



Office of the Auditor General / Bureau du vérificateur général

**AUDIT OF FINANCIAL INFORMATION REPORTED TO COUNCIL
REGARDING THE PROPOSED NORTH-SOUTH LIGHT RAIL
TRANSIT LINE**

2007

Chapter 9

**VÉRIFICATION DES RENSEIGNEMENTS FINANCIERS
FOURNIS AU CONSEIL SUR LE PROJET DE LIGNE NORD-SUD DU
TRAIN LÉGER SUR RAIL**

2007

Chapitre 9

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Executive Summary

Introduction

The Audit of the Financial Information Reported to Council Regarding the Proposed North-South Light Rail Transit Line was included in the 2007 Audit Plan of the Office of the Auditor General, first presented to Council in December 2004.

Background

On December 14, 2006 City Council notified the Ottawa LRT Corporation that the necessary conditions (of funding from the federal government and acquisition of real property) to the Project Agreement related to a proposed North-South Rail Transit line for the City of Ottawa (The “N-S LRT line” or “the Project”) had not been satisfied and that, as a result, the Project Agreement was terminated.

During the period of March 2005 through December 2006, City staff provided Council with various reports in concerning the N-S LRT line. These reports were provided by City staff as a means to inform Council on matters including project status, results of staff activities, planned activities, and matters requiring a Council decision and/or guidance. Included in these reports was certain financial information related to the proposed N-S LRT line. Given the scale of the Project, the financial implications associated with the N-S LRT line were considerable. The financial information provided by staff addressed matters such as project costs (capital and operating), financing/funding information, details of other infrastructure projects to be completed in concert with the N-S LRT line, and the financial impact of various courses of action.

Audit Scope and Objectives

General Audit Objective

The audit report is positioned as an assessment of qualitative factors which are, by definition, subject to interpretation. Our audit procedures were designed to efficiently capture independent and objective evidence, however, the element of subjectivity will remain.

Audit Objective #1

Complete a qualitative assessment of the financial information provided to City Council during the period of March 2005 and December 2006 in respect to the proposed N-S LRT. By comparing the financial information provided to Council with various qualitative attributes, the audit was designed to identify potential opportunities for improvement.

Audit Objective #2

Assess the accuracy of expenditures incurred by the City in respect of the proposed NS LRT prior to termination of the Project Agreement in December 2006. The objective associated with this component of the audit is to ensure that the \$62 million reported to Council, and its component expenditures, reflects the information contained in supporting documentation.

For greater clarity, the audit did not address the background, technical, route selection, merit, justification or other non-financial information presented to Council regarding the Project. Likewise, we did not confirm, audit or otherwise validate the Project financial information provided to us by City staff in connection with this audit except as specifically stated herein.

Summary of Key Findings

The key areas for improvement relate to the following:

1. Key terms and conditions need to be proactively provided to Council. This is clearly evident given the impact of Council's decision on December 6, 2006 to delegate authority to the Mayor and the City Manager to negotiate changes to the Project by removing part of the downtown section in accordance with the terms of the Project Agreement. Based on interviews and documents reviewed, there did not appear to be an appreciation that such a scope change could impact funding arrangements with the Federal and Provincial Governments.
2. The reporting format needs to reinforce key facts and focus Council on their decision-making and oversight role. This was clearly evident in the confusion around the total cost of the Project and the impact of scope changes.
3. All estimated financial figures should be clearly disclosed. The reporting to Council did not clearly distinguish hard (confirmed) from soft (staff estimates) numbers and thereby contributed to some confusion regarding the actual financial implications of the Project.
4. All financial figures need to be supported by documentation. We were not provided with supporting documentation for some key items such as the costs of the line extension to Barrhaven (\$24 million) and the costs associated with delaying the Project (\$65 to \$80 million).
5. The non-disclosure agreement (NDA) was problematic for a great number of Councillors and should be revisited so that financial information is provided, but not intellectual property information.

Recommendations and Management Responses

Recommendation 1: Source and context of financial information

The City should ensure that the source (i.e., staff estimate, confirmed/actual amount, external estimate, etc.) of financial information is sufficient to provide Council with a context regarding its reliability.

Management Response

Management agrees with this recommendation.

Management remains concerned with the statement that the financial information provided was not accurate or sufficient. The Auditor General's assessment of what was "sufficient" with respect to financial information provided for in this project is, in the words of the report, a subjective analysis. (Ref Attribute 5.1.4) As it relates to accuracy, all information was verified numerous times by many different staff prior to its release.

Management recognized the complexity of this project and provided additional clarity when requested. Management did present the source of all financial information in a consistent and familiar manner to Council.

Recommendation 2: Financial information should focus on core issues

The City should ensure that financial information provided to Council includes only those key details that are most relevant to Council's decision-making and oversight role. Background information should be limited.

Management Response

Management agrees with this recommendation.

In the LRT project, additional background information was provided as a result of questions and issues raised by Council. These clarifications predominantly related to previous planning studies that had been completed in the years prior to the start of the procurement process (e.g. Official Plan, Transportation Master Plan, Rapid Transit Expansion Study). These requests required staff to present some of the major findings of these studies again as a reminder to Council that this was the basis upon which they had approved the procurement process for the implementation of the LRT project.

Recommendation 3: Project reporting should reflect a consistent format

The City should develop a standard project reporting format that will promote a common "look and feel" throughout the course of a long-term project. This format should quickly and efficiently communicate basic financial information and seek to minimize the risk of confusion created by changes in project scope or matters related to accounting, budgeting or technical matters. (See Appendix of the full audit report for an example format.)

Management Response

Management agrees with this recommendation.

Management notes that the LRT reports followed closely the budgeting process used by the City, which would have been very familiar to Council. As new information was received and the process was refined, changes in the project scope occurred, which in turn, affected the financial and technical matters. Management ensured that Council continued to be briefed in a timely fashion on these changes.

Management will review the development of a more standardized format for Council reports as part of its continuous improvement initiatives.

Recommendation 4: Estimated Financial Information

The City should ensure that estimates provided to Council are supported with sufficient detail to provide Council with a means to understand the context and reliability.

Management Response

Management agrees with this recommendation.

As the audit states, the matter of what cost constitutes “sufficient detail” is a subjective assessment. (Ref 5.1.1) Management did provide sufficient financial detail to Council to allow for an informed decision to be made.

In December 2006, on the matter of the cost of delaying the N-S LRT project, it was made clear to Council by the consortium and City staff that a more refined estimate of this cost could not be provided until a firm date to start the project was determined and negotiations with each subcontractor were completed.

Recommendation 5: Presentation of financial information should be addressed within a project communication plan

The City should incorporate financial reporting to Council into the overall project communication plan. This plan should ensure that financial reporting is aligned with Council decision points and address such details as: how changes in project scope will be approved and communicated, what level of materiality for reporting will be used, and the nature/timeline of project-specific reporting.

Management Response

Management agrees with this recommendation.

For similar projects, management will develop a format that aligns with Council’s decision points and incorporates financial information into the communication plan for the project.

Recommendation 6: Non-Disclosure Agreements (NDA)

The City should consider the negative impact of NDAs in light of some Councillors' views that they were not fully informed. Options that will provide Council with a view to the financial highlights (rather than intellectual property per se) should be explored.

Management Response

Management agrees with this recommendation.

Management believes the duties of confidentiality must be balanced with the need for transparency and openness in the public tendering process. It is a balance between the public's right to access information to ensure public dollars are being well spent and the need to protect the integrity of the competitive bidding process so that bidders trust that any confidential information submitted will be properly protected.

Although individual Councillors may have felt uninformed, with respect to the various bids, the reality is that the procurement process, including the requirement for confidentiality, was one that Council itself had approved to ensure the highest integrity and fairness possible. The creation of the Selection Panel was a direct and stated recognition by Council that this was a large and complex project.

The Selection Panel was approved and created by Council to give itself additional confidence in the process. All of the financial information received from the proponents was reviewed, analysed, and vetted by KPMG, another well-known, objective and impartial body. Over and above these safeguards, was the inclusion of a Fairness Commissioner who was hired to monitor the process in order to ensure a fair, open and transparent process. Regular reports were prepared by the Fairness Commissioner and were made available for public review on the Web site.

Recommendation 7: Risks associated with key financial information should be clearly disclosed

The City should fully disclose financial risks and the related risk management activities associated with the projects. This includes adding risk context to financial disclosures so that Councillors can easily determine their level of support or concern.

Management Response

Management agrees with this recommendation.

Management did present on 12 June 2006, a report that included a discussion of the risks in proceeding with the project (i.e. the allocation of risk between City and Consortium; the risk management fund; and utility costs). In a separate in-camera briefing on 14 June 2006, management provided a detailed presentation of the City's financial exposure to utility relocation costs, the reason and magnitude of the

exposure, and a recommended course of action. Council agreed with the action recommended and staff proceeded on that basis.

Recommendation 8: All key terms and conditions should be disclosed up front
The City should ensure that all key terms and conditions associated with contracts, commitments or other agreements are fully disclosed up-front so that Council has a very clear understanding of the City's risks and responsibilities.

Management Response

Management agrees with this recommendation.

Management did outline the key terms and conditions associated with the contract at the 12 June 2006, Council meeting and at the 14 June 2006, in-camera briefing session.

Management will continue to inform Council of all key terms and conditions in contracts and agreements in order for them to undertake an informed decision. However, the need to continue to protect the integrity of the competitive bidding process and the intellectual property of City partners is critical, to ensure that the City remains an attractive business partner.

Terms and conditions that are ruled as commercially confidential by the City's Procurement division will continue to be exempt from public disclosure.

Recommendation 9: Regarding the \$62 million reported as incurred expenditures

The City should take steps to ensure that only legal obligations are disclosed to Council when reporting amounts that are accrued but not spent.

Management Response

Management agrees with this recommendation as it relates only to the accrued amount component of the \$5.8M expenditure identified in the audit report. As stated in the report, \$2.2M of this amount did represent a legal obligation, as the corporation was committed by way of land acquisition agreements. Although, the balance \$3.6M was not a legal obligation, it was rolled up in the \$23M property expenditure identified in the December 2006 Council report. The \$3.6M expenditure may not have been legally committed but was the subject of negotiation with the landowners.

Conclusion

Our audit of financial information presented to Council revealed a commitment on the part of City staff to provide relevant financial information on a timely basis. There appears to be an awareness of the need to balance the collective needs of Council with

the individual needs, and to ensure that Council was supported in their responsibility to make decisions in best interests of the City.

Our interviews with six Council members and review of documentation provided by City staff revealed that, overall, the financial reporting to Council regarding the N-S LRT line did not meet the expectations of some Councillors when evaluated against key qualitative criteria. As such there is a need to improve this reporting in anticipation of the City proceeding with a number of large-scale capital projects in the future.

As with any complex process, particularly those involving multiple stakeholders with varied interests, there are always opportunities for improvement. The lessons learned from the N-S LRT line extend well beyond the realm of financial reporting, however this review of financial reporting highlighted the need to leverage consistency, balance and simplicity and constantly reinforce the basic information that will allow Councillors to feel confident in their individual understanding.

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the review team by management and the six Councillors who participated in this audit.

Résumé

Introduction

La vérification des renseignements financiers fournis au Conseil sur le projet de ligne nord-sud du train léger sur rail était prévue dans le Plan de vérification de 2007 du Bureau du vérificateur général, présenté pour la première fois en décembre 2004 au Conseil municipal.

Contexte

Le 14 décembre 2006, le Conseil municipal a avisé la société Ottawa LRT Corporation que les conditions (obtention de financement du gouvernement fédéral et acquisition de biens réels) de l'accord relatif au projet de ligne nord-sud du train léger sur rail pour la ville d'Ottawa (ci-après, « TLR N-S » ou « le projet ») n'avaient pas été réunies et que, par conséquent, l'accord était résilié.

De mars 2005 à décembre 2006, le personnel de la Ville a présenté divers rapports au Conseil à propos du TLR N-S. Ces documents, qui visaient à informer les membres du Conseil de l'avancement du projet, des résultats des travaux effectués par le personnel, des activités planifiées et des questions nécessitant une décision ou des directives du Conseil, comprenaient certains renseignements financiers liés au TLR N-S. Vu son envergure, le projet de TLR N-S était lourd de répercussions financières. Les renseignements financiers fournis par le personnel traitaient notamment des coûts liés au projet (coûts d'immobilisations et de fonctionnement), du financement, des autres projets d'infrastructure que l'on prévoyait réaliser de concert avec le TLR N-S et des répercussions financières des diverses options envisagées.

Portée et objectifs de la vérification

Objectif général de la vérification

Le présent rapport se veut une évaluation des facteurs qualitatifs qui sont, par définition, sujets à interprétation. Nos procédures de vérification ont été conçues de manière à recueillir efficacement des preuves indépendantes et objectives, mais l'élément de subjectivité demeure.

Objectif de vérification n° 1

Procéder à l'évaluation qualitative des renseignements financiers présentés au Conseil municipal de mars 2005 à décembre 2006 à l'égard du projet de TLR N-S. En comparant ces renseignements à divers attributs qualitatifs, la vérification allait permettre de cerner des possibilités d'amélioration.

Objectif de vérification n° 2

Examiner l'exactitude des dépenses engagées par la Ville relativement au projet de TLR N-S avant la résiliation, en décembre 2006, de l'accord relatif au projet, l'objectif étant de vérifier que les 62 millions de dollars rapportés au Conseil, ainsi que la partie portant sur les dépenses, concordaient avec les renseignements contenus dans les documents justificatifs.

Par souci de clarté, la vérification ne portait ni sur les renseignements généraux et techniques fournis, le choix du tracé, le mérite du projet ou sa justification, ni sur les autres renseignements non financiers présentés au Conseil relativement à ce projet. De même, sauf indication contraire, nous n'avons pas confirmé, vérifié ou autrement validé les renseignements financiers relatifs au TLR N-S que le personnel de la Ville nous a fournis aux fins du présent exercice.

Sommaire des principales constatations

Principaux points à améliorer relevés au cours de la vérification :

1. Vu l'incidence de la décision prise par le Conseil le 6 décembre 2006 d'habiliter le maire et le directeur municipal à négocier des modifications au projet afin d'éliminer une partie du tronçon du centre-ville conformément aux conditions de l'accord relatif au projet, il s'avère évident que le Conseil doit être informé des conditions clés de manière proactive. Les interviews avec les conseillers et les documents examinés ont soulevés que le risque qu'un tel changement de l'envergure du projet compromette les ententes de financement conclues avec les gouvernements fédéral et provincial ne semble pas avoir été bien saisi.
2. Le format de présentation des rapports doit exposer les faits importants et servir à rappeler en tout temps au Conseil son rôle de décideur et de superviseur. C'est ce qui ressort très nettement de la confusion entourant le coût total du projet et les conséquences de la modification de l'envergure même du projet.
3. Toutes les estimations financières doivent être présentées de façon claire. Dans les rapports soumis au Conseil, aucune distinction nette ne dégageait les données établies (confirmées) des données incertaines (estimations du personnel), ce qui explique en partie la confusion quant aux véritables répercussions financières du projet.

4. Toutes les données financières doivent être appuyées par des documents justificatifs. On ne nous a pas fourni de tels documents pour certains éléments clés tels que les coûts du prolongement de la ligne jusqu'à Barrhaven (24 millions de dollars) et les coûts associés au report du projet (de 65 à 80 millions de dollars).
5. L'entente de confidentialité a posé problème à beaucoup de conseillers et devrait être réexaminée pour permettre la divulgation des renseignements financiers sans dévoiler des renseignements constituant une propriété intellectuelle.

Recommandations et réponses de la direction

Recommandation 1 : Source et contexte des renseignements financiers

Que la Ville veille à ce que la source (estimation du personnel, montant confirmé ou véritable, estimation d'un tiers, etc.) des renseignements financiers soit suffisante pour donner au Conseil une idée de sa fiabilité.

Réponse de la direction

La direction est d'accord avec cette recommandation.

La direction demeure préoccupée par l'assertion selon laquelle les renseignements financiers fournis étaient inexacts ou insuffisants. Le jugement du vérificateur général quant à ce qui était « suffisant » au chapitre des renseignements financiers fournis dans le cadre du projet constitue, comme l'indique le rapport, une analyse subjective (v. le point 5.1.4 du rapport). En ce qui a trait à l'exactitude des renseignements, toutes les données ont été vérifiées de nombreuses fois par plus d'un membre du personnel avant d'être communiquées.

La direction a reconnu la complexité du projet et a fourni des précisions lorsqu'on le lui a demandé. La direction a bel et bien présenté au Conseil, de manière uniforme et dans un format familier à celui-ci, la source de tous les renseignements financiers.

Recommandation 2 : Axer les renseignements financiers sur les questions essentielles

Que la Ville veille à ce que les renseignements financiers fournis au Conseil comprennent seulement les détails importants les plus pertinents pour l'exercice par ce dernier de son rôle de décideur et de superviseur. Les renseignements généraux devraient être limités.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Dans le cas du projet de TLR, des renseignements généraux complémentaires ont été fournis à la suite de questions et de problèmes soulevés par le Conseil. Ces clarifications portaient surtout sur les études de planification réalisées au cours des années précédant le début du processus d'acquisition (p. ex., Plan officiel, Plan

directeur des transports, Étude sur l'expansion du réseau de transport en commun rapide). À la suite de ces demandes, le personnel a dû présenter à nouveau certaines principales constatations découlant de ces études pour rappeler au Conseil les bases sur lesquelles il s'était appuyé pour autoriser le processus d'acquisition en vue de la réalisation du projet de TLR.

Recommandation 3 : Uniformiser la présentation des rapports relatifs à un projet

Que la Ville établisse un format uniformisé pour les rapports relatifs à un projet à long terme afin qu'ils aient le même aspect et le même esprit tout au long du projet. Ce format devra permettre la communication rapide et efficace des renseignements financiers essentiels et diminuer le risque de confusion découlant de la modification de l'envergure du projet ou de questions d'ordre comptable, budgétaire ou technique. (Voir le format présenté en annexe du rapport de vérification intégral à titre d'exemple.)

Réponse de la direction

La direction est d'accord avec cette recommandation.

La direction signale que les rapports portant sur le TLR ont suivi de près le processus budgétaire employé par la Ville, lequel est en principe très familier au Conseil. À mesure que de nouveaux renseignements ont été obtenus et que le processus s'est précisé, l'envergure du projet a été modifiée, ce qui s'est répercuté sur les questions financières et techniques. La direction a veillé à ce que le Conseil soit toujours informé rapidement de ces changements.

Dans le cadre de ses initiatives d'amélioration permanente, la direction se penchera sur la création d'un format plus uniforme pour les rapports au Conseil.

Recommandation 4 : Renseignements financiers estimés

Que la Ville veille à ce que les estimations fournies au Conseil soient appuyées de détails suffisants pour que le Conseil puisse en comprendre le contexte et la fiabilité.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Comme il est dit dans le rapport de vérification, la question de savoir ce qui constitue « des détails suffisants » repose sur un jugement subjectif (v. le point 5.1.1 du rapport de vérification). La direction a fourni des détails financiers suffisants au Conseil pour permettre à celui-ci de prendre une décision éclairée.

En décembre 2006, le groupe d'entrepreneurs retenu et le personnel de la Ville ont indiqué clairement au Conseil qu'une estimation plus précise du coût associé au report du TLR N-S ne pourrait être fournie tant et aussi longtemps qu'une date de

commencement des travaux de construction n'aurait pas été fixée et que les négociations avec chacun des sous-traitants ne seraient pas terminées.

Recommandation 5 : Définir la présentation des renseignements financiers dans le cadre d'un plan de communication relatif au projet

Que la Ville intègre la présentation de renseignements financiers au Conseil dans un plan de communication général relatif au projet, lequel devrait garantir que les renseignements financiers concordent avec les points de décision du Conseil et aborder des aspects tels que la façon dont la modification de l'envergure du projet doit être approuvée et communiquée, le niveau de substantialité à respecter dans les rapports ainsi que la nature et le calendrier de présentation de rapports associés au projet.

Réponse de la direction

La direction est d'accord avec cette recommandation.

La direction établira pour les projets semblables un format qui tiendra compte des points sur lesquels le Conseil doit trancher et intégrera la présentation de renseignements financiers dans le plan de communication relatif au projet.

Recommandation 6 : Ententes de confidentialité

Que la Ville considère l'incidence néfaste des ententes de confidentialité, certains membres du Conseil estimant ne pas avoir été pleinement renseignés, et qu'elle étudie les possibilités d'informer avant tout le Conseil des faits financiers d'importance (plutôt que des questions relatives à la propriété intellectuelle à proprement parler).

Réponse de la direction

La direction est d'accord avec cette recommandation.

La direction croit qu'il faut trouver un juste milieu entre la protection de la confidentialité, d'une part, et l'obligation d'assurer la transparence du processus d'adjudication, d'autre part, c'est-à-dire un équilibre entre le droit d'accès à l'information du public, qui permet à celui-ci de s'assurer que l'argent des contribuables est dépensé judicieusement, et la nécessité de protéger l'intégrité de l'appel d'offres concurrentiel, pour que les soumissionnaires aient la certitude que les renseignements confidentiels qu'ils soumettent seront protégés comme il se doit.

Si certains conseillers estiment avoir été mal renseignés au sujet des diverses soumissions, la réalité est pourtant que le processus d'adjudication suivi, y compris l'exigence de confidentialité, est celui que le Conseil avait lui-même approuvé pour assurer la plus grande intégrité et la plus grande équité possible. En créant un comité de sélection, le Conseil a reconnu directement et clairement l'ampleur et la complexité du projet.

Le Conseil a approuvé et institué le comité de sélection afin d'accroître sa confiance à l'égard du processus. Tous les renseignements financiers reçus des promoteurs ont été examinés, analysés et approuvés par KPMG, entité indépendante reconnue, objective et impartiale. Outre ces précautions, un commissaire à l'équité a été embauché pour surveiller le processus et veiller à ce qu'il demeure équitable, ouvert et transparent. Les rapports préparés par celui-ci ont été publiés sur le site Web de la Ville aux fins d'examen par le public.

Recommandation 7 : Communiquer clairement les risques associés aux principaux renseignements financiers

Que la Ville communique intégralement les risques financiers et les activités de gestion des risques connexes liés au projet, notamment en ajoutant de l'information contextuelle sur les risques aux documents divulguant des renseignements financiers, de manière à ce que les conseillers puissent facilement décider de leur niveau d'appui ou de préoccupation à l'égard du projet.

Réponse de la direction

La direction est d'accord avec cette recommandation.

La direction a d'ailleurs présenté, le 12 juin 2006, un rapport dans lequel étaient énoncés les risques auxquels s'exposerait la Ville en allant de l'avant avec le projet (répartition des risques entre la Ville et le groupe promoteur, fonds de gestion des risques, coûts liés aux services publics). À l'occasion d'une séance d'information tenue à huis clos le 14 juin 2006, la direction a présenté en détail les enjeux financiers que représentaient les coûts de déplacement de services publics pour la Ville, la raison et l'ampleur de ces enjeux et la solution recommandée. Le Conseil a adopté la mesure recommandée et le personnel est allé de l'avant en fonction de celle-ci.

Recommandation 8 : Faire connaître les modalités importantes dès le départ

Que la Ville veuille à ce que toutes les modalités importantes associées aux contrats, aux engagements ou à diverses ententes soient communiquées intégralement dès le départ afin que le Conseil ait une idée très claire des responsabilités de la Ville et des risques auxquels celle-ci s'expose.

Réponse de la direction

La direction est d'accord avec cette recommandation.

La direction a effectivement énoncé les principales modalités du contrat à la réunion du Conseil tenue le 12 juin 2006 ainsi qu'à la séance d'information tenue à huis clos le 14 juin 2006.

La direction continuera d'informer les membres du Conseil de toutes les modalités importantes associées aux contrats et aux ententes de sorte qu'ils pourront prendre

des décisions éclairées. Toutefois, il est crucial de continuer à protéger l'intégrité de l'appel d'offres concurrentiel et la propriété intellectuelle des partenaires de la Ville afin de veiller à ce que la Ville demeure un partenaire d'affaires attrayant.

Les modalités réputées faire intervenir la notion de secret commercial par la Division de l'approvisionnement de la Ville continueront d'être exclues des renseignements divulgués au public.

Recommandation 9 : Dépenses déclarées de 62 millions de dollars engagées par la Ville

Que la Ville prenne les mesures voulues pour s'assurer que seules les obligations juridiques sont divulguées au Conseil lorsqu'on lui fait état des sommes comptabilisées mais non dépensées.

Réponse de la direction

La direction est d'accord avec la recommandation, qui se rapporte uniquement à la composante comptabilisée de la dépense de 5,8 millions de dollars mentionnée dans le rapport de vérification. Comme l'indique le rapport, une part de 2,2 millions de dollars de cette somme représentait une obligation juridique, la Ville ayant conclu un engagement en signant des ententes d'acquisition de terrains. Même si les 3,6 millions de dollars restants ne constituaient pas une obligation juridique, ils ont été inclus dans les frais d'exploitation d'immeubles de 23 millions de dollars indiqués dans le rapport présenté au Conseil en décembre 2006. La dépense de 3,6 millions n'était peut-être pas engagée sur le plan juridique, mais faisait l'objet de négociations avec les propriétaires fonciers.

Conclusion

Notre vérification des renseignements financiers présentés au Conseil met en lumière l'engagement du personnel de la Ville à fournir des renseignements financiers pertinents en temps opportun. Il semble que l'on reconnaisse la nécessité de trouver un juste milieu entre les besoins collectifs et individuels des membres du Conseil, de même que l'importance de fournir au Conseil l'appui dont il a besoin pour assumer pleinement sa responsabilité de prendre des décisions de manière à servir le mieux possible les intérêts de la Ville.

Nos interviews avec six membres du Conseil et notre examen de la documentation fournie par le personnel de la Ville révèlent que, selon des critères d'évaluation qualitatifs clés, la communication de renseignements financiers sur le TLR N-S n'a pas dans l'ensemble comblé les attentes de certains membres du Conseil. Il faut donc améliorer la communication de ces renseignements avant que la Ville ne traite les nombreux autres projets d'immobilisations d'envergure à venir.

Comme pour tous les processus complexes, particulièrement ceux qui font intervenir de multiples parties aux intérêts différents, il y a toujours place à l'amélioration. Les leçons découlant du TLR N-S dépassent largement la question de la communication de renseignements financiers. Le présent exercice fait néanmoins ressortir la nécessité de trouver un juste milieu entre uniformité, équilibre et simplicité, et l'importance de toujours souligner les renseignements fondamentaux qui donneront aux conseillers la certitude d'avoir bien saisi toutes les facettes du projet.

Remerciements

Nous tenons à remercier la direction et les six conseillers sollicités de leur collaboration bienveillante et de l'aide qu'ils ont apportée à l'équipe de vérification.

1 Introduction

The Audit of the Financial Information Reported to Council Regarding the Proposed North-South Light Rail Transit Line was included in the 2007 Audit Plan of the Office of the Auditor General, first presented to Council in December 2004.

2 Background

On December 14, 2006, City Council voted to notify the Ottawa LRT Corporation that the necessary conditions to the Project Agreement related to a proposed North-South Light Rail Transit line for the City of Ottawa (the “N-S LRT line” or “the Project”) had not been satisfied and that, as a result, the Project Agreement was terminated. The first condition was the Contribution Agreement condition. Namely, the City, the Province of Ontario, and Canada had not entered into a tri-partite agreement regarding the financial contribution to the Project. The second was the Real Property Interests condition. The City had not obtained certain real property interests from Canada.

During the period of March 2005 through December 2006, City staff provided Council with various reports in concerning the N-S LRT line. These reports were provided by City staff as a means to inform Council on matters including project status, results of staff activities, planned activities, and matters requiring a Council decision and/or guidance. Included in these reports was certain financial information related to the proposed N-S LRT line. Given the scale of the Project, the financial implications associated with the N-S LRT line were considerable. The financial information provided by staff addressed matters such as project costs (capital and operating), financing/funding information, details of other infrastructure projects to be completed in concert with the N-S LRT line, and the financial impact of various courses of action.

2.1 Financial Highlights of the N-S LRT Line

The capital costs for the light rail project, as reported to Council in a memo dated June 19, 2006 were as follows:

	Millions
Base LRT Project	\$744.2*
Project Management Fees	<u>10.0</u>
Base Project	754.2
Optional extension to Barrhaven town centre	<u>\$24</u>
Total LRT project	<u>\$778.2</u>

* Includes \$654.2 million related to a fixed price contract with the Siemens-PCL/Dufferin consortium. The balance (\$90 million) relates to property acquisition, utility relocation and professional services.

2.2 Nature of Staff Reporting to Council

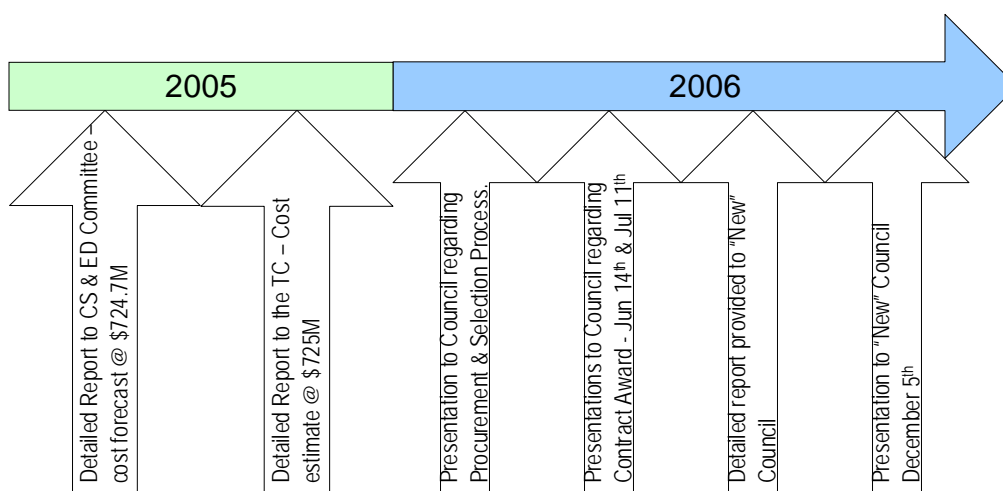
During the period February 2005 through December 2006, City staff provided Council and/or Council Committees with financial information regarding the Project. These reports reflected a number of formats:

Formal presentations – these were in the form of slide decks that were presented by City staff.

Memos – these contain more narrative details than the formal presentations. They were provided by staff in response to specific questions/outstanding items or as considered prudent by staff. The majority of relevant communication made via memos occurred in the Fall of 2006.

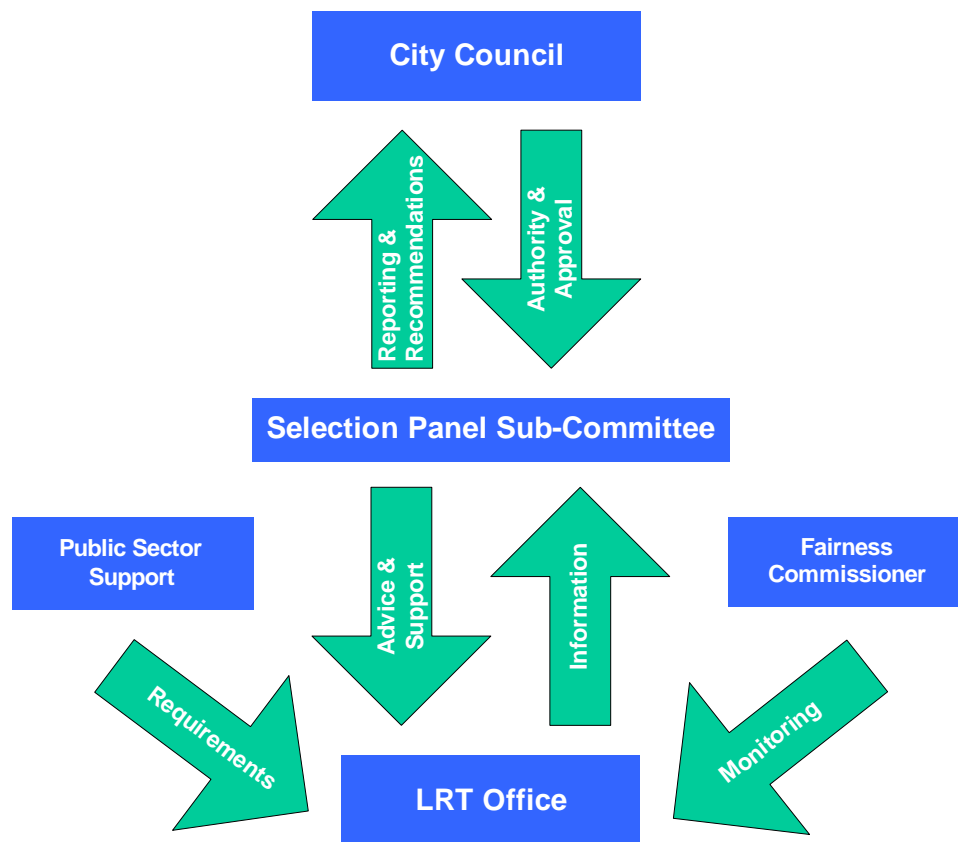
Detailed reports – these reports contained considerable narrative detail concerning the Project. They were typically provided by staff to relevant Council Committees (Corporate Services and Economic Development – “CS&ED”, or the Transportation Committee – “TC”), however, a detailed report was provided directly to the newly-elected City Council in late 2006.

The following is a timeline of key formal presentations and detailed reports:



As described later in this report, the frequency and volume of reporting to Council was significantly higher during the latter stages of the Project – particularly during the period following the City’s signing of the fixed price agreement with the preferred proponent.

Overview of Key Participants: The following diagram provides a view to the various participants in the Project and a high-level view of the related information flows/responsibilities:



Costs Incurred Prior to Termination of the Project Agreement: Prior to termination of the Project Agreement, the City spent or committed certain expenses in anticipation of proceeding with the N-S LRT line. Among these expenses were amounts related to property acquisition, legal/engineering fees, utility relocation, and project office costs. In December 2006, staff reported to Council that the total of these costs is approximately \$62 million.

3 Audit Scope, Objectives and Criteria

3.1 Scope and Objectives

The scope, objectives and criteria of this audit included the following:

Audit General Objective

The audit report is positioned as an assessment of qualitative factors which are, by definition, subject to interpretation. Our audit procedures were designed to efficiently capture independent and objective evidence, however, the element of subjectivity will remain.

Audit Objective #1

Complete a qualitative assessment of the financial information provided to City Council during the period March 2005 and December 2006 in respect to the proposed N-S LRT. By comparing the financial information provided to Council with various qualitative attributes, the audit was designed to identify potential opportunities for improvement.

Audit Objective #2

Assess the accuracy of expenditures incurred by the City in respect of the proposed N-S LRT prior to termination of the Project Agreement in December 2006. The objective associated with this component of the audit is to ensure that the \$62 million reported to Council, and its component expenditures, reflects the information contained in supporting documentation.

For greater clarity, the audit did not address the background, technical, route selection, merit, justification or other non-financial information presented to Council regarding the Project. Likewise, we did not confirm, audit or otherwise validate the Project financial information provided to us by City staff in connection with this audit except as specifically stated herein.

3.2 Audit Criteria

Audit Objective #1

To identify potential audit criteria we researched a number of different authoritative sources. Based on this research, we identified authoritative guidance as published by the Institute of Internal Auditors (the IIA). This guidance was considered particularly relevant to this audit as it identifies seven qualitative attributes associated with the communication of financial information to decision-makers.

Each of these qualitative attributes was leveraged as audit criteria in connection with Audit Objective #1 as follows:

Accuracy	Communications are free from errors and distortions and are faithful to the underlying facts. The manner in which the data and evidence are gathered, evaluated, and summarized for presentation should be done with care and precision.
Objective	Communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Observations, conclusions, and recommendations should be derived and expressed without prejudice, partnership, personal interests, and the undue influence of others.
Clear	Communications are easily understood and logical. Clarity can be improved by avoiding unnecessary technical language and providing all significant and relevant information.
Concise	Communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. They are created by a persistent practice of revising and editing a presentation. The goal is that each thought will be meaningful but succinct.
Constructive	Communications are helpful to the organization and lead to improvements where needed. The contents and tone of the presentation should be useful, positive, and well meaning and contribute to the objectives of the organization.
Complete	Communications are lacking nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions.
Timely	Communications are well timed, opportune, and expedient for careful consideration by those who may act on the recommendations.

Audit Objective #2

Criteria related to Audit Objective #2 are relatively straightforward and are comprised of the following:

- Financial information for the \$62 million is reasonable and supported by adequate documentation.
- Expenses are directly related to the LRT line project.

4 Approach & Methodology

4.1 Approach

Our approach to this audit was based on the efficient and effective achievement of each audit objective. Key audit techniques included document review, interview/survey with Councillors, analysis and discussions with City staff. Below are descriptions of the key elements of our audit approach.

4.1.1 Documentation Review

We reviewed relevant documentation, including:

- Contracts;
- Consultant reports;
- Council and Council Committee submissions and meeting minutes;
- Financial reports/schedules prepared by City staff;
- Supporting documentation including invoices and authorized contracts; and,
- LRT web-site.

4.1.2 Direct Audit Testing (applicable to audit objective #2 only)

We obtained supporting schedules for the \$62 million and traced amounts to supporting documentation including invoices and/or approved contracts. For estimates/accruals, we reviewed documentation and discussed with City staff knowledgeable of the amounts and the nature of the expenditure.

4.1.3 Discussion with City Staff

We met with City staff to obtain additional background regarding the Project and to make requests for documentation.

4.1.4 Councillor Interview (applicable to audit objective #1 only)

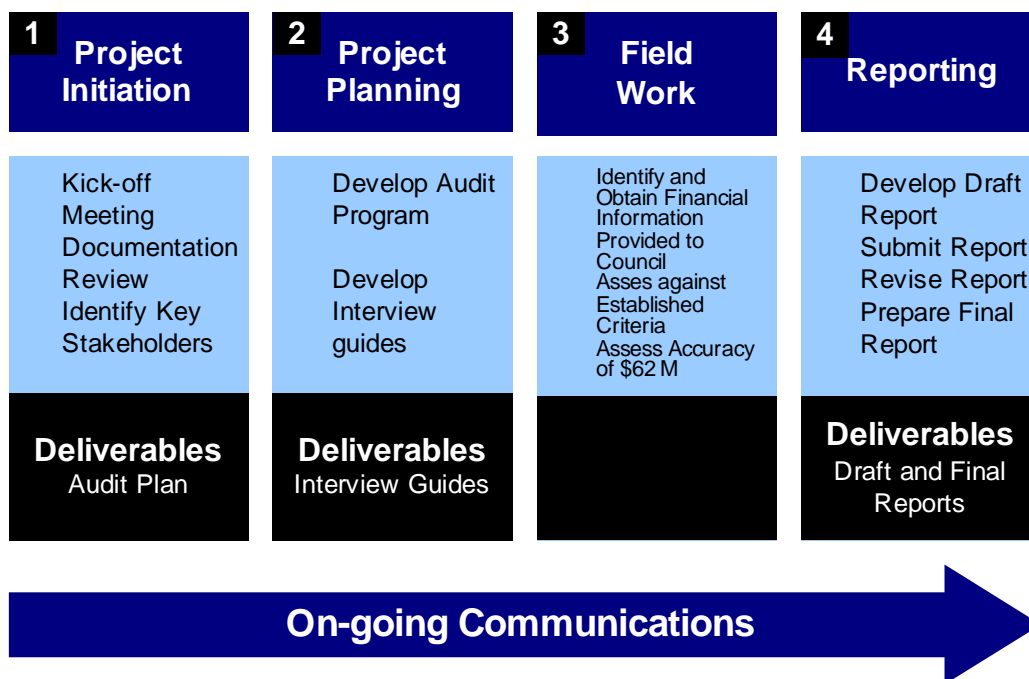
All 24 Council members were provided the opportunity to participate in audit interviews. A total of six Councillors (representing 25% of the total) requested to participate in the audit. As part of the interviews, Council members were provided with definitions of the qualitative characteristics of financial information and provided the opportunity to provide feedback on the financial information provided by staff relative to each of the characteristics.

4.1.5 Analysis

Based on the documentation review and interviews/surveys with Council members, we analyzed the financial information provided to Council against each of the seven qualitative characteristics. To the extent gaps were identified, we developed recommendations.

4.2 Audit Methodology

The audit methodology we followed was based on a four step/stage process as follows:



5 Organizational Strengths

While this report identifies a number of opportunities to improve the way in which staff communicate financial information, our review of documentation and discussions with Council members demonstrated organizational strengths in a number of areas:

- Commitment to providing fulsome and timely responses to Council’s requests for information.
- Adherence to approved project plans and related timelines including commitments to provide information to Council.
- Staff reflected a high degree of professionalism in the preparation and delivery of reports to Council.
- Consistency in the key financial information that appeared from report to report.

- Use reporting formats tailored to the audience (i.e., detailed reporting to Council Committees and summarized/slide decks to Council meetings).
- Inclusion of relevant financial information concerning costs, funding, impact on current and future expenditures/budgets.

It is further notable that when evaluating the qualitative characteristics of financial information, there are some inherent tradeoffs that require staff to make decisions that may not suit each Council member, but in staff's judgment best meet the needs of the entire Council. For example, in the interests of presenting *complete* information, reports are at greater risk of not being viewed as *concise*. This dilemma is compounded by the individual strengths and requirements of Council members insofar as each member offers unique perspectives, skills and experience that may cause him/her to respond differently to information than a fellow Councillor. As such, information pertaining to large and complex projects such as the N-S LRT line is unlikely to fully meet each individual Council member's needs. As described later in this audit report, the key is to deliver information in a format and manner that provides Council with a reasonable basis to make informed decisions on behalf of the citizens of Ottawa. The recommendations provided herein are intended to increase the likelihood that Councillors, as a whole, are sufficiently comfortable regarding their understanding of the financial implications of large-scale projects that are brought forward for their consideration.

6 Observations and Recommendations

6.1 Audit Objective #1

A qualitative assessment of the financial information presented to Council in respect of the N-S LRT line.

Introduction/Overview of Council Member Interviews

As noted earlier, a total of six Council members (25% of the total) agreed to participate in interviews for this audit. During the interviews, these Council members were provided with definitions for the qualitative attributes/audit criteria and were provided with an opportunity to provide feedback regarding each. While there was range of responses across the group, the feedback revealed relatively significant concerns regarding each of the attributes. None of the attributes were highlighted as uniquely problematic; however, the Members interviewed felt that areas of most significant concern were: Timeliness, Objectivity and Conciseness. With the exception of Conciseness, our review of documentation supported the six Member's views that issues were evident across all of the attributes.

The following sections include the detailed results of our key audit procedures (Councillor interviews and assessment of documentation). Each attribute is addressed

individually. At the conclusion each section we provide our recommendations based on our analysis of the issues raised through the audit procedures. In addressing each attribute, we noted common issues that result in the same or very similar recommendations, each recommendation is provided only once upon the first instance of the issue.

6.1.1 Attribute #1 – Accuracy

Definition: Accurate communications are free from errors and distortions and are faithful to the underlying facts. The manner in which the data and evidence are gathered, evaluated, and summarized for presentation should be done with care and precision.

Councillor Observations regarding Accuracy

Councillors expressed a perception of inaccuracy within the financial information provided by staff. While individual Councillors framed specific comments regarding the accuracy of certain information, these comments tended to fall outside of the realm of financial information.

While there was specific reference regarding the accuracy of forecasts for population growth (identified as being incorrect, yet Council was not provided with updated data), the issues described by Councillors suggest that concerns were less related to known factual errors in the financial information and more related to impressions created by a variety of factors. Councillor comments suggest these factors had the impact of raising the general level of scepticism regarding the accuracy of financial information.

Many of these factors appear as observations elsewhere in this report. The common theme is how the Council members' opinion regarding the accuracy of information was impacted by these factors. Examples included:

- The view of Councillors that financial figures were frequently changed/updated, therefore leaving the impression numbers provided were not accurate since they were seen as likely to change.
- The inherent complexities related to such matters as:
 - delineation of marginal costs;
 - net present value concepts;
 - attributing values to “value added” elements of the proposals;
 - classification of Capital vs. Operating treatment for accounting purposes;
 - delineation of matters related to funding vs. matters purely related to cost;
 - and,

-
- The intermingling of the City's other Transit objectives with LRT initiatives (i.e., splitting the cost of the Strandherd Bridge to reflect shared LRT/Vehicle use).
 - The impact of limited information regarding key assumptions (i.e., ridership, population growth, value-uplift) impacting financial forecasts.
 - The impact of limited access to the Bidder's proposals and contract details.
 - Lack of understanding regarding matters such as fair value for land transactions, capitalizing the costs of operations & maintenance (O&M).
 - Media interpretations of financial information that were potentially seen as distorting the information presented to Council.
 - Format, volume and presentation of financial information could be seen as presenting challenges for people with limited expertise in accounting, financial or legal analysis.

Assessment of Documentation

With respect to *accuracy*, the review of documentation indicated that major components of the proposed LRT were consistent from early 2005 through the end of 2006.

In terms of the major cost factors, a report prepared by a large accounting firm in April 2006 indicated that the Siemens group did present the lowest priced proposal. However, reports to Council did not include reconciliation between the original bid value and the final construction cost presented (\$654.2 million vs. original bid value of \$721.5 million). In contrast to our 2006 audit of the P3 Process, such reconciliations were provided to Council.

While we noted minor issues of figures not adding correctly, the overall results of the documentation review generally supported the results of Councillor interviews. An example of these minor issues is the report to Transportation Committee dated October 21, 2005, where two options were presented regarding Bayview and Hurdman Stations as Transit Hubs. The total of individual costs associated with each option does not add up to the identified total cost of each option.

The financial information contained within the significant volume of LRT-related documentation provided to Council, while consistent in terms of details, required considerable focus and financial acumen in order to ascertain that the figures were indeed consistent.

Key themes identified in the document review regarding accuracy were as follows:

- There was very little information provided regarding the source of various financial figures. Amounts would be provided with no context regarding the source, its

reliability, actual vs. estimate, and date, etc. In many cases, meeting minutes indicate that Council had some difficulty separating the core issues from background or secondary items. For example, documentation suggests that following a major presentation from staff, Council members were not clear about the costs of the Project. Our review of the reports support the concern that basic information was not always highlighted in a manner that would ensure the highest likelihood of retention by the reader. As noted earlier, Council was not clear about costs of the project following the June 14th presentation – thereby prompting staff to issue a supplemental memo on June 19th. Further, our review of the presentations along with input from Councillor interviews support a concern over the source/reliability of information and the ability of readers to separate core from ancillary issues. We are suggesting that, although the format may be familiar to Council, it is not as effective as it could be in terms of clarity of message.

- Presentation was not always consistent from report to report. This may have contributed to the Councillors scepticism regarding accuracy as the nature and frequency of requests to staff for additional information suggests a lack of confidence in the figures provided. An example of this was the presentation of project expenditures in terms of funding sources/uses which we found to be potentially confusing compared to a focus on Project costs. Our opinion is that the format of the presentation did not leave Council with a clear view of the total cost of the project.

Recommendation 1: Source and context of financial information

The City should ensure that the source (i.e., staff estimate, confirmed/actual amount, external estimate, etc.) of financial information is sufficient to provide Council with a context regarding its reliability.

Management Response

Management agrees with this recommendation.

Management remains concerned with the statement that the financial information provided was not accurate or sufficient. The Auditor General's assessment of what was "sufficient" with respect to financial information provided for in this project is, in the words of the report, a subjective analysis. (Ref Attribute 5.1.4) As it relates to accuracy, all information was verified numerous times by many different staff prior to its release.

Management recognized the complexity of this project and provided additional clarity when requested. Management did present the source of all financial information in a consistent and familiar manner to Council.

Recommendation 2: Financial information should focus on core issues

The City should ensure that financial information provided to Council includes only those key details that are most relevant to Council’s decision-making and oversight role. Background information should be limited.

Management Response

Management agrees with this recommendation.

In the LRT project, additional background information was provided as a result of questions and issues raised by Council. These clarifications predominantly related to previous planning studies that had been completed in the years prior to the start of the procurement process (e.g. Official Plan, Transportation Master Plan, Rapid Transit Expansion Study). These requests required staff to present some of the major findings of these studies again as a reminder to Council that this was the basis upon which they had approved the procurement process for the implementation of the LRT project.

Recommendation 3: Project reporting should reflect a consistent format

The City should develop a standard project reporting format that will promote a common “look and feel” throughout the course of a long-term project. This format should quickly and efficiently communicate basic financial information and seek to minimize the risk of confusion created by changes in project scope or matters related to accounting, budgeting or technical matters. See Appendix for an example format.

Management Response

Management agrees with this recommendation.

Management notes that the LRT reports followed closely the budgeting process used by the City, which would have been very familiar to Council. As new information was received and the process was refined, changes in the project scope occurred, which in turn, affected the financial and technical matters. Management ensured that Council continued to be briefed in a timely fashion on these changes.

Management will review the development of a more standardized format for Council reports as part of its continuous improvement initiatives.

6.1.2 Attribute #2 - Objectivity

Definition: Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Observations, conclusions, and recommendations should be derived and expressed without prejudice, partisanship, personal interests, and the undue influence of others.

Councillor Observations regarding Objectivity

Councillors expressed some fundamental concerns regarding the objectivity; most of their comments were not directly related to the financial information provided to Council. Their concerns regarding objectivity can be summarized by suggestions that:

- Staff were under some pressure to make the N-S LRT a reality and were therefore biased to ensure the financial figures supported a strong case to move forward.
- In the same vein as above:
 - Staff presentations were characterized as “selling” the project
 - Scepticism over cost/revenue estimates that appeared aggressive and/or were coincidentally aligned with Federal/Ontario funding commitments (i.e., sentiment that building the project the City had money for, rather than necessarily the right project).
 - Scepticism regarding the objectivity of forecasts given the City’s history with forecasting (Councillors cited examples including the O-Train and Transitway).
 - View that a number of key options were either not considered or deliberately downplayed (i.e., downtown tunnel, expanded O-Train, etc.).

A positive comment received from Councillors was regarding staff’s continual commitment to provide information requested.

Assessment of Documentation

With respect to *objectivity*, the review of documentation did not reveal obvious issues regarding the objectivity of financial information. While there were potential weaknesses regarding presentation format and technical complexities that impacted the utility of the numbers, we did not identify any obviously biased or missing financial information that would otherwise skew the reader’s ability to make an unbiased assessment.

There were, however, qualitative factors that might impact the perceived objectivity of the figures:

- Timing –Staff’s discipline and diligence regarding the Project Timetable as set in 2005 was evident throughout. While this is commendable, there is a risk that objectivity regarding how and what information is presented may be supplanted by a desire to ensure project timelines continue to be respected. We are not suggesting evidence that objectivity was compromised, but rather highlighting the need to balance (1) the need to provide Council with sufficient time to consider information with (2) the need to meet pre-determined project milestones.

- In a number of the major presentations to Council, particularly in the summer of 2006, the information presented to Council, in our opinion, did not include potential disadvantages. For example, when options for approval vs. non-approval were presented there tended to be no “negatives” associated with approval and no “positives” associated with non-approval. We noted that this was not the case for the new Council in December 2006 where staff presentation did include benefits associated with not moving forward. Where we see opportunity for improved objectivity is regarding the information provided concerning the pros and cons of alternate courses of action.
- The flow of meeting minutes, presentations, etc with Council did not evidence a situation where Council had (or took) the opportunity to reflect on their information needs relative to the LRT. Rather, the information flowed from staff to Council with Council asking for clarifications or more details. Having Council set the agenda for the key information they need in a proactive, rather than reactive, manner would contribute to objectivity.
- Similar to the point raised regarding objectivity, there were key financial factors that were not fully explained or supported in the Council submissions. A key example was the costs associated with not proceeding with executing the contract with Siemens by 14-Dec-06. For example, staff had consistently reported that the costs associated with delaying the project past the Fall of 2006 were in the range of \$65-80 million, yet despite the significance of this amount, there were few details to support either the accuracy or objectivity of this amount. The support provided to Council was in the form of general statements regarding the impact of construction delays (i.e., scheduling rail car production, impact of encroaching on the winter season) would result in a 10-12% increase in the capital cost of the Project. No documentation was provided to support this increase. The \$65-80 million figure was a high-level estimate provided by the consortium. It is our opinion that this number should have been broken down into greater detail for Council. In addition, the consortium estimate should have been validated by staff.

Recommendation 4: Estimated financial information.

The City should ensure that estimates provided to Council are supported with sufficient detail to provide Council with a means to understand the context and reliability.

Management Response

Management agrees with this recommendation.

As the audit states, the matter of what cost constitutes “sufficient detail” is a subjective assessment. (Ref 5.1.1) Management did provide sufficient financial detail to Council to allow for an informed decision to be made.

In December 2006, on the matter of the cost of delaying the N-S LRT project, it was made clear to Council by the consortium and City staff that a more refined estimate of this cost could not be provided until a firm date to start the project was determined and negotiations with each subcontractor were completed.

6.1.3 Attribute #3 - Clarity

Definition: Clear communications are easily understood and logical. Clarity can be improved by avoiding unnecessary technical language and providing all significant and relevant information.

Councillor Observations regarding Clarity

As noted at the outset of this document, Councillors interviewed by the Office of the Auditor General indicated that clarity was the least of their concerns. Despite the results of the informal survey, there were a number of clarity-related themes evident from the responses received:

- It was not clear how the Project fit with the City's master plan.
- Financial information not easily understood such that basic questions could be answered by non-accountant/finance people (i.e., NPVs, allocating staff salary costs to a project, etc.).
- Marginal costs of the LRT vs. costs that would have otherwise been incurred.
- Not clear about the source and impact of financial information outside of the base LRT project.

Assessment of Documentation

With respect to *clarity*, the review of documentation indicated that the presentations made to Council did require considerable focus and financial acumen to follow the flow and consistency of financial information. As noted earlier, there were a number of inherently complex issues associated with a project of this magnitude. Documentation supports the assertion that City staff made efforts to enhance clarity of information using a number of techniques including:

- PowerPoint deck formats with clear titles, bullet-point format and summaries;
- Regular use of tables;
- Rounding amounts and summarizing details into broad categories;
- Consistent use of terminology; and,
- Use of milestones.

While these efforts enhanced clarity, the documentation also revealed, for some Councillors, a number of potentially confusing concepts/presentation formats regarding financial information.

These included:

- The varied and mixed used of NPVs (net present values), future/historical dollar values (i.e., “2010 Dollars” or “2003 Dollars”) and current dollar values.
- Limited introduction to the context of financial information. That is, cost information was often presented in a format that supported the consideration of budget/authority/ funding rather than identifying a clear picture of actual costs and its various components (design & build, O&M, Cap leases, Project Office, Project Manager, etc.). This was evident in the June 19th report to Council whereby staff was specifically asked to clarify a basic question regarding costs of the project.
- Limited clarity on how decisions were made at the staff level. For example, the significance of new information potentially requiring the attention of Council.

Clarity was also impacted by the issue concerning proposal details. As noted, the value of the original proposals was ultimately made public was indicated as \$721.5 million whereas the Design/Build cost consistently presented to Council was \$654.2 million. While presumably the numbers changed during the period of contract negotiation, from the documentation it is unclear what drove the changes that ultimately allowed the total cost to fall within the budget allocation. The cost of the “optional extension to Barrhaven Town Centre” was consistently reported as a “negotiated” cost of \$24 million, and it was not clear how this figure was derived. We acknowledge that the cost of Barrhaven extension (\$24 million) was disclosed and that the 12 Jun 06 report indicates this represents a savings of \$9 million over the original plans (for 2009 construction). Our observation is related to the foundation for the amount. If, as management suggested, the amount was derived from an “established procurement process” then this was not made clear in the Council reporting nor is it clear that Council would have appreciated the mechanics of this process.

Recommendation 5: Presentation of financial information should be addressed within a project communication plan

The City should incorporate financial reporting to Council into the overall project communication plan. This plan should ensure that financial reporting is aligned with Council decision points and address such details as: how changes in project scope will be approved and communicated, what level of materiality for reporting will be used, and the nature/timeline of project-specific reporting.

Management Response

Management agrees with this recommendation.

For similar projects, management will develop a format that aligns with Council's decision points and incorporates financial information into the communication plan for the project.

6.1.4 Attribute #4 - Conciseness

Definition: Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. They are created by a persistent practice of revising and editing a presentation. The goal is that each thought will be meaningful but succinct.

Councillor Observations regarding Conciseness

While the informal survey with Councillors indicated that conciseness ranked as a poor performance area out of the various attributes, interviews indicated that Councillors did not generally view the information provided as superfluous or otherwise including unnecessary details. They did, however, have concerns regarding their ability to digest the information in the time required (evidence of a timeliness issue - see Section 5.1.7).

Assessment of Documentation

With respect to *conciseness*, the review of documentation indicated that the presentations made to Council reflected a desire on staff's part to be concise, while respecting the complexity of the project. While supporting documentation was, at times, quite voluminous, these documents shared the characteristics of a professionally worded report. Further, the use of PowerPoint presentations and brief memos appeared to be an effective means to concisely communicate developments and articulate decision points throughout the project. In fact, there were examples whereby the PowerPoint presentations may have actually lacked details and/or context such that additional information was subsequently requested by Council.

Overall, it does not appear that conciseness was a major concern. The project is complex and, while there were issues with other qualitative aspects of the financial information, staff appeared to have made reasonable efforts to be concise with their presentations to Council.

6.1.5 Attribute #5 - Constructiveness

Definition: Constructive communications are helpful to the organization and lead to improvements where needed. The contents and tone of the presentation should be useful, positive, and well meaning and contribute to the objectives of the organization.

Councillor Observations relative to the *Constructive* Attribute

Councillors expressed the most concern and frustration regarding their inability to view certain confidential information such as the proposals received from each of the three proponents. Without access to this information, the usefulness and context of the financial information that was provided was seen as lacking. Other concerns were raised during the interviews that address the usefulness of information; however, most of these points were related to perceived gaps in the information and/or issues related more closely to objectivity or timeliness.

While some of the Councillors indicated that the usefulness of information improved through the summer and into the fall of 2006, there were various observations suggesting that the information could have been more constructive:

- There was limited information to link the Project to the City's long-term growth plans, the process of how options were identified/pursued/rejected, and risk management objectives.
- Changes in project scope and associated costs added to the complexity of an already complex project – volume of information impacting its usefulness.
- Perceived gaps or misunderstandings regarding certain information – contract terms, results of key staff decisions regarding project direction, timelines/deadlines.

In general, Councillors interviewed were supportive of staff's professional approach to presenting information to Council.

Assessment of Documentation

With respect to the *constructive* attribute, the review of documentation indicated that the presentations made to Council appeared to provide them with the key financial information necessary for them to make informed decisions. The key evaluation factor is: 'whether Council had the financial information it required to make an informed decision?' While there are a myriad of other considerations, this simply means being in a position to answer the following:

- How much will the project cost?
- Does the project fall within the City's financial constraints?
- What are the risks that the financial figures may prove correct and are we willing to accept this risk?

While there were issues (regarding objectivity, clarity, volume of information, details regarding source of information, and the time provided to Council to digest certain

information, etc.), the basic financial information provided to Council appears to address the first two bullets. A potential gap is regarding the risks associated with the financial figures. Without some basis to assess risks associated with costs, duration, financing, and ridership, etc., the financial information provided loses some credibility in terms of usefulness. We realize that the risk transfer resulting from the “P3” arrangement and certain other risks retained by the City were presented within the detailed report of 12 Jun 06. The risks referenced in our observation relate specifically to other risk considerations including: inability to fulfill conditions of the contribution agreements, ridership/population growth will not be realized, value up-lifts will not be realized, etc.

Regarding the restriction placed on Council members wishing to view details of the proposals submitted by the three proponents, we share the concern that such restrictions have a negative impact on the quality of information and the confidence that Council members have in the process. For example, only once information concerning the individual LRT bids became public knowledge did the differences in the bidder’s quotations become known. If Council had access to this detail at the procurement stage, they may have raised additional questions regarding the nature of differences between the proponent bids or other questions that would influence their individual level of understanding of the Project. The table below outlines an example of the type of high-level cost details that should have been made available to Council. We believe that a more detailed breakdown would have allowed Council to compare pricing on different components and make a more informed decision.

Item	PROPONENT		
	Kinkisharyo	Bombardier	Siemens
Design, Constructions & Testing			
Vehicles			
Electrical & mechanical			
Integration			
Taxes			
Total for Train			
Strandherd Bridge, including taxes			
Total Train & Bridge			

We acknowledge that the procurement process was adopted by Council, however, our interviews with Councillors suggest they were not satisfied with the restriction this process imposed on them. We understand that such Non-Disclosure Agreements are used. Our observation is simply that we identified evidence that some Councillors were

uneasy with their limited access to the proposals and that staff should work with them to address these issues.

Documentation review also revealed two additional comments related to usefulness of the information. These related to the earlier point that Council does not appear to have (or possibly have had the opportunity to) provide staff with their fundamental requirements:

- Expectations regarding the nature, format, frequency of financial information required was not evident from the documentation. Instead, the documentation trails tend to indicate a rather reactive position whereby staff would present information that they believed to be most reflective of Council's requirements. If there were questions, additional information would be provided at a later date. A lack of standard reporting templates meant that presentations did not always link to each other nor was the context/nature of information provided clearly evident in terms of how it might impact Council's decisions.
- While Council's direct questions (noted in the Minutes) were responded to by staff, there was no evidence of a consistent view of the timeline, key decision points, impact of those decisions and tracking against overall project objectives/constraints. This supports Councillor's view that the impact of their decisions was, at times, seen as being lost in the process and volume of perceived revisions through the course of the project.

Recommendation 6: Non-Disclosure Agreements (NDA)

The City should consider the negative impact of NDAs in light of some Councillors' views that they were not fully informed. Options that will provide Council with a view to the financial highlights (rather than intellectual property per se) should be explored.

Management Response

Management agrees with this recommendation.

Management believes the duties of confidentiality must be balanced with the need for transparency and openness in the public tendering process. It is a balance between the public's right to access information to ensure public dollars are being well spent and the need to protect the integrity of the competitive bidding process so that bidders trust that any confidential information submitted will be properly protected.

Although individual Councillors may have felt uninformed, with respect to the various bids, the reality is that the procurement process, including the requirement for confidentiality, was one that Council itself had approved to ensure the highest

integrity and fairness possible. The creation of the Selection Panel was a direct and stated recognition by Council that this was a large and complex project.

The Selection Panel was approved and created by Council to give itself additional confidence in the process. All of the financial information received from the proponents was reviewed, analysed, and vetted by KPMG, another well-known, objective and impartial body. Over and above these safeguards, was the inclusion of a Fairness Commissioner who was hired to monitor the process in order to ensure a fair, open and transparent process. Regular reports were prepared by the Fairness Commissioner and were made available for public review on the Web site.

Recommendation 7: Risks associated with key financial information should be clearly disclosed

The City should fully disclose financial risks and the related risk management activities associated with the projects. This includes adding risk context to financial disclosures so that Councillors can easily determine their level of support or concern.

Management Response

Management agrees with this recommendation.

Management did present on 12 June 2006, a report that included a discussion of the risks in proceeding with the project (i.e. the allocation of risk between City and Consortium; the risk management fund; and utility costs). In a separate in-camera briefing on 14 June 2006, management provided a detailed presentation of the City's financial exposure to utility relocation costs, the reason and magnitude of the exposure, and a recommended course of action. Council agreed with the action recommended and staff proceeded on that basis.

6.1.6 Attribute #6 - Completeness

Definition: Complete communications are lacking nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions.

Councillor Observations regarding *Completeness*

Councillors expressed consistent frustration regarding their inability to view certain private/confidential information without signing a Non-Disclosure Agreement which would only serve to prevent them from publicly discussing these details. Not only did this leave a potential gap in terms of significant and relevant financial information, it created an impression with many Councillors that information was somehow incomplete or may have been biased against financial facts that detracted from the appeal of the project.

Specific examples of information gaps perceived by the Councillors interviewed included:

- Native claims (the impact of native land claims within the City of Ottawa and how the presence of these claims may impact the City's ability to procure the necessary parcels of land to construct the LRT line) withheld until solution/ workaround was identified;
- Full costs associated with abandoning the O-Train;
- Components of projected Operating & Maintenance Costs;
- Financial details early in the process (2005);
- Options considered and financial considerations referenced in decisions; and,
- Risks and downsides related to potential courses of action that did not align with staff's recommendations.

Assessment of Documentation

Of particular interest during our review of documentation was the financial information related to the Federal and Provincial contributions to this Project. By way of background, the City signed a fixed price agreement with Siemens on 15 Sep 06. This agreement contained a provision allowing for up to 90 days (or 14 Dec 06) for specific conditions to be satisfied or waived by the applicable party. A key condition for the City was that the agreement was reached with both levels of Government regarding their commitment of up to \$200 million each to the Project. In October 2006, the Federal Government (Treasury Board) announced that its contribution was contingent on the approval of the Project by the newly-elected Council following the 13 Nov 06 municipal elections. On 6 Dec 06, the newly elected Council passed a resolution supporting the Project, however they also passed resolutions delegating authority to the Mayor and City Manager to negotiate the dollar value savings of removing the downtown sections from Lebreton Flats to the University of Ottawa pursuant to the terms of the Project Agreement. Both levels of government communicated to the City their continued \$200 million commitment, however, both levels also reiterated that the funding was contingent on their respective due diligence processes. Since the new Council voted to consider revisiting the downtown portion of the LRT Line, this due diligence process would not be completed for some time if changes were to be made. On 14 Dec 06, Ontario signed a Contribution Agreement. Canada did not, and said it would not be in a position to by December 14, 2006, as it wanted to carry out further due-diligence. As a result of Canada's failure to enter into a Contribution Agreement and another unsatisfied condition, the Project Agreement was terminated in accordance with its terms. By a vote of 13 to 11, a Council motion was passed on 14 Dec 06 to notify the Ottawa LRT Corporation that the necessary conditions to the Project Agreement had not been satisfied and that, as a result, the Project Agreement was terminated on 14 Dec 06".

Multiple references to having the Project delayed past mid October 2006 would cost the City some \$65–80 million (i.e., 10-12%) in additional costs (this was not characterised as a legal obligation, rather an operational risk due to scheduling and construction delays; further, there was no documentation provided to support this estimate). The \$65-80 million figure was a high-level estimate provided by the consortium. It is our opinion that this number should have been broken down into greater detail for Council. In addition, the consortium estimate should have been validated by staff.

Further staff stated in a memo to Council that they had no reason to believe that funding agreements with the Federal and Provincial Governments would not be executed before the contractual deadlines.

Information was provided to Council regarding the status of both the implications of the fixed price agreement with Siemens and the status of the Federal/Provincial contributions. There is, however, evidence that certain financial considerations, such as the 90-day period for specific conditions to be satisfied, may not have been adequately understood until after high-profile interest in the Project from the Federal Government in early October. This interest was apparently unexpected and contributed to an increase in the frequency and significance of staff reporting to Council during a time which Councillors were preparing for an election. Despite the background and explanation offered by staff during the period prior to the municipal election, it was apparently still not clear to the “new” City Council that the Federal and Provincial funding commitments were based on the Project as proposed and that any change in scope would require explicit investigation and approval by both levels of government. Despite this, the new City Council voted to negotiate a change to the Project by removing the downtown portion of the LRT line pursuant to the terms of the Project Agreement. Overall, it appears that staff may have assumed the Project would continue to proceed according to Plan (as it had for nearly two years) and therefore did not anticipate the possibility of “last minute” intervention by a major contributor.

With respect to other matters regarding *completeness*, our review of documentation indicated that the presentations made to Council included significant and relevant financial information with a few notable exceptions:

- The reports did not address any aspects of the bidder’s proposals other than to identify the preferred proponent. There is an inherent information gap when the bid provided by the selected proponent is adjusted through negotiation to arrive at a new cost for the project. There appears to be justification for Councillors feeling that they were missing information.
- Also as noted earlier, there was very limited evidence of support for various financial figures provided in the Council materials. An example would include the

\$65-\$80 million estimated impact of delaying the project to past the Fall of 2006. This was a significant number and particularly problematic given the Treasury Board's comments that there would be no issues with deferring the decision on the project to the "new" Council.

Recommendation 8: All key terms and conditions should be disclosed up front
The City should ensure that all key terms and conditions associated with contracts, commitments or other agreements are fully disclosed up-front so that Council has a very clear understanding of the City's risks and responsibilities.

Management Response

Management agrees with this recommendation.

Management did outline the key terms and conditions associated with the contract at the 12 June 2006, Council meeting and at the 14 June 2006, in-camera briefing session.

Management will continue to inform Council of all key terms and conditions in contracts and agreements in order for them to undertake an informed decision. However, the need to continue to protect the integrity of the competitive bidding process and the intellectual property of City partners is critical, to ensure that the City remains an attractive business partner.

Terms and conditions that are ruled as commercially confidential by the City's Procurement division will continue to be exempt from public disclosure.

6.1.7 Attribute #7 - Timeliness

Definition: Timely communications are well timed, opportune, and expedient for careful consideration by those who may act on the recommendations. The timing of the presentation of engagement results should be set without undue delay and with a degree of urgency so as to enable prompt, effective action.

Councillor Observations regarding Timeliness

As noted at the outset of this document, Councillors we interviewed were critical regarding the timeliness of financial information provided by staff. For greater clarity, they had no issue with staff's commitment to be responsive to their requests. The concern over timeliness was confined to their view that in many cases Council did not have enough time to properly "digest" the information provided. This was particularly true in December 2006 when the "new" Council was given very little opportunity to become familiar with relevant details of a rather complex undertaking that they were then asked to approve. Councillors suggested that they were provided with reports (some were >100 pages) on the same day of the Council meeting where they were asked to vote their views on the project.

Other examples of perceived lack of timeliness included:

-
- Not knowing that certain options had been considered by staff, and rejected, until well after the fact (i.e., expanding the existing O-Train, building a tunnel through the downtown corridor).
 - The native land claim issue should have brought to Council earlier.
 - Perception that Councillors did not always receive the updated information regarding the actual costs of the project.

Assessment of Documentation

With respect to *timeliness*, the review of documentation indicated that no less than 18 major reports were provided to Council regarding LRT during the period February 2005 through December 2006. The biggest time gap was between the February 2005 submission to the CS & ED Committee and the June 2005 report to the Transportation Committee. In assessing timeliness, we considered both the response time of staff to bring matters to Council's attention and the amount of time afforded Council to review information in advance of being asked to vote.

Our findings are as follows:

- Staff were very responsive to requests for information made by Council;
- Staff provided information to Council in advance of decision points;
- Information regarding costs associated with delays was provided well in advance of the deadlines;
- Reporting was aligned with the project timetable until the fall of 2006 when various factors created the need for additional information on an ad hoc basis; and,
- Binders prepared for New Council were thorough and the PowerPoint deck was timely.

Overall the review of documentation suggests that financial information was reported to Council in a manner that reflects a staff commitment to delivery timely communications. As noted in 5.2.6, there was a marked increase in the frequency of communications near the final weeks of the Project (October through early December 2006) and that the timeliness of this information was impacted by both the urgency of the matters at stake (funding from the Federal Government was brought into question) and the impact of the 13 Nov 06 municipal election. Further, we are not suggesting that all Councillors may actually have been provided with enough time to review the materials, but it does suggest that staff made reasonable efforts to afford Council as much time as possible.

6.2 Audit Objective 2

To evaluate the reported expenditures on the N-S LRT line during the period of March 2005 through December 14, 2006.

6.2.1 Audit Criteria

- The \$62 million expenditures and its components are accurate as reported.
- The expenditures are supported by appropriate documents.

Background:

- In December reported expenditures of \$62 million were provided to Council as follows:

Email from staff	
Description	Amount
Property	\$23 Million
Utility Relocation	9
EA Process	4
Honoraria	2
Legal, Engineering	18
LRT Office	6
Total	\$62 Million



- We obtained information from the Project Office regarding project expenditures, amounting to \$62.9 million with the following breakdown:

Description	Expended (\$ Millions)	Accrued but not Spent	Total
Properties	\$19.1	5.8	\$24.9
Utilities	1.3	3.1	4.4
EA Process	4.0	0.0	4.0
Honoraria	3.0	0.0	3.0
Legal/Engineering	15.2	4.0	19.2
Project Office	3.9	0.4	4.3
Pre-construction activities	0.5	1.8	2.3
Miscellaneous – Riverside South	0.8	0.0	0.8
Total	47.8	15.1	62.9

-
- Of the \$47.8 million in expended amounts, we selected invoices totally over \$38.4 million (80% of actual expenditures and 61% of the total) for verification.
 - Of the \$15.1 million in estimated costs (incurred but not spent), we investigated 90% of these amounts and documented the rationale for the estimate. We also identified the reason why the amounts had not yet been paid. In doing so, the information we reviewed indicated that the properties amount (\$5.8 million) was reflective of a budget allocation rather than a legal obligation. Therefore, the \$5.8 million should be removed from the total. Management has indicated that \$2.2 million of this amount was committed by way of land acquisition agreements with the owners which means that the City was obliged to proceed, despite termination of the Project Agreement. The remaining \$3.6 million was not legally committed, but was the subject of negotiations with the land owners.
 - Of the \$4.0 million accrued legal/engineering expenses, \$500,000 was for legal expenses estimated by the City's Legal Services to close the LRT project; \$2.9 million was adjusted to meet the final amount of \$11.2 million for engineering services; and the rest \$0.6 million included other estimates for LRT Office and Planning, etc.

6.2.2 Observations

- Based on the results of our review of supporting documentation regarding reported expenditures, and with the exception of the \$5.8 million noted above, these amounts appear:
 - Supported by authorized/approved invoices or reasonable estimates of incurred, but not invoiced amounts;
 - Supported by various spreadsheets and analysis prepared by City staff;
 - Consistent with amounts reported to Council;
 - Appropriately related to the proposed N-S LRT project; and,
 - To reflect the balances in the SAP financial system.

- The amounts reported to Council differed in terms of the classification as follows:

Classification (\$ Millions)	Reported to Council Dec 6/06	Per Project Office Report provided to Office of the Auditor General Feb 24/07	Difference
Property Acquisition	23	25	<2>
Utility Relocation	9	4	5
EA	4	4	-
Engineering & Legal	26	19	7
Project Office, pre- construction & misc.		7	<7>
Honoraria - \$1.0M/proponent		3	<3>
	62	62	-

Recommendation 9: Regarding the \$62 million reported as incurred expenditures
The City should take steps to ensure that only legal obligations are disclosed to Council when reporting amounts that are accrued but not spent.

Management Response

Management agrees with this recommendation as it relates only to the accrued amount component of the \$5.8M expenditure identified in the audit report. As stated in the report, \$2.2M of this amount did represent a legal obligation, as the corporation was committed by way of land acquisition agreements. Although, the balance \$3.6M was not a legal obligation, it was rolled up in the \$23M property expenditure identified in the December 2006 Council report. The \$3.6M expenditure may not have been legally committed but was the subject of negotiation with the landowners.

7 Conclusion

Our audit of financial information presented to Council revealed a commitment on the part of City staff to provide relevant financial information on a timely basis. There appears to be an awareness of the need to balance the collective needs of Council with the individual needs and to ensure that Council was supported in their responsibility to make decisions in best interests of the City.

Our interviews with six Council members and review of documentation provided by City staff revealed that, overall, the financial reporting to Council regarding the N-S LRT line did not meet the expectations of some Councillors when evaluated against key

qualitative criteria. As such there is a need to improve this reporting in anticipation of the City proceeding with a number of large-scale capital projects in the future.

As with any complex process, particularly those involving multiple stakeholders with varied interests, there are always opportunities for improvement. The lessons learned from the N-S LRT line extend well beyond the realm of financial reporting, however this review of financial reporting highlighted the need to leverage consistency, balance and simplicity and constantly reinforce the basic information that will allow Councillors to feel confident in their individual understanding.

8 Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the review team by management and the six Councillors who participated in this audit.

Appendix: Example of Standard Reporting Format

As noted in Recommendation #3, City staff responsible for reporting on Projects to Council should develop a standard reporting format that will Council to quickly re-familiarize themselves with the key financial implications of the Project. While we understand that reporting to Council must address a variety of information needs, promoting a common “look and feel” to staff presentations will also allow Council to better identify areas of particular interest such as significant changes since staff’s last report.

The following are simple examples of introductory slides that could be used to quickly and efficiently communicate basic financial information.

Regardless of the specific format, using a standardized reporting format will help ensure that Council presentations reflect a simple, clear message that is communicated in a consistent professional manner while appropriately highlighting such matters as:

- Current or upcoming decision points;
- Areas of high or emerging risk; and/or,
- Significant developments impacting the project.

At the end of presentations, key items should be repeated for clarity and confirmation of understanding verified.

Major City Project XYZ – Financial Overview

1. Capital Cost:	
Design & construction	\$,.SS\$
Other major cost #1 (>10% of Project value)	\$\$
Other major cost #2 (>10% of project value)	\$
Other incremental costs – purchased	\$
Other incremental costs – internal services	\$
Current budget – All upfront capital costs	\$,.SS\$
Previously reported budget	\$,.SS\$
Reasons for the difference:	
Added xyz	\$\$
Revised estimate for xyz	<\$->

Major City Project XYZ – Financial Overview

2. Operating & Maintenance:	
Maintenance Contract (x years)	\$,.SS\$ /yr
Leases (x years)	\$\$ /yr
Incremental Operating Costs (>10%)	\$\$ /yr
Other O&M	\$ /yr
Current budget (x years)	\$\$ /yr
Previously reported budget	\$\$ /yr
Reasons for the difference:	
Added xyz	\$ /yr
Revised estimate for xyz	->\$ /yr