to repeal By-law No. 2005-84", as amended, is repealed.

ENACTED and PASSED this 11th day of December, 2013.

CITY CLERK

MAYOR

Ottawa

SCHEDULE "A"

Local Boards

1. City of Ottawa Superannuation Fund
2. Cumberland Village Heritage Museum Board
3. Nepean Museum Board
4. Ottawa Municipal Campsite Authority
5. Pineview Municipal Golf Club Board of Management
6. CARP Airport Authority (formerly the West Carleton Airport Authority)
7. Crime Prevention Ottawa
8. Property Standards Committee
9. Bank Street B.I.A.
10. Barrhaven BIA
11. Byward Market
12. B.I.A. Carp Village B.I.A.
13. Glebe B.I.A.
14. Heart of Orleans B.I.A.
15. Manotick B.I.A.
16. Preston Street B.I.A.
17. Downtown Rideau Improvement Area B.I.A.
18. Somerset Chinatown B.I.A.
19. Somerset Village B.I.A.
20. Sparks Street Mall Authority / Sparks Street Mall B.I.A.
21. Vanier B.I.A.
22. Wellington West B.I.A.
23. Westboro B.I.A.

SCHEDULE "B"

Municipally-Controlled Corporations

1. Hydro Ottawa Holding Inc./Société de Portefeuille d'Hydro Ottawa Inc.

2. Ottawa Community Housing Corporate/La Société de Logement Communautaire d'Ottawa

Ottawa

BY-LAW NO. 2013 - 375

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A by-law of the City of Ottawa to establish the position and duties of Auditor General of the City of Ottawa, including statutory powers, and to repeal By-law No. 2009-323.

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Enacted by City Council at its meeting of December 11, 2013.

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LEGAL SERVICES

VB: G04-01-STAT AG

COUNCIL AUTHORITY:

City Council – October 23, 2013 Motion 63/3

BY-LAW NO. 2015-11

A by-law of the City of Ottawa to amend by-law No. 2013-375 of the City of Ottawa to establish the position and duties of the Auditor General of the City of Ottawa, including statutory powers.

The Council of the City of Ottawa enacts as follows:

1. Subsection 3(4) of By-law No. 2013-375 entitled "A by-law of the City of Ottawa to establish the position and duties of Auditor General of the City of Ottawa, including statutory powers, and to repeal By-law No. 2009-323" is repealed and the following subsection (4) is substituted in its place:

The Auditor General must be designated in Ontario as a chartered professional accountant (formerly known as chartered accountant, a certified general accountant, or a certified management accountant).

2. Subsection 12(1) of said By-law No. 2013-375 is repealed and the following subsection (1) is substituted in its place:

No later than December 31st of the next year following the tabling of the audit plan prescribed in subsection 11(1), the Auditor General shall provide to City Council a Notice of Tabling of the Annual Report, except in an election year when timelines for the Auditor General's Annual Report will be determined by the Auditor General, in consultation with the Mayor and the Chair of the Audit Committee, and may be tabled after December 31st of the next year following the tabling of the audit plan.

ENACTED AND PASSED this 28th day of January 2015.

CITY CLERK

MAYOR

BY-LAW NO. 2015- 11

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A by-law of the City of Ottawa to amend By-law No. 2013-375 of the City of Ottawa to establish the position and duties of the Auditor General of the City of Ottawa, including statutory powers.

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Enacted by City Council at its meeting of January 28, 2015

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LEGAL SERVICES

G04-01 STAT AG

Council Authority:

City Council December 3, 2014

Agenda Item 1&

Delegation of Authority By-law

(2014-435), Schedule "A", s.63