Ottawa

Office of the Auditor General

2006 ANNUAL REPORT

Français au verso

May 9, 2007

Mayor and Members of Council,

I am pleased to present the 2006 Annual Report of the Auditor General of the City of Ottawa. The 2006 Audit Plan identified ten specific audits to be undertaken during the year. In addition to these projects, another audit was added to the work plan at the request of Council: the Audit of the Wastewater and Drainage Services Division, which included the Audit of the Munster Hamlet Sewer Rehabilitation Project. An Audit of Client Services was added at the request of management. A follow-up was completed on the 2005 Audit of Contracts Awarded to Members of the Board of Hydro Ottawa. Follow-up audits were also conducted on two of our 2005 audits involving the Police Service: the Ottawa Police Service Budget Development Process, and the Governance Audit of the Ottawa Police Services Board. These follow-up audits have already been presented to the Police Services Board and as such are not included in this report.

This report represents the results of each 2006 audits. All of the recommendations arising from the 2006 audits where management is in disagreement are presented here as well, in order for Council to determine if direction should be given to take action on these issues.

As in the 2005 Annual Report, this report also contains a discussion of the main messages or common themes arising from all of the audit work carried out during the past year. This discussion offers observations on some overall trends and issues from a corporate-wide perspective for Council and senior management to consider.

The second annual report on the Fraud and Waste Hotline is also presented here, including a summary of the results of audits arising from Hotline reports. Several other Hotline-related audits were also completed that discuss specific individuals. The results of these audits will be presented to the Chair of the Corporate Services and Economic Development Committee.

Finally, in accordance with the By-law governing the Office of the Auditor General, the Audit Plan for 2007 to 2009 is provided for Council's information.

Respectfully

Alain Lalonde,
Auditor General

Ottawa

Staff of the Office of the Auditor General

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1   OVERVIEW OF ACTIVITIES IN 2006

In the 2006 Audit Plan for the City of Ottawa, several specific projects were identified based on a number of selection criteria (see Section 5 of this report). The mandate of the Office is to conduct three types of audits; financial audits (except for the annual attest audits), compliance audits and performance (or value-for-money) audits.   A fundamental principal in developing the audit plan is to target risk areas where the Office could bring value to the City. The focus of the audit plan places a significant emphasis on performance audits; that is on examining economy, efficiency and effectiveness issues in areas within the City that provide direct services to the public.

1.1   Audits Undertaken in 2006

Council received the 2006-2008 Audit Plan in May 2006 as part of the 2005 Annual Report. Specific projects were identified for 2007 and 2008, however it was noted that the audit plan for these years was subject to revision based upon issues arising from work conducted during 2006, and based on an annual risk assessment. Section 5 of this report confirms the audit plan for 2007 and presents the tentative plan for 2008 and 2009.

The audit plan for 2006 included ten separate audits, each of which was completed during the year. In addition to these projects, the Audit of Wastewater and Drainage Services, which included the Audit of the Munster Hamlet Sewer Rehabilitation Project, were conducted in 2006 at the request of Council. An audit of Client Services was added to the work plan at the request of management. A follow-up to the Audit of the Award of Contracts to Members of the Board of Hydro Ottawa was also completed during 2006, along with a number of targeted audits to examine issues arising from the Fraud and Waste Hotline. Finally, two follow-up audits on projects completed in 2005 were also conducted: the Audit of the Ottawa Police Service Budget Development Process, and the Governance Audit of the Ottawa Police Services Board. Reports on the follow-ups related to the Police Service have already been presented to the Police Services Board and as such are not included in the Annual Report.

The following list identifies all projects undertaken during 2006.

1. Audit of Surface Operations
2. Audit of the Employment and Financial Assistance Branch
3. Audit of the Ottawa Fire Services Branch
4. Audit of the Building Services Branch
5. Audit of Public/Private Partnership (P3) Processes
6. Audit of the IT Processes of the Computerized Financial System
7. Audit of Fleet Services

8. Audit of Property Management

9. Audit of the Financial Control Environment

10. Audit of the Wastewater and Drainage Services Division

11. Audit of the Munster Hamlet Sewer Rehabilitation Project

12. Audit of Client Services

13. Audits arising from the Fraud and Waste Hotline (see Section 4 of this report for details)

14. Follow-up Audit of Contracts Awarded to Members of the Board of Hydro Ottawa

Originally, the 2006 Audit Plan included a governance audit of Hydro Ottawa. This audit was halted at the conclusion of the planning phase as Hydro Ottawa was in the midst of making significant changes to its governance model in response to provincial legislation. It was determined that continuing with a governance audit at this time would be of little value to Council or Hydro Ottawa. Once the revised governance model at Hydro Ottawa has been established and is operating under normal circumstances, the proposed audit will be re-scheduled within the audit plan.

Section 2 discusses the main messages arising from the audit projects conducted throughout 2006. This section is intended to provide commentary on the overall trends and common themes, from a corporate-wide perspective, which we believe should be raised for the consideration of Council. Section 3 presents executive summaries from each of the audit reports. Included are key findings and observations, as well as all of the recommendations arising from each audit and all management responses. The reader is encouraged to review the detailed reports for each of these projects, available as the companion documents (Volumes I and II) to the Annual Report.

1.2 Fraud and Waste Hotline

The City's Fraud and Waste Hotline was launched on November 1, 2005 to provide an anonymous and confidential vehicle for City staff to report suspected fraud or waste. Section 4 of this report contains the second annual report on the Hotline. It includes overall statistics on the types and frequencies of calls to the Hotline, as well as summary reports on specific audits undertaken on issues arising from Hotline reports. In some cases, Hotline reports are transferred directly to management to be addressed, while in other instances the OAG has undertaken its own review, conducted a separate formal audit or considered the matter as part of an ongoing planned audit. Hotline calls that resulted in an audit being conducted are presented here. Several other Hotline-related audits that discuss specific individuals were also completed. The results of these audits will be presented to the Chair of the Corporate Services and Economic Development Committee.

1.3 Follow-up Audits

Follow-up is a key component of an effective audit process in that it informs Council as to whether recommendations have been implemented. As mentioned above, follow-up audits were conducted by the OAG in 2006 within the Police Service as well as Hydro Ottawa.

At the time the 2005 Annual Report was presented to Council in May 2006, Council created the Council Audit Working Group (CAWG) which includes Councillor Chiarelli, Councillor Legendre, Councillor Hunter and Councillor Brooks. We view this as a very positive and innovative initiative and a key component of good governance at the City. The CAWG has been tasked with monitoring the implementation of all recommendations arising from the 2005 audit plan, as well as mediating wherever management did not agree with any recommendations. During 2006, the Group met three times. The City Manager and the Auditor General are currently involved with the Group to assist in clarifying the Group's role, as compared to the OAG's role, with regard to audit follow-ups.. It is envisioned that, as the CAWG becomes fully operational, the role of the OAG in follow-ups can be streamlined to focus on targeted areas where the Group has requested our involvement or where the Auditor General deems it is necessary. Such an approach will permit the bulk of OAG resources to continue to be devoted to undertaking new audits on Council's behalf. That being said, it is recognized that the OAG does have a key responsibility regarding follow-up on its recommendations. In response to this, as discussed in Section 5.3 of this report, the 2009 audit plan will focus exclusively on a comprehensive follow-up of all recommendations made to that date.

1.4 Tabling Protocol

The first Auditor General Annual Report in the City's history was presented in May 2005. During that process, it was evident that further clarity on the tabling protocol for the Annual Report was required. In 2006, such a protocol was developed in collaboration with the City Clerk and the City Solicitor, and incorporated into the By-law governing the activities of the OAG. Beginning in 2006, the key steps in the protocol will be as follows:

1. Notice of Tabling of Annual Report with Council;

2. Tabling and initial questions at the following meeting of Council;

3. Referral to the following Corporate Services and Economic Development Committee (CSEDC) meeting to allow for public delegations;

4. Referral of the report resulting from CSEDC to the subsequent Council meeting where the Auditor General will be available for final questions; and,

5. Referral to the CAWG for on-going monitoring.

1.5 2006 Budget

The budget of the OAG is set at 0.08% of the total operating budget of the City. For 2006, this resulted in an office budget of $1.7 million, including $200,000 devoted to the Fraud and Waste Hotline. The budget remains one of the lowest in Canada for municipalities with a similar audit function. All of the audits presented in this report were conducted within the 2006 budget.

2 ITEMS FOR SPECIAL CONSIDERATION

The audits conducted in 2006 led to over 349 separate recommendations to management, designed to improve management practices, enhance operational efficiency, identify possible economies and address a number of specific issues. It should again be acknowledged that this level of audit activity presents a significant challenge for management in responding to recommendations and implementing improvements. The cooperation and receptiveness extended to the Auditor General process by the City Manager and management across the City has once again been positive.

A summary of all 2006 audits and recommendations is presented in the following section of this report. Before discussing these audits, we would like offer some broader views and opinions of a corporate-wide nature.

2.1 The Need to Reassert Management Rights

It has become clear during 2006 that, across the City, management's ability and at times its willingness to assert its rights has eroded significantly over the years. The current structure of staff affiliations has made it difficult for front-line supervisors to effectively address performance issues and exercise their role in assigning and organizing work in the most efficient manner.

In many cases, supervisory positions are now within the same bargaining unit as the staff they are charged with directing. Under this structure, the ability and in fact the authority of supervisors to effectively oversee performance, direct staff and address disciplinary issues are seriously affected. Feedback we received on several audits and through many of the Fraud and Waste Hotline reports from managers, supervisors and even unionized staff has indicated a growing level of frustration with this situation. The perception that managers' "hands are tied" is evident across many parts of the organization, with a resulting erosion of management's willingness to take action. In some areas, management has begun to address this by moving to change the affiliations of supervisory staff. It remains to be seen if they will be successful in doing so.

An audit of the City's labour relations activities is underway in 2007. Further commentary on this issue and strategies to improve the current environment are expected to arise from this audit.

2.2 Emerging Issues for Long-Term Sustainability of City Infrastructure

Several 2006 audits touched on issues related to the City's long-term management of its infrastructure. The audit of Property Management shows that, while our existing facilities are currently being managed and maintained as effectively as possible under existing resources, significant risks are emerging as a result of insufficient funding for life cycle maintenance. If current trends continue, the long-term scenario for the conditions of City real property facilities is not encouraging.

Similar concerns arose out of the audit of Surface Operations. In this area, however, the City is not nearly as equipped to measure performance and monitor the situation in order to quantify the extent and likely consequences of deteriorating infrastructure.

The long-term sustainability of City infrastructure is an emerging issue for all municipalities across Canada. The magnitude and cost of this problem will only grow. The City of Ottawa needs to address this issue on a priority basis in order to develop viable strategies as soon as possible to minimize or avoid these larger future implications.

2.3 The Need to Clarify Accountability for Oversight

A number of audits undertaken in 2006 have demonstrated that there is currently a disconnect in assigning clear lines of accountability and authority between operating areas and the Centres of Expertise. In many cases, functions such as Financial Services, Employee Services and Fleet Services have indicated that they do not see their role as one of oversight, but rather as providing advice to managers. In fact, these areas have expressed the view that they do not wish to take on oversight responsibilities. This approach has served to erode the internal control environment at the City. The level of discretion now permitted with respect to compliance to corporate policies has resulted in significant inconsistencies, and minimized the benefits of a more corporate-wide perspective. In our view, the City must urgently re-visit this approach and clearly establish accountability for ensuring conformance to policy and City-wide priorities.

3 2006 AUDIT REPORTS – EXECUTIVE SUMMARIES

The following presents all of the key issues and observations arising from each of the audits completed in 2006 that have not already been presented. All recommendations are included here along with all management responses. The reader is encouraged to refer to the full audit reports for complete details. In total, the 2006 audits make 229 recommendations for management action. Of these recommendations, management has disagreed with 35. Annex A provides a complete listing by audit of the recommendations with which management has disagreed.

1. Audit of Surface Operations
2. Audit of the Employment and Financial Assistance Branch

3. Audit of the Ottawa Fire Services Branch

4. Audit of the Building Services Branch

5. Audit of Public/Private Partnership (P3) Processes

6. Audit of the IT Processes of the Computerized Financial System

7. Audit of Fleet Services

8. Audit of Property Management

9. Audit of the Financial Control Environment

10. Audit of the Wastewater and Drainage Services Division

11. Audit of the Munster Hamlet Sewer Rehabilitation Project

12. Follow-up Audit of Contracts Awarded to Members of the Board of Hydro Ottawa

3.1   Audit of Surface Operations

EXECUTIVE SUMMARY

The Audit of the City of Ottawa's Surface Operations was included in the City Auditor General's 2006 Audit Plan, which was presented to Council on December 15, 2004.

The City has jurisdiction and manages 5,500 km of roads, 37 km of transitway, 1,500 km of sidewalks and pathways, 675 sports fields/ball diamonds, 200,000 trees within the City's right-of-way and 890 parks. The primary role of the Surface Operations Branch (SOP) is to carry out the maintenance, operations and stewardship of these assets. Other operating groups have been charged with the responsibility to maintain vehicles, equipment and facility assets related to SOP.   In 2006, Surface Operations Branch had 824 full-time equivalents (FTEs).

The Surface Operations Branch has experienced significant changes, challenges and issues since amalgamation. High turnover, labour tension, different cultures, reporting hierarchies, organizational structures and ways of performing tasks, a lack of planning on a daily, monthly and annual basis, insufficient coordination between capital and operating budgets, a lack of financial information down to middle management and supervisory levels and budgets which have lacked scrutiny have all led to a less than effective organization.

In the past five years, the Surface Operations Branch actual gross expenditures have grown by almost 20% from $95 million in 2002 to $113 million budgeted in 2006. This is equivalent to an average annual increase of almost 5% per year.   These increases occurred, post-amalgamation, at a time when significant change management was occurring to establish a new City-wide standard for the care of roads, sidewalks, parks and urban and rural municipal forests.   More detailed review reveals that increases were allocated to Winter Services, $12 million; to Parks and Sports Fields, $9 million; to Forestry, $3 million; while reductions occurred in both the Director's Office and Summer Services of approximately $3 million each.

Audit Scope

The scope of this audit was to conduct a thorough review of all aspects of the City of Ottawa's Surface Operations Branch including Road Maintenance, Parks and Sport Field Maintenance, and Forestry Services with the exception of Winter Services for road and sidewalk maintenance. Winter Services were not initially within the scope of this audit, however as the audit proceeded, some observations related to winter operations were documented and included in this report.

Audit Objectives

The objective of the audit included an examination of the Branch to assess whether the objectives, which have been set for the Branch, are being achieved. Four areas were identified, specifically:

1. **Compliance** – to determine if the Branch conforms to all laws and regulations that govern its operations, including all relevant legislation and spending authorities contained in the annual budget as well as City and Provincial minimum maintenance standards.

2. **Financial Management** – to examine the financial results of operations against short and long-term plans and determine the reliability of financial systems.

3. **Planning** – to examine management practices across the Branch to assess the impact of planning (daily, monthly, annual, long-term, integration with capital projects) on the economy, efficiency and effectiveness of current operations.

4. **Performance (value-for-money)** – to examine management practices, goals and objectives, controls and monitoring and reporting systems across the Branch to assess the economy, efficiency and effectiveness of current operations.

There are three basic tenets for maintenance and asset management associated with all the activities carried out by Branch staff. These form the foundation of this audit and are linked to each of the report recommendations. They include:

- Preservation of capital assets belonging to the community;
- Safety of the community when using municipal properties; and
- Quality of life.

Many of our observations are interrelated, with a wide range of results. The table below reflects these interdependencies.

We believe that all recommendations contained in this report can be implemented without the requirement for additional funds. However, this will require prompt staffing of existing and recently approved positions in the newly formed Operations Planning Unit, Operations Research Units of Technical Support Services Division as well as the strategic redeployment of existing resources, both dollars and persons.

Despite our observations of the current state of affairs within the Branch, there are signs that the situation may be improving with new management and the Strategic Alignment Initiative (SAI). However, we are concerned that the priorities and timelines established by the Branch do not place sufficient emphasis on promptly getting its financial house in order.

To date the SAI has focused largely on boundary realignment and human resource issues with little attention to implementing adequate controls over the $113 million budgeted to be spent in 2006. As of August 2006, of the $700,000 allocated for consulting services for this initiative, $400,000 had been spent.
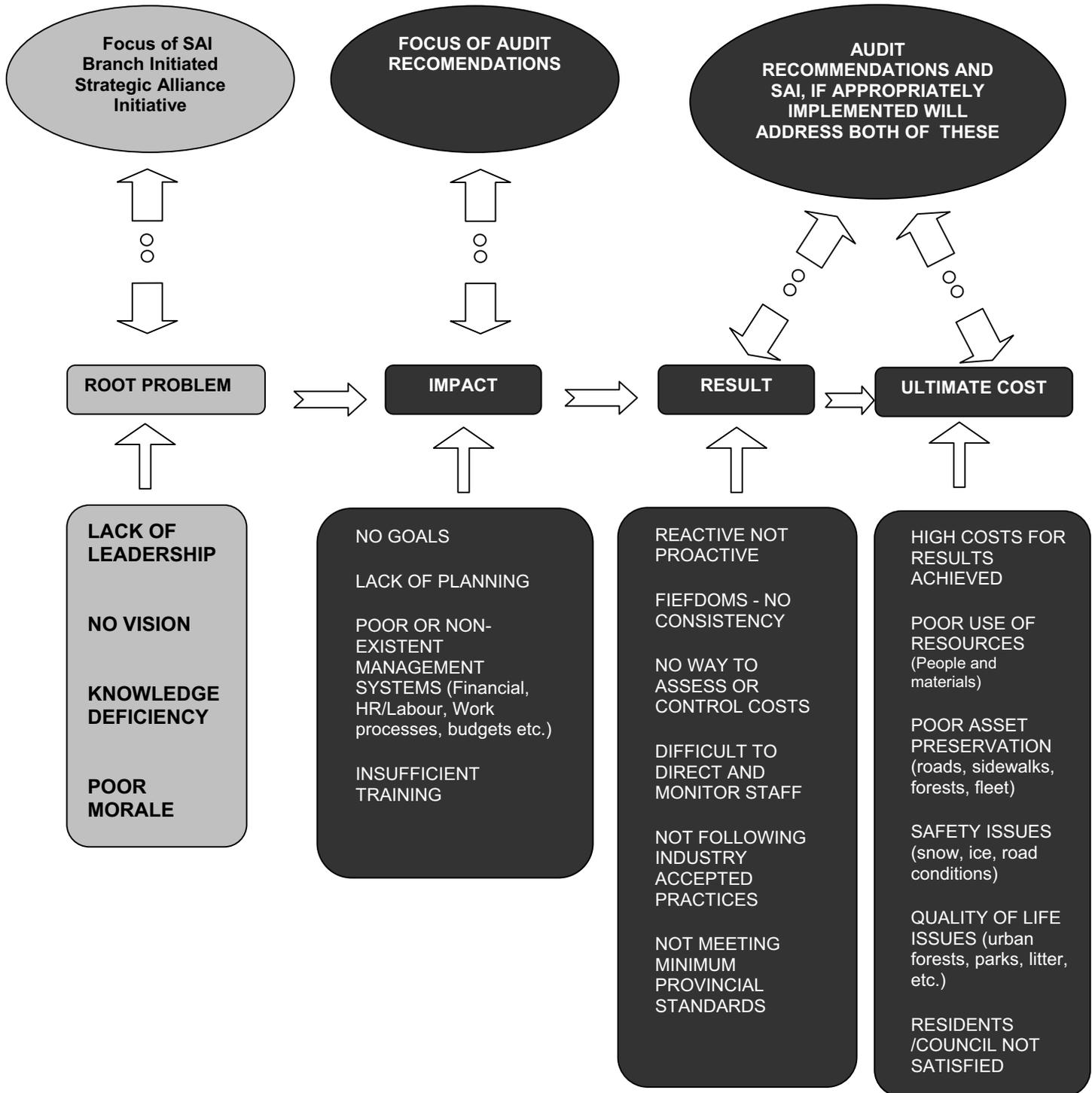
The audit was carried out during the spring and summer of 2006 and observations relate to that period of time. Based on initial findings, the audit focused on the Roads Division and Forestry Division with less attention to Parks and Sports Fields. It should be noted that Parks and Sports Fields are staffed by the same individuals and managers who work on Winter Road Maintenance (snow removal, etc.).

Five years following amalgamation, the Branch continues to struggle and the basics of sound management practices are still not in place. Most managers do not have plans or goals, and few policies, processes and procedures were found to be documented. Systems are not in place to facilitate Branch operations. Financial Management is weak. There is a knowledge deficit within the Branch, of both a technical nature and regarding basic management practices, due to a history of limited training and professional development compounded by the retirements of an experienced workforce.

The Branch must also develop a budget, which accurately reflects their requirements, both for operational purposes and for Council approval. Budgets should reflect "normal" requirements with reserves available for exceptional snowfalls and storms.

The Branch must change from a complaint-driven system to a proactive approach. Virtually all work is performed on an ad hoc basis and is reactive to the 3-1-1 Call Centre (residents typically phone with a complaint/request for service) and directives from Councillors. In the past year there were almost 38,000 calls to the 3-1-1 Call Centre. Management advised that there is an estimated additional 3,000 to 4,000 calls and emails from Councillors.

Ottawa

KEY FINDINGS OF THE AUDIT OF SURFACE OPERATIONS BRANCH

Focus of SAI Branch Initiated Strategic Alliance Initiative

FOCUS OF AUDIT RECOMENDATIONS

AUDIT RECOMMENDATIONS AND SAI, IF APPROPRIATELY IMPLEMENTED WILL ADDRESS BOTH OF THESE

ROOT PROBLEM	IMPACT	RESULT	ULTIMATE COST

LACK OF LEADERSHIP

NO VISION

KNOWLEDGE DEFICIENCY

POOR MORALE

NO GOALS

LACK OF PLANNING

POOR OR NON-EXISTENT MANAGEMENT SYSTEMS (Financial, HR/Labour, Work processes, budgets etc.)

INSUFFICIENT TRAINING

REACTIVE NOT PROACTIVE

FIEFDOMS - NO CONSISTENCY

NO WAY TO ASSESS OR CONTROL COSTS

DIFFICULT TO DIRECT AND MONITOR STAFF

NOT FOLLOWING INDUSTRY ACCEPTED PRACTICES

NOT MEETING MINIMUM PROVINCIAL STANDARDS

HIGH COSTS FOR RESULTS ACHIEVED

POOR USE OF RESOURCES (People and materials)

POOR ASSET PRESERVATION (roads, sidewalks, forests, fleet)

SAFETY ISSUES (snow, ice, road conditions)

QUALITY OF LIFE ISSUES (urban forests, parks, litter, etc.)

RESIDENTS /COUNCIL NOT SATISFIED

On average, Surface Operations Branch employees earn more than $8,000 per year in overtime[1]. With more than $6 million in overtime costs, SOP must analyse the potential benefits of changing staffing patterns to include three (instead of two) daily shifts, weekend shifts in the winter, etc. Staffing levels must be reviewed to ensure adequate service levels while striking a balance between overtime and the number of full and part-time staff retained during slower seasons.

It was difficult to assess the effectiveness of Branch activities, as many decisions are verbal or made daily on white boards and then erased, leaving no permanent record. It was also difficult to identify trends across the operation, as most of the 28 yards operate independently and in isolation.

Road patrols must be reinstated to at least the levels specified in provincial Minimum Maintenance Standards for Municipal Highways (MMSMH) in order to ensure the preservation of capital investments through both routine and preventive maintenance, as well as the safety of municipal roads.

Greater attention should be given to the City's urban forests. If the current trend continues, there is a possibility that an increasing number of mature trees in older neighbourhoods will succumb to disease and extreme weather damage. Tree trimming by crews has historically weakened the structural integrity of older trees. Poor pruning methods continue in some areas. Systematically stabilizing vulnerable trees (e.g. cabling, pruning, injections) will not only be more cost effective than emergency removal following storms, but will also prolong the life of the trees and aesthetics of the neighbourhoods and minimize potential costs to the City through property or personal damages.

As mentioned throughout the audit, many of the shortfalls of the Branch stem back to a lack of supporting management systems. Improvements in the Branch management systems will only be achieved with additional support from Financial Services Branch, Employee Services Branch and Information Technology Services Branch.

As well, to maximize the preservation of City owned capital assets, capital decisions regarding roads in particular must have more input from the Surface Operations Branch. Capital decisions have a significant impact on the Branch's operational efficiency. When we started the audit, the most frequent complaint from Surface Operations Branch was inadequate funding. However, upon review we believe that funds, especially within the Roads Divisions, are likely adequate but need to be better managed.

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[1] This excludes shift premiums, on call premiums, etc.

In our opinion, all recommendations contained in this report can be implemented without the requirement for additional funds. However, this may require strategic redeployment of existing resources, both financial and staff.

Recommendation 1

That the Strategic Alignment Initiative visioning exercise be accelerated (without additional costs), particularly those actions which will have a direct impact on operational efficiency with a target implementation of 2007 for budget and cost savings/consolidation.

Management Response

Management agrees with this recommendation.

Implementation priorities are financial accountability and operational planning. Detailed operations planning development workshops have been moved up to begin in December 2006. The objective is a long-term sustainable organization. Completion is expected in Q4 2007.

Recommendation 2

That the Branch adopt an Enterprise wide Risk Management (ERM) approach to determining strategies, setting goals and developing action plans.

Management Response

Management agrees with this recommendation.

The Branch's 2007 workplan includes both a strategic approach and priority setting to incorporate ERM approaches and techniques such as SWOT analysis (Strength/Weakness/Opportunities/Threats) and Risk/Impact assessments. The technology plan, stakeholder strategy, fleet plan, and 2008 workplan will also include these approaches to decision-making with completion in Q3 2007.

Recommendation 3

That the Branch develop annual plans which clearly identify the highest risks to the City, strategies to address, goals and milestones and action plans. Regular reports to senior management should document progress and identify any anticipated or realized obstacles or impediments to the achievement of the annual goals.

Management Response

Management agrees with this recommendation.

This process is already in place, and is included in projects such as the technology plan, stakeholder plan, fleet plan, 2008 workplan, etc. This is scheduled for completion in Q4 2007.

Recommendation 4

That the Branch create a Quality Assurance function for Roads, through the reallocation of existing resources, to provide checks and balances to the quality of road maintenance including appropriate preventive maintenance.

Management Response

Management disagrees with this recommendation.

Industry best practices clearly identify operational quality, effectiveness and efficiency as core management accountabilities. The Branch's approach is to put in place management skills as well as financial and operational planning, and management tools to ensure that staff is knowledgeable, capable, and empowered to manage these items.

Performance Measurement and Business Services Unit has been established with the responsibility to conduct internal Competitive Service Delivery Reviews (CSDR) analysis and support the performance management requirements.

Audit mechanisms are already in place through the Office of the Auditor General. Comparative tools such as OMBI and MPMP are also in place to benchmark performance against other municipalities.

Recommendation 5

That the Branch initiate a weekly analytical reporting mechanism.

Management Response

Management agrees with this recommendation.

A process has already been implemented. Financial reports are being updated. Budget and cost accountability will be at the supervisor level, implementation anticipated for Q4 2007 and program accountabilities at zone service level area (supervisor level) for Q1 2008. Weekly operational meetings include a review of financials and service delivery metrics. Note that recommendations 5, 8, 10, 11, 24 and 25 are linked as part of the operations planning process and have some dependencies.

Recommendation 6

That the Branch re-engineer the planning and allocation of work so that all work is initiated by work orders issued by supervisors or other City staff (not the 3-1-1 Call Centre). Note that this will also facilitate the simplification of the accounting system.

Management Response

Management disagrees with this recommendation.

Work will be proactively planned and managed, and operational planning and accomplishment tracking is a major focus of current efforts. The Branch's work is

activity-based not work-order driven. Work orders are created where individual cost tracking is required. Individual work orders for all of the Branch's work is not necessary and would create significant administrative inefficiencies. Individual work orders are created as required for specific work tracking.

Recommendation 7

That the Branch conduct complete process mapping and develop and implement standard operating procedures.

Management Response

Management agrees with this recommendation and it is already in progress.

This is being implemented in phases based on an assessment of risk and opportunity associated with each process, which will be determined in 2008.

Recommendation 8

That Surface Operations Branch re-engineer their approach to planning work so that the Notification system is a complement to a systematic approach based on routine maintenance, road patrols and preventive maintenance.

Management Response

Surface Operations: Management agrees with this recommendation and it is already in progress and is expected to be completed by Q4 2007.

Information Technology Services: Management agrees with this recommendation. Working together with PWS, ITS can change and implement work orders, preventative maintenance and other functions to assist with planning, as described by the audit. The assessment of the time and cost to implement this will be undertaken starting in Q1 2008.

Recommendation 9

That the Director, Surface Operations, the Director, Information Technology Services and the Manager, 3-1-1 Call Centre collaborate to improve the capability of the Call Centre and related system to facilitate the work of Surface Operations Branch staff responding to notifications.

Management Response

Surface Operations: Management agrees with this recommendation and work is already in progress. The inquiry and notification process is being re-engineered in conjunction with the 3-1-1 Call Centre and ITS staff in Q4 2007. As an interim measure until the results of the re-engineering effort are fully implemented, an operations clerk has been dedicated to work on facilitating notifications, processing and tracking.

In addition, measures are being taken to provide the public and other stakeholders with improved information to proactively satisfy service and information requests. Examples of these proactive measures include: general training on Surface Operations services to all of the Client Service Centres' staff; specialized training on items of interest to the rural community to "Rural Champions" in the Call Centre; updates and enhancements information appearing on the City's website; and implementation of winter parking e-alerts that notify registrants of winter parking restrictions via automated email alerts.

<u>Client Services and Public Information</u>: Management agrees with this recommendation. Management will continue to work with Councillors' offices to request that they use 3-1-1 to forward service requests to all operating departments.

<u>Information Technology Services</u>: Management agrees with this recommendation. Working together with PWS and the 3-1-1 Call Centre, ITS can improve and enhance the integration and data sharing/transfer between Request for Service and SAP, at an estimated cost of $450,000. The business case for this project will be submitted to the Value Assessment Program and will be prioritized along with other Corporate IT requirements. It is anticipated that this project can be initiated in Q1 2008.

Recommendation 10

That accomplishment units be redesigned to measure quantities, which the Branch should be monitoring to conform to industry best practices.

Management Response

Management agrees with this recommendation and it is already in progress.

Accomplishment units are being updated as part of the comprehensive operations planning initiative. Financial reports are being modified to include reporting of accomplishment units by activity, all scheduled for implementation in Q4 2007.

Recommendation 11

That, for the year 2007, an extremely simplified and streamlined budget be prepared for the Branch. This budget should roll up from the bottom as opposed to the current roll down approach from the top and should focus on the information, which managers need to make financial decisions.

Management Response

<u>Surface Operations</u>: Management agrees with this recommendation. Simplification of management reporting is underway. Some bottom-up analysis has been completed; however complete bottom-up budgeting is not feasible until operational planning functions have been implemented. This will be implemented in Q4 2007.

<u>Financial Services</u>: Management agrees with this recommendation. The 2007 budget will be developed at a sufficiently detailed level to reflect the decision-making

structure of the organization and summarized for the corporate budget presentation. The audit suggested the need for a greater level of detail for SOP operations. Changes were initiated in 2006 through the Branch's SAI Project to develop and monitor the budget within their Maintenance Management System (MMS) at a zone and activity level, accessible by Supervisors, Area Managers and Managers.

Recommendation 12

That the Surface Operations Branch's budget not be increased until the Branch has a good understanding of their financial situation.

Management Response

Management disagrees with this recommendation.

The budget, and Branch operations and services will be reviewed in a manner prescribed by Council to be established through the Budget Directions.

Recommendation 13

That the Surface Operations Branch's budget not be increased while the Branch refines the manner in which it formulates its budget requests and redirects existing funds to programs, which do have a strategic plan and related specific budget, specifically the Forestry program.

Management Response

Management disagrees with this recommendation.

The budget, and Branch operations and services will be reviewed in a manner prescribed by Council to be established through the Budget Directions.

Recommendation 14

That the entire Activity Sheet data entry process be re-engineered, to provide the necessary financial and payroll information within the SAP system.

Management Response

Management agrees with this recommendation.

The activity sheet is being reviewed as part of the Strategic Alignment Initiative Performance Management in Q1 2008. Once the Branch's performance measurement and management framework is developed, the activity sheet and associated data collection/entry processes will be re-engineered to ensure the necessary information is captured and entered efficiently. As an immediate measure, to better utilize data that can already be entered into the system, the Branch is incorporating accomplishments by reporting on a number of key operational reports to improve the information available for operational decisions.

Recommendation 15

That employees be equipped to key in accomplishment levels electronically to avoid travel costs and duplication of effort; and that checks and balances be built into this system for verification of hours works, etc. by the Site Supervisor and District Manager.

Management Response

Management agrees with this recommendation.

As an immediate measure, the administrative staff have been decentralized to field locations allowing for support closer to those who need it. This minimizes redundancy and eliminates the vast majority of travel costs associated with the delivery of activity sheets to headquarters. Checks and balances already exist, within the system, to ensure that supervisors approve all activity sheets. As part of the activity sheet re-engineering effort identified in Response 15, electronic means of having field staff enter time and accomplishments with appropriate checks and balances will be considered in the future.

Recommendation 16

That, in conjunction with the proposed simplified budget system, Zone Supervisors receive current and accurate financial reports indicating the actual expenditures as well as the budgeted amounts.

Management Response

Management agrees with this recommendation.

The supervisor report currently includes only cost and is being updated to include budget figures. This will be implemented by Q3 2007.

Recommendation 17

That any cutbacks proposed to Council during budget deliberations clearly state any impact on both service levels, City standards and condition of infrastructure (e.g. deterioration from lack of maintenance).

Management Response

Infrastructure Services: Management agrees with this recommendation.

Through the LRFP process, investment levels are identified to maintain the City's infrastructure assets. In the case of roads, the level of investment identified in the LRFP is to maintain the overall network at current levels (i.e. approximately 20% in need of resurfacing or reconstruction). When approved budget levels are less than the needs identified in the LRFP, as has been the case in previous years, over time this results in further deterioration of the overall network condition and increases the pressure on the operating budget.

As part of the City Corporate Plan, the Infrastructure Services Branch (ISB) is required to define service levels for municipal infrastructure. Once completed in 2007/08, this will provide an ability to create more direct links between funding levels and impacts on service levels.

Recommendation 18

That Council be advised of the annual operating cost increase required or savings anticipated when considering major capital decisions.

Management Response

Infrastructure Services: Management agrees with this recommendation.

Growth in the transportation network has a significant impact on operating costs. Growth information is tracked by ISB and provided to SOP so that this can be reflected as an operating pressure as part of the annual budget process.

Recommendation 19

That the Surface Operations Branch and the Employee Services Branch work together to develop basic routine monthly reports to facilitate management of SOP staff.

Management Response

Surface Operations: Management agrees with this recommendation and this process has already been initiated.

Staffing coordinator position, established through Strategic Alignment Initiative, will facilitate the implementation of these measures in Q4 2007.

Employee Services: Employee Services will meet with Surface Operations staff to review the HR reports already available through SAP-HR, to assist in managing human resources. As well, Employee Services will ensure that Surface Operations staff is able to access the HR information required to manage their staff.

Recommendation 20

That Surface Operations Branch develop and implement standard policies and procedures to reduce both "routine" overtime work and on-call work of Supervisors and Maintenance Coordinators. Consideration should be given to changing shift start and end times, as well as sharing on-call responsibilities among two or more yards.

Management Response

Management agrees with this recommendation and process has already been initiated.

For example in Parks, each Area Manager places one Supervisor on call to handle after hour emergencies across their entire district. They do not put someone on call for each work unit. They also assess the call to see if it is truly an emergency or if it

can wait until the next workday so as to avoid the overtime cost of responding to the call. There is little non-discretionary overtime worked in the Branch.

The Roads Division has also implemented a no overtime payment procedure for the 6th & 7th day worked on 24/7 City core shift, which brought forth a saving of $165,000. Also the start time for night shift has been changed to 10:30 p.m., which allows regular hour coverage for morning rush hour, therefore reducing overtime costs. The Branch continues to move forward with new initiatives and will finalize in Q4 2007.

Recommendation 21

That Surface Operations Branch develop and implement standard policies and procedures to reduce both "routine" overtime work and that on-call work be scheduled.

Management Response

Management agrees with this recommendation.

New policies and procedures, such as the alternative shift arrangements for 24/7 coverage in the downtown area and the shift start time procedures were implemented on November 15, 2006 for the 2006/2007 winter season.

These measures have already resulted in a $200,000 reduction in overtime costs. The Branch continues to work in developing and implementing policies and procedures to reduce costs incurred with overtime and on-call work. The Branch manages its overtime in accordance with the draft Corporate Overtime Policy.

Recommendation 22

That Surface Operations Branch explore new and innovative staffing schedules to optimize staff costs and productivity including seven day shifts, three shifts per day, staggered shifts, shared on-call, etc.

Management Response

Management agrees with this recommendation and it is already in progress. Assessment and implementation of timelines are being determined.

Recommendation 23

That Surface Operations Branch calculate whether they have the best complement of full-time workers to optimize the use of overtime and salaries.

Management Response

Management agrees with this recommendation.

The operational planning initiative in Q1 2008 will enable the Branch to better quantify resource needs to meet service demands. This will be compared with available staff time, overtime utilization, productivity improvement opportunities,

contracting mix, and alternative service delivery options to identify the best complement of full-time workers for the Branch.

Recommendation 24

That Surface Operations Branch streamline and reduce the management levels of the organizational structure and redeploy redundant personnel into other areas identified in this report (e.g. road patrols).

Management Response

Management agrees with this recommendation and is already in progress.

The Strategic Alignment Initiative Program has initiated a project that forms part of the Transition Manager's Responsibility, where a team has been created to review the supervisory alignment and number of operational units. The work is currently underway working towards completion for Q4 2007.

Recommendation 25

That Surface Operations Branch calculate how many person years are lost to the Time Off In Lieu (TOIL) Policy and determine whether they are hiring sufficient full-time, part-time or temporary workers to optimize costs given in lieu time leave and vacations.

Management Response

Management agrees with this recommendation.

The amount of TOIL accumulated annually is available through SAP. The analysis is estimated to be completed by Q1 2008. There is no provision for backfilling for staff during short-term absences. The Branch does make use of temporary staff, students and contracted services to supplement the work of full time staff.

Recommendation 26

That Surface Operations Branch schedule vacations outside peak work seasons.

Management Response

Management agrees with this recommendation and it has already been completed.

Vacation leave is to be taken at a mutually agreeable time and every attempt is made to schedule vacations during non-peak periods. It must be recognized that most wage staff in SOP are multi-tasked and cross-trained to provide maximum flexibility in meeting peak work demands. For example, staff will work in roads on snow clearing operations during the winter and in parks or traffic during the summer. This results in very little non-peak periods for these staff. Work units generally ensure that the number of staff off on vacation leave at any one time is minimized to ensure that the required work can still get done. Also, during the peak holiday

season (i.e. summer) students and contracted services are available to supplement the full time staff.

Recommendation 27

That Senior Managers, Zone Supervisors and Maintenance Coordinators receive additional training in basic management skills and become more active in industry associations (e.g. Ontario Good Roads Association) to foster knowledge of industry best practices.

Management Response

Management agrees with this recommendation.

Through the Investment in People project of the Strategic Alignment Initiative Program, a training program has been established for Crew Leaders, Maintenance Coordinators and Supervisors. The guidelines for enrolment and course content are presently being reviewed by Labour Relations, Human Resources and the Corporate Learning Centre, with an expected completion in Q4 2007.

The Branch is continuously pursuing new initiatives and opportunities for staff training. At the senior level of the Branch, the Management Team has identified a Succession Planning project in its 2007 Branch Workplan.

Recommendation 28

That a training budget be reinstated to a level which will ensure a continued skilled workforce.

Management Response

Management agrees with this recommendation.

Current initiatives, which have been undertaken for example is the development of a Crew Leader, Foreperson and Supervisor Training Program, which will be used as a succession planning mechanism. This will ensure corporate memory and field experience is transferred to junior employees that are being groomed to replace retiring Supervisors. Job descriptions will be created that will set criteria for participation in the training program and will recognize the increasing requirement for technical knowledge, financial accountability, operational planning and ability to deal with human resource issues.

Training programs are being set-up for each level in the supervisory structure to match the duties outlined in the job descriptions. Courses are provided through a combination of internal corporate training initiatives and external experts or organizations that specialize in activities related to Health and Safety or roads, parks or forestry maintenance. Participants in the training programs will be teamed with an

experienced supervisor/manager to monitor performance and mentor the individuals on the expectations for each successive step in the structure.

Each candidate in the training program will have to complete all phases of the training and demonstrate the ability to put the training into practice before they will be considered for advancement to the next level supervision. This practice should ensure that promotions are based on merit and a proven ability to perform the increasingly complex requirements of the field supervisors.

Management Level Training with organizations such as OGRA, APWA, etc. have also been initiated. Training priorities will be identified during the 2008 budget.

Recommendation 29

That Branch resources be redirected so that Road Patrols are reinstated in accordance with the City's standards.

Management Response

Management agrees in principle with this recommendation.

In May 2003, a report was brought forward to Council recommending (8) FTEs to enable Service Operations to increase road patrol capacity with the objective of meeting road patrol guidelines, however this recommendation was not approved. Furthermore during the 2004 Universal Program Review cuts, $1.042M associated with road patrol on collector and residential streets were cut from the Surface Operations Branch budget.

Recommendation 30

That the Branch develop a Public Tree By-law and Best Management Practices By-law (Community Forests).

Management Response

Management agrees with this recommendation.

Municipal Trees and Natural Areas Protection By-law 2006-279 was approved in July 2006 and implemented on September 1, 2006. In 2007 a Resource Management Plan for the South March Highlands is under development with subsequent 20-year plans identified for updating as they expire, i.e. Marlborough Forest in 2010.

Recommendation 31

That the Forestry Division develop long-term goals and implement an Urban Forest Management Plan with the objective to replenish older City trees with new stock, factoring disease and pest resistant species.

Management Response

Management agrees with this recommendation.

A five year Trees and Forests Maintenance Strategy was approved by Council in October 2006 with funding deferred to the LRFP in 2008. Life cycle trimming was initiated in 2006 and will continue in 2007 in the areas of highest priority, such as those were sensitive marine clay is known to exist to maintain existing trees and the City's tree planting programs will continue to replace trees as they reach the end of their life cycle with species and location appropriate replacements pending priority setting and budget approvals.

Recommendation 32

That the Branch adopt a tree management system, including a complete tree inventory, ensuring that the system has adequate input, storage, query (for forest management planning) and reporting capabilities including mapping that tie in with the corporate-wide GIS if possible.

Management Response

Management agrees with this recommendation is already in progress.

The five year Trees and Forests Maintenance Strategy, which is completed and was approved by Council, recognizes the requirement to produce and maintain an accurate tree inventory and identifies required staff and equipment resources of approximately $575,000. Work will progress on a priority basis (core area, boundary trees along woodlots and ravines in suburban areas) in 2007.

Recommendation 33

That the City explore options to consolidate tree trimming with Hydro Ottawa in order to ensure that trees trimmed for hydro lines are not damaging the life expectancy of the tree.

Management Response

Management agrees with this recommendation and the work is already in progress.

The initial meeting was held to review the operations, roles and responsibilities. Arboricultural specifications have been exchanged for comment and the review of professional content.

In 2007, management staff will be pursuing the development of common technical documents. City operations staff will work with their counterparts to maintain consistency in their respective trimming operations and to explore new initiatives such as working cooperatively to plant replacement trees.

Recommendation 34

That the Forestry Division develop guidelines and a public awareness campaign for the public, developers and other municipal branches and departments to promote new tree plantings that are of a variety more suited to the local climate and soil conditions.

Management Response

Management agrees with this recommendation.

Forestry Services 2007 workplan includes an increase in internal/external communication and will focus on completion for Q4 2007. Target audiences have been identified i.e. By-law Services, Infrastructure staff, Development Approvals (internal) and local community associations and forestry interest groups (external). Arboricultural and forestry technical information will be consolidated and formatted in conjunction with other Surface Operations Branch initiatives.

Recommendation 35

That Fleet Services' management review its practices pertaining to preventative maintenance and off-season storage with a view to optimizing the life span of the equipment.

Management Response

Management agrees with this recommendation.

Work is already in progress as part of Strategic Alignment Initiative Facility rationalization plan. The implementation team will include representation from Fleet Services to assess maintenance impact of inside storage versus outside particularly during winter season. The Branches will work together in Q3 2007 to ensure the respective accountabilities optimize the lifespan of the equipment.

Recommendation 36

That Surface Operations Branch identify dedicated resources to direct that minimum standards be met in tendering and to coordinate and track maintenance and replacement of vehicles; and that such staff resources be supported by ongoing training on current industry practice and governmental standards related to vehicle and equipment function and purchasing.

Management Response

Surface Operations: Management agrees with part of this recommendation.

The Surface Operations Branch has dedicated a position to provide Fleet with a single point of contact for acquisition requirements. This position will also be working with Fleet Services on the development of a fleet equipment asset management strategy.

Fleet Services: As a Center of Expertise, Fleet Services has the responsibility for planning, acquisition, disposal and replacement of vehicles. As outlined in the Service Level Agreement (SLA), the operator (Surface Operations) is responsible for identifying operational requirements outlining what the equipment is required for. Fleet Services take that information and develops specifications to meet those requirements based on the City of Ottawa's purchasing By-law. Fleet's role is to

understand client requirements and provide them with equipment to meet the minimum operational requirements in a cost effective manner.

Management does not agree with the part of the recommendation to provide Surface Operations staff with training on specifications as this would be a duplication of effort within the city, and would contravene the COE model and the SLA. This recommendation states that Surface Operations Branch should be responsible for areas that they are not accountable.

Recommendation 37
That the truck bodies be placed on a rehabilitation program that would see them inspected, sandblasted and re-painted as the rusting begins to appear.

Management Response
Management disagrees with this recommendation.

Fleet Services does not perform any cosmetic repairs for rusting, as it does not affect the operation of the vehicle. The condition of vehicle bodies is monitored as part of the annual inspection program. Structural repair is done when the vehicle does not meet the Ministry of Transportation requirements. Rusting is normally repaired if it is assessed that the rust will shorten the life of the vehicle. Cosmetic repairs are not done as a matter of course due to the additional cost.

Recommendation 38
That salt and sand spreaders (and other major equipment not in use seasonally) be washed and lubricated to prevent corrosion of the connections, electronics, conveyor systems and moving parts during the off-season.

Management Response
Management agrees with this recommendation.

Washing, lubricating and off-season storage is an operational task and is part of regular seasonal changeover.

Recommendation 39
That indoor storage be considered to keep single season units out of the weather until required; or that other provisions for secure mothballing of equipment be provided.

Management Response
Management agrees with this recommendation.

This will be considered as part of the facility rationalization project currently being undertaken as part of the Strategic Alignment Initiative, completion in Q3 2007.

Conclusion

The Branch will need to change their way of operating. They must move from reactive, independent localized centres to proactive, unified and complimentary centres. Operations must be standardized and based on industry accepted best practices. This does not imply expensive state-of-the-art technologies for the sake of the technology, but rather the most effective, efficient and economical approach to operations, which achieves the City's vision as outlined in strategic documents such as the 20/20 Environmental Strategy and operational policies such as the road maintenance standards.

Acknowledgement

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

3.2   Audit of the Employment and Financial Assistance Branch

EXECUTIVE SUMMARY

The Audit of the Employment and Financial Assistance (EFA) Branch was included as part of the 2006 Audit Plan of the Office of the Auditor General, first presented to Council in December 2004.

EFA has seen many changes in recent years. The two main drivers of change have been the introduction of the Province's Ontario Works (OW) legislation in 1998 and the amalgamation to the new City of Ottawa in 2001.

OW, which is the largest social assistance program delivered by the EFA Branch, provides employment and financial assistance to eligible persons in temporary financial need. Basic financial assistance and benefits are cost-shared with the municipalities, also known as Consolidated Municipal Service Managers (CMSMs).

Audit Objectives and Scope

The objective of this audit was to conduct a comprehensive review of the EFA Branch, including:

- Review the overall management control framework for the Branch. This was the largest portion of the audit work, and it focused on the management controls, from a department-wide perspective, that are in place to administer the Branch's programs and services. Such controls involve those policies, procedures, processes, structures, systems, and practices that management has at its disposal to help ensure the achievement of objectives.

- Review the cheque disbursement processes for manual and electronic cheques.

- Review two of the Branch's non-mandated/non-legislated programs - Essential Health and Social Support (EHSS) 100%, and Home Support Programs - to determine efficiency, effectiveness, and compliance to City policy.

- Determine the comprehensiveness of the provincial audit and control framework for the OW program, which included a review of the annual audit of OW files, the Correction Action Plan follow-up, and the Consolidated Verification Process (CVP).

The scope of the audit included:

- A comprehensive review of the EFA Branch – all four district offices, Operations and Program Support, and Employment and Community Programs;

- The internal processes that support the administration of OW and other EFA programs; and

- Programs and services that are not reviewed as a part of the provincial audit, monitoring and control framework.

The scope did not include:

- A compliance audit of OW files to the provincial legislation as this type of audit is done annually by the Ministry of Community and Social Services;

- A detailed systems audit of the provincial Service Delivery Model Technology (SDMT) web-based business application used to administer the OW program; and

- An audit of the Ontario Disability Support Program (ODSP) that is administered by the Province and is cost-shared by the City.

Key Findings

The Branch has demonstrated several key strengths, one of which is the committed, forward-thinking Senior Management Team, which provides strong leadership for a Branch that must operate in a complex and challenging environment. This has also resulted in the Branch having a positive and cooperative working relationship with the Province, which was acknowledged in our meetings with provincial representatives.

Other strengths of the EFA Branch include:

- **Frequent formal communication between staff** – This included communication from management through regularly scheduled general staff meetings, district office staff meetings, email communications, and the EFA Intranet site on MOE. Some staff indicated that the communication should be clearer in terms of the direction that the Branch is heading. Issues related to inconsistencies in the interpretation of policies have been identified during the audit and are discussed more fully under Detailed Observations.

- **Focus on training for OW staff** – Many staff indicated their satisfaction with the move to modular training. The Branch's Training Committee, which is represented by all four district offices, meets regularly to discuss, analyze, and determine the training needs of OW staff.

- **Increased focus on Performance Development Process (PDP)** – Since 2001, Senior Management has been committed to implementing the PDP across the Branch. The Branch, in consultation with Employee Services, has developed its own PDP tool for union staff. The Branch is now in the process of evaluating the implementation of the PDP to ensure consistency in the way the tool is used. There remains a requirement to increase performance monitoring of staff. This issue is discussed later in this report.

- **Good access to policies and resource information** – All staff interviewed indicated that there was adequate access to policy and resource information.

- **Focus on succession planning** – The Senior Management Team has acknowledged that many key positions in the Branch will be vacated in the next two to five years due to retirement. The Senior Management Team has recently been reorganized and two new positions have been created with the intention of developing and preparing EFA staff to qualify for positions as staff retire.

- **Good resource and budget planning** – On a monthly basis, resource levels are analysed Branch-wide to determine gaps. When required, resources are moved around within the Branch to cover off gaps and new staff are only hired when there is a demonstrated long-term need for additional resources. A review of the 2003, 2004, and 2005 EFA budgets shows that the Branch was able to manage within its budget each year.

- **Matrix approach** – The Branch has implemented a matrix approach through its committees, workgroups and initiatives, which are represented by staff across all four district offices. Capacity management is an initiative aimed at determining best practices within the Branch and ensuring that those practices are shared across district offices, where appropriate. The Staff Investment Survey Workgroup was set up to develop an implementation plan to address the issues identified in the survey developed and administered by Community and Protective Services across all branches within the Department.

- **Good controls in place for manual cheque disbursement** – The processes, procedures, and controls that are in place for manual cheque disbursement were reviewed at each of the four district offices. It was found that EFA has a Branch-wide policy on control of manual cheque disbursement and that all district offices are following the policy.

The audit has noted several areas for improvement with respect to the management control framework of the Branch. As a part of the audit, we presented and validated these areas for improvement with the EFA management team. The six key areas that require improvement are:

- **Improved role clarity for supervisor position** – The role, responsibilities, expectations, and accountabilities for the supervisor position need to be more clearly defined and communicated by the EFA Senior Management Team and reinforced by the District Managers. There is not a consistent understanding by supervisors or staff as to what the role of the supervisor is. This has resulted in a lack of consistency in interpreting policies and administering benefits.

- **Increased performance monitoring of staff** – Many staff interviewed indicated that they do not feel that their performance is monitored and perceived a lack of accountability for performance. Based on the interviews, many staff do not have an up-to-date performance evaluation on file. As well, some staff feel that the tendency for many supervisors is to "turn a blind eye" instead of dealing with

performance issues. The lack of performance monitoring makes it difficult to ensure consistent service delivery.

- **Staffing** – All supervisors indicated that the three-month probationary period is not enough time to evaluate the performance of new hires. However, it is rare that a request is made to extend the three-month probationary period to six months, which is permitted under the CUPE 503 collective agreement.

- **Training** – The focus of the Committee has been for generic OW training, however, the training requirements of other specialty groups are not considered. Family Support Workers, Residential Care Workers, and Employment Specialists would benefit from more specialized training in addition to the core OW policy and SDMT computer training that are offered on a regular and ongoing basis.

- **Continued improvement of the Employment Service Delivery Model** – The Branch implemented a new Employment Service Delivery Model in March 2006, partly in response to changes made by the Province in allocating OW employment funding. The move from activity-based funding to outcome-based funding is a major change for the City, and many staff indicated that they do not have a good understanding of this new initiative and do not fully understand the role and responsibilities of the Case Coordinators and Employment Specialists when it comes to employment. It is important to note that the success of the new outcome-based Employment Service Delivery Model will have a direct impact on the funding received from the Province in the future.

- **Increased attention to the non-mandated, non-legislated programs** – This audit reviewed the Branch's EHSS program which is 100% funded with City money, as well as the Home Help and Home Management Programs, which are both cost shared at a rate of 80/20 with the Province's Ministry of Health and Long-Term Care. It was found that all three of these programs are not well understood or well accessed by staff across EFA. With the exception of EHSS 100%, information about the other programs is not contained on the Branch's Intranet site.

Recommendation 1

Ensure the consistent interpretation of policies and administration of benefits across all district offices.

Management Response

Management agrees with the recommendation. For the OW Program, the Ministry of Community and Social Services (MCSS) currently tracks policy compliance through their provincial audits that result in corrective action plans that are approved and monitored. These audits also include documenting any concerns arising from overpayments of Community Start Up Benefits (CSUM). In recent provincial audits, there were no concerns raised with the administration of CSUM benefits. In relation

to the auditor's concerns about the number of ERO file terminations in the West district office, a file review was conducted that confirmed that the West District Office had the same rate of terminations as the other three offices.

In early 2007, the Branch is implementing a new database (Datamart)* that will produce enhanced management reports that will assist in the tracking of benefits and services. Any anomalies will trigger a review by the supervisor who will ensure that the payment/service is legitimate as an exception as outlined in provincial legislation or Council direction and that any corrective action is taken as required. Furthermore, in early 2007, the Branch is assessing the feasibility (need, cost, program implications, and resources) of implementing a new case review unit that would complete random sample case audits for all of the EFA programs and services.

*The Datamart is an EFA database and reporting tool that provides the Branch with the necessary reporting capacity to support performance management.

Recommendation 2
Clearly define and communicate the role, responsibilities and accountabilities of the supervisor position.

Management Response
Management agrees with the recommendation. The Branch in conjunction with Employee Services has already written and signed-off on the a new supervisor's job description, which reflects more accurately the supervisors' new responsibilities including a significant focus on performance management. This has been forwarded for scoping and rating and is expected to be complete by Q2 2007.

To further support supervisors with the changes, the Branch is also developing a detailed Performance Management Program (PMP) that will provide supervisors with clear expectations, the required training, tools and feedback to perform their duties. The PMP was presented to the management team (supervisors and managers) in the fall of 2006. The first iteration of the program will be implemented by the Q2 2007.

Recommendation 3
Develop a "tool kit" (i.e., reports, evaluation mechanisms, core training, etc.) required to be used by all supervisors to assist them in the management of their Teams.

Management Response
Management agrees with the recommendation. As part of the PMP, additional tools are being developed and implemented that will provide supervisors with the resources they need to ensure that staff achieve the program, branch and departmental goals and outcomes that have been identified. This would include

additional Branch specific and corporate training, management reports, tools and supports and will be implemented by Q2 2007.

Recommendation 4

Re-instate the Supervisors Committee as a mechanism for supervisors to meet on a regular basis to share information.

Management Response

Management disagrees with the recommendation. There are already opportunities in place that support supervisor information sharing such as: weekly management team meetings; topical management committees; management specific training and development sessions; and bi annual management forums and working sessions.

Recommendation 5

Develop reporting and feedback mechanisms to be used to monitor and assess staff performance and accountability in order to ensure consistent application of policies.

Management Response

Management agrees with the recommendation. The implementation of other reporting and feedback mechanisms as part of the PMP (specifically the Datamart in Q2 2007), will bolster the existing performance management framework that includes:

o provincial audits and resulting corrective action plan

o consolidated verification program (every OW file is reviewed and updated annually)

o 43 pre-determined monthly and weekly Ontario Works management reports (produced from the provincial web-based Service Delivery Technology)

o monthly reports to inform management on the progress towards specific outcomes and targets, such as:

- level of participation in employment activities (e.g. employment placements, self-employment, community placements, completed training) against MCSS Service Level Contract
- intake levels and response times
- number of terminations
- number and outcomes of ODSP referrals
- number of Consolidated Verification Reviews against MCSS target
- number and outcome of Job Specific Skills Training

Furthermore, the Branch is continuing to set expectations and provide the necessary tools and training to supervisors and Managers to ensure that they complete individual contribution agreements (PDP) with their staff.

Recommendation 6
Provide supervisors with the training and skills required to adequately manage staff.

Management Response

Management agrees with the recommendation. The supervisors' training and skill development is a work-in-progress and is evolving as the responsibilities and skills of the supervisor change. Since 2003, the supervisors have attended the following mandatory training and development sessions to increase competencies in the areas of leadership, accountability, role of a coach, effective relationships, decision-making and problem solving:

- o supervisors accountability framework in a matrix management environment (2 days)
- o working sessions to develop performance standards for completing the ICA (½ day)
- o change management session (1 day)
- o Phase One: Provincial Management Development Program (10 days)
- o situational leadership and decision making training (1 day)
- o dialogic model for managers (1/2 day)
- o review and evaluate ICA tools (1/2 day)
- o Phase Two: Management Development Program (5 days)
- o refresher on system reports and screens to assess staff performance (1 day)
- o performance management (1/2 day)

On a case-by-case basis, supervisors have also been encouraged to participate in the various corporate training sessions as identified either by their manager or themselves. To complement the existing training and to support the new PMP, a supervisor's training continuum is being developed to help supervisors manage in the new outcome based culture. The management team endeavours to balance the supervisors' training needs with the operational requirement of having supervisors on site to provide leadership and direction.

Recommendation 7
Through the Branch's Senior Management Team, establish and enforce a tone of accountability across the Branch.

Management Response

Management agrees with the recommendation and is committed to ensuring accountability in the Branch. The Branch has successfully achieved all of its provincial targets for employment activities, Enhanced Eligibility Review/Family

Support and the Consolidated Verification Program. This success is attributable to many initiatives introduced over the past several years such as the development of accountability frameworks, setting, monitoring and correcting progress toward program specific outcomes and the provincial targets.

Management agrees that furthering accountability across the Branch is helping to ensure that provincial employment targets (outcomes to be finalized '07-'08) and other Branch objectives are met. To further clarify the expectations and outcomes, the Branch is the process of developing, in collaboration with the staff, a program-by-program outcome measures as a component of the PMP.

The Branch is also committed to the 2006 Corporate Performance Measurement and Reporting Framework as evidenced by our significant involvement in OMBI and ongoing submissions of a high number of measures for the Quarterly Performance Reports to Council.

Recommendation 8

Use a consistent approach during the three-month probationary period for new hires to ensure that new hires are adequately and consistently mentored, monitored and assessed by supervisors.

Management Response

Management agrees with the recommendation. By the end of Q4 2007, the Branch will deliver clear messaging about expectations, and will develop and implement tools to ensure that an assessment of new staff is done consistently. This will include a how to use the newly completed code of conduct companion guide that assists managers and supervisors in explaining in very clear terms how the code of conduct applies to EFA.

Recommendation 9

Extend the three-month probationary period to six months (as allowed under the terms of the CUPE 503 collective agreement) when it is determined that more time is necessary to assess performance.

Management Response

Management agrees with the recommendation. As per recommendation #8, with the systematic application of an assessment tool and clearer expectations of how to monitor newly hired staff's performance, supervisors will be better able to identify the need for, on an as needed basis, the extension of the probationary period based on an assessment of performance.

Recommendation 10

Coordinate OW policy training and SDMT computer training with start date of new hires.

Management Response

Management agrees with the recommendation. It is an important practice to ensure efficiencies by deploying trained staff as early as possible and by maximizing the number of trainees per session. For these reasons, the EFA Branch, in collaboration with Employee Services, has developed an efficient staffing process of batching competitions by positions thereby permitting the scheduling of training to coincide with the start dates of most new hires. In those instances where there may be a short gap between hires, EFA Centres have other orientation and short-term training approaches that help staff prepare for the core training.

Recommendation 11

Develop an internal training package for newly hired Employment Specialists to ensure they receive adequate skills training to be effective in their new role.

Management Response

Management agrees in principle with the recommendation. In the case of the Employment Specialists (ES) they play a similar role to the Case Coordinators (CC) in that they both deliver employment and financial assistance to varying degrees. The CCs have a larger focus on financial eligibility/assistance as well as managing the employment requirements of clients who have been on social assistance for less than 12 months and those not referable to ES but who remain active on their caseloads.

The ES' specialize in the delivery of employment programs and services but also have financial responsibility to determine eligibility for certain benefits. As such OW Policy and Procedure and SDMT/ systems training is provided to staff in both positions. ESs also receives generic Branch training and refreshers as identified in recommendation #13. The Service Delivery Model training planned for early 2007 (see recommendation #15) will also benefit the ES. In Q4 2008, once the training is complete and the outcome measures and corresponding changes to the Service Delivery Model have been introduced, EFA will consult with the Employment Specialist to determine if there is a training gap.

Recommendation 12

Provide periodic refresher training on the City EHSS 100% program to ensure that the policy and administration of this program is well understood across the Branch.

Management Response

Management agrees with the recommendation. EFA will be reviewing its EHSS 100% program in Q4 2007 to assess the benefits of centralizing the services with a specialized team. Once the review is complete, refresher training will be provided to those who deliver the program.

Recommendation 13

Expand the mandate of the Training Committee to address the training needs of all EFA staff, not just the training needs of staff delivering the OW program.

Management Response

Management agrees with the recommendation. The training committee coordinates core/generic Branch training while the leads/managers of the various pilots and smaller programs are responsible for the coordination of their specialized training. In 2006, centralizing training began for all staff in the SAP training database and at this time have recorded almost 2000 entries by individual, program, type of training and hours. EFA will continue to populate this list and ensure that it reflects training from all sources including those that are provided to specialties such as from the Province, the Ontario Municipal Social Services Association and community agencies. This information and the subsequent analysis of the data will permit the Branch to better understand the training needs of all staff.

Recommendation 14

Evaluate and assess the implementation of the new Employment Service Delivery Model to ensure its future effectiveness, including the development of performance measurement targets.

Management Response

Management agrees with the recommendation. The Employment Service Delivery Model is and will continue to be a work-in-progress. The need to evaluate and assess our performance is necessary to respond to the ever-changing mandate/directives of the Province. Under the previous Act, (General Welfare Assistance) there was no performance funding components to the program. With the proclamation of the Ontario Works Act in 1997, municipalities were mandated to provide a very specific list of employment activities for clients to participate in for which funding would be provided. Municipalities were required to submit a yearly service agreement that specified the targets to be met with the corresponding funding levels based on the number of individuals participating by type of activity. Each year there would be changes either to, the funding, the type of employment activities to be delivered or the directives.

More significant changes are being introduced in 2006 and 2007, as MCSS will be shifting from funding clients who are taking part in employment activities to funding clients who achieve employment outcomes. This will include outcomes such as clients having more earnings, more clients leaving for employment and lastly 80% will be based on outcomes related to increasing a client's employability. The latter is in recognition that many clients have barriers and need to increase their basic competencies if they are to successfully exit social assistance. It is not expected that this provincial initiative will be fully implemented until 2008. The work to be completed is the finalizing of the outcomes, identifying the measures, developing the

necessary valid reports, and confirming the funding model. In response to the evolving provincial direction, the Employment Service Delivery Model continues to undergo constant evaluation and adjustments.

Recommendation 15

Improve the working relationship between Case Coordinators and Employment Specialists through increased communication and training.

Management Response

Management agrees with the recommendation. Before 2000, employees delivering employment programs were at different sites than those delivering financial assistance. The EFA Branch has since integrated employment and financial services in each of the four existing sites (previously 9 sites) as a one point of service strategy. This as well as other Branch initiatives, has significantly improved the understanding and acceptance of each other's roles and responsibilities.

Furthermore, with the new Service Delivery Model, more clarification and details will be provided specific to expectations and contributions toward outcomes (four training modules will be delivered in 2007). As previously stated in recommendation #14, there will be ongoing reviews of the model with a focus on enhanced communication and further opportunities for integration.

Recommendation 16

Develop an exit interview process to collect data on clients terminating OW due to employment to identify which employment programs and initiatives are leading to desired outcomes.

Management Response

Management agrees with recommendation. Over the past year, the Branch has piloted a termination checklist and process (includes contacting participants who have likely exited for employment reasons) in two of its four sites with favourable results. Therefore EFA will introduce this termination approach consistently across the Branch in Q3 2007.The Branch also has other mechanisms such as outcome measures by program, an employment readiness tool and questionnaires/surveys. This composite approach to gathering data all contribute to the identification of which employment programs and initiatives are successful.

Recommendation 17

Link the new outcome-based measures to the City's Quarterly Performance Report.

Management Response

Management agrees with the recommendation. The Ministry of Community and Social Services introduced performance-based funding in the early 2000's by setting targets related to clients participating in employment-related activities (i.e. job

search, training and education, employment placements, community placements). Since 2002 the EFA Branch has consistently met its targets as contracted between the City and the Province in the yearly Ontario Works Service Plan. Between 2006 and the end of 2007, the Province will be finalizing new measures and reports that will be employment outcome based. One aspect of finalizing these measures, is improving the integrity of the reports as this was tabled as an issue. As a result the Province has created a joint Data Integrity Workgroup that is working on improving the reports. As these measures (pertaining to approximately 22,000 participants improving in the areas of earnings, employment and employability), are released in 2007, EFA will build them into the various reporting documents including the City's Quarterly Performance Report.

Recommendation 18

Develop a process to review and update (if necessary) policies for EHSS 100%, Home Help and Home Management programs on a regular basis.

Management Response:

Management agrees with the recommendation. The Branch began a policy and procedure review of the EHSS Program in 2006 and will build into a review of Home Help and Home Management workplan. To ensure that this is completed on a regular basis, EFA will build in a bring-forward mechanism to indicate that a general review is due on one of the programs based on a staggered four-year cycle. The mechanism will be in place by Q3 2007.

Recommendation 19

Provide complete information on EHSS 100%, Home Help and Home Management programs on the EFA Intranet site.

Management Response

Management agrees with the recommendation. The EFA Branch has one of the largest Intranet sites in the corporation. The site provides frontline staff with an efficient self-serve mechanism to access the provincial and municipal information and tools they need on a daily basis to complete their tasks. Once a review of the programs mentioned above has been completed, EFA will ensure that the information is posted on the Intranet. The Branch will continue to post all documentation related to all of its programs on the Intranet.

Recommendation 20

Develop a file review function for EHSS 100%, Home Help and Home Management programs to ensure ongoing integrity and compliance.

Management Response

Management agrees with the recommendation. An additional mechanism is required to review the EHSS, Home Help and Home Management Programs. As stated in recommendation #1, the Branch is considering the implementation of a new case review unit that would complete random sample case audits on all of the EFA programs and services. The determination of the value of this function will be completed in Q4 2007

Recommendation 21

Review the Home Management Program and explore organizational changes (e.g., centralization of Home Management Counsellors in the EFA district offices) to maximize staff utilization and value to the community.

Management Response:

Management agrees with the recommendation. One possible outcome of a review of the Home Management Program would be to relocate the Home Management Counsellors in the EFA Centres. Therefore, in collaboration with the stakeholders, EFA will conduct a review of the existing program in Q4 2007 and will introduce any required changes to ensure a cost effective and efficient service delivery model.

Recommendation 22

Develop an assessment tool to determine financial eligibility for Home Management Services.

Management Response

Management disagrees with the recommendation. An assessment tool for the Home Management program already exists. The vast majority of residents receiving home management services are ODSP and OW clients. The assessment tool used for those who are not in receipt of social assistance (low income) is the same as the one used to assess low-income applicants for the Home Help Program.

Conclusion

Overall, the EFA Branch meets many of the criteria used to assess the management control framework of the Branch, but needs to focus efforts to ensure all criteria are met. The Branch has come a long way in strengthening social assistance programs. Compared to past years, there are now better controls for assessing initial and ongoing eligibility and disbursing benefits.

However, the management control framework needs to be strengthened to ensure performance accountability for all levels of staff and consistency in program delivery. This audit has identified several areas where there is a lack of consistency in interpreting policies and administering benefits across district offices. As such, the Branch needs to focus more attention on clearly defining the role of the supervisor, as it

is a critical role in the management of the organization, and ensuring appropriate oversight of staff. There are real challenges to managing in a unionized environment however, union collective agreements do not preclude the Branch from establishing performance measures, using tools to regularly monitor performance, and holding staff accountable for poor performance. These are common functions of good management.

The Branch needs to address the issues with the Employment Service Delivery Model to ensure employment objectives set by the Province and the City are being met in a cost-effective manner.

The Branch's Senior Management Team has already identified many of the observations outlined in this report as issues. It is now time for the EFA Senior Management Team to act on these recommendations to ensure that the management control framework of the Branch is strengthened.

Acknowledgement

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

Also, we appreciate the time taken by provincial staff at the Ministry of Community and Social Services to meet with us at the outset of this audit.

3.3   Audit of the Ottawa Fire Services Branch

EXECUTIVE SUMMARY

Introduction

The Audit of the Ottawa Fire Services Branch (OFS) was included as part of the 2006 Audit Plan of the Office of the Auditor General, first presented to Council in December 2004.

The objective of the audit was to review the Management Control Framework of the Ottawa Fire Services Branch. The effectiveness of the Management Control Framework was reviewed to:

1. Assess what is working well and what needs to be improved, and

2. Identify recommended actions for improvement.

The scope of the audit focussed on the management controls from a Branch-wide perspective that are in place to manage and administer Branch programs and services. These controls include the policies, procedures, processes, resources, systems, culture, structure, and tasks and how effectively they support the achievement of the City's and the Branch's objectives.

Although a number of the observations and recommendations have operational implications, the audit did not include a comprehensive review of OFS operations (i.e. the effectiveness of incident response and the distribution and deployment of staff and equipment).

The audit criteria used in assessing the Management Control Framework of the OFS were adapted from the Canadian Institute of Chartered Accountants Criteria of Control model.

Background

The overall objectives of the Ottawa Fire Services Branch are to:

- Reduce or eliminate loss of life and property;
- Mitigate risk and deliver on the Ottawa 20/20 Plan promise to focus on prevention;
- Enhance quality of life by using the best station-response model as part of the Ottawa 20/20 Plan goals outlined in the Human Services Plan; and,
- Stabilize risk to life and property in large-scale community disasters.

The Ottawa Fire Services Branch operates 43 fire stations, located in 9 districts across the City of Ottawa. Fire Services employs 990 FTEs as well as over 400 part-time fire

fighters ("volunteers") who receive an annual stipend plus an hourly wage whenever deployed.

The *Fire Protection and Prevention Act* (the Act) is the chief legislation governing the provision of fire services in Ontario. Provisions in the Act include:

- Municipal responsibilities for fire protection services;
- The role and authority of the Fire Marshal of Ontario;
- The authority of the Minister to establish a Fire Code;
- The rights of entry in emergencies and fire investigations;
- The requirements for fire inspections;
- Offences and enforcement authorities; and,
- Fire fighter employment and labour relations.

To ensure compliance with the Act, each municipality must have:

- a simplified risk assessment;
- a smoke alarm program;
- a program for distribution of public education information; and,
- fire prevention inspections upon complaint or request.

The *Ontario Fire Code* is a regulation made under the Act. It serves as a companion document to the *Ontario Building Code.* The Fire Code provides for the safety of occupants in existing buildings through the elimination or control of fire hazards in and around buildings, the maintenance of life safety systems in buildings, the establishing of a fire safety plan in those buildings where deemed necessary, and the retrofitting of certain occupancies.

Key Findings

1. The audit of the Management Control Framework of the OFS identified a number of strengths within the Branch, including;

    - The OFS has made good progress developing a more effective fire service since amalgamation including ensuring standardized training requirements and consistent operating procedures.

    - Interrelationships with other related City functions have improved and are in most cases strong.

    - The OFS has a strong recruitment and training program in place with typically several hundred prospective recruits awaiting entry-level positions.

    - The recently implemented attendance management program has made progress in reducing chronic absenteeism.

    - Good progress has been made in implementing a new management information system designed to support fire services.

- The OFS is currently at work on a comprehensive fire risk assessment of the entire City including a station location study to guide revisions to the service delivery model.

- The OFS is at work pursuing improvements in its procurement practices to standardize equipment, streamline purchasing practices, build data bases on existing inventories and implement standing offers.

2. The current legislative and regulatory framework implies a much greater burden on municipal councils to clearly articulate its expectations and provide for its own oversight of the fire service. Many city councils have done so via the creation of an "establishing and regulatory by-law" which identifies the specific characteristics of the fire service including response times, level of public education, frequencies of fire inspections, etc. The City of Ottawa currently does not have such a by-law.

3. Currently there is no formal mechanism at the City for Council to receive regular detailed information on the activities of the OFS.

4. The risk assessment and station location currently underway in the OFS should be broad enough to investigate opportunities for increased efficiency and savings that may have arisen as a result of eliminating boundaries that existed prior to amalgamation. In addition, once such a risk assessment is completed, the OFS should establish a process to regularly re-assess fire risk in our community.

5. In developing an enhanced property inspection and fire investigation program, the OFS should be pursuing the use of fire fighting resources in this area.

6. Management should implement formal management led post-incident debriefings, participation should be mandatory and operational issues and recommended changes for the future should be documented. A standard format for these debriefings should be developed to better ensure that all substantive issues are reviewed and discussed on a consistent basis and that recommendations arising from these sessions are brought forward for decision-making.

7. Strategic planning and risk assessment for the City's fire services should examine the overall role of the Fire Service for the future. The concepts of a regulatory by-law, conducting risk assessments and examining the overall role and programs provided by the fire service leads to the notion of a consolidated long-range strategic plan. The current risk assessment and station location initiative now underway in OFS represents a key first step in this exercise.

8. The current management structure and many of the existing collective agreement provisions place significant barriers to ensuring an effective management control framework is in place within the OFS. The minimal number of management positions, a culture that discourages effective communication between unionized staff and managers and a promotional process that effectively prevents selecting candidates on the basis of merit has had significant implications on ensuring

effective delegation of authority, staff supervision and oversight, assignment of resources, succession planning and performance monitoring.

Recommendations

Recommendation 1

That the existing regulatory by-law for fire services, carried over from the former City of Ottawa, be repealed and that the Ottawa Fire Services develop a new Establishing and Regulatory By-law for Council approval which clearly articulates all key objectives and features of the fire service.

Management Response

Management agrees with the recommendation and will bring forward a By-law in October 2007.

Recommendation 2

That the Ottawa Fire Services develop by-laws for Council approval governing each of the existing cross-boundary agreements with neighbouring municipalities.

Management Response

Management agrees with the recommendation.

Currently there is a mutual aid agreement in place with the Town of Kemptville that was in effect prior to amalgamation. There are also informal arrangements for mutual aid with the municipalities of Clarence-Rockland, Russell, North Dundas and Lanark. Fire Services also purchases fire suppression services annually from the municipalities of Merrickville and Arnprior for those portions of the City that are closer to these centres. While a standard agreement is recommended to formalize these mutual aid services, it is not necessary to have a By-law enacted in every instance. A report approved by Council, contained recommendations that it would be sufficient for the City to enter into mutual aid agreements with specified municipalities, subject to approved terms and conditions. Again, such a report would be confirmed by a By-law at the end of Council. Ottawa Fire Services anticipates bringing these agreements forward in Q3 2007. Ottawa City Council as well as the respective Councils of the neighbouring municipalities will approve these agreements.

Recommendation 3

That the Ottawa Fire Services, in concert with both the OMBI and Fire Marshal initiatives, develop a comprehensive set of performance measures that adequately reflect its strategic and operational objectives in order to provide adequate performance information to Council.

Management Response

Management agrees with the recommendation.

As part of the Corporate Planning and Performance Reporting Office (CPPRO), performance measures were established and Fire Services has been reporting on these measures for the past year. A comprehensive set of performance measures was also established for Fire Services through the OMBI group, which are currently being reported to Council through the established OMBI reporting process. These measures include Residential Fire Related Injuries per 100,000 population (3 measures - Urban, Rural and Entire Municipality); Percentage of all Residential Fire Related Injuries in Dwellings with a Working Smoke Alarm (entire Municipality); Rate of Firefighter Injuries (entire Municipality); Residential Fire Related Fatalities per 100,000 population (3 measures - Urban, Rural and Entire Municipality); Rate of Residential Structural Fires with Losses per 1,000 households (3 measures - Urban, Rural and Entire Municipality); Rate of Commercial and Industrial Structural Fires with Losses per 1,000 properties (3 measures again); Total Fire Operating Costs per Capita (Urban Operations); Number of Incidents Responded to by Fire Services per 1,000 population (Urban); Number of Property Fires, Explosions and Alarms per 1,000 population (Urban); Number of Rescues per 1,000 population (Urban); Number of Medical Calls per 1,000 population (Urban); Number of Other Incidents per 1,000 population (Urban); Operating Costs for Fire Services per $1,000 Assessment. The remaining reporting requirements, such as the station notification times, are subject to further implementation of modules within the Records Management System (RMS) anticipated in 2008. In addition to the prescribed OMBI measures, Fire Services agrees to provide an annual report to Council that reflect performance against strategic and operational objects as cited in Management's response to Auditor recommendation # 4 provided appropriate resources can be secured.

Recommendation 4

That the Ottawa Fire Services develop an annual reporting mechanism to provide Council with regular information on overall Branch performance against objectives and performance measures, including the results of all major fire events.

Management Response

Management agrees with the recommendation.

Ottawa Fire Service will report annually, through Standing Committee, as directed above including updates on Branch performance and a consolidated summary of major events from the previous year in Q2 each year. In addition, Fire Services will continue to report its performance through the existing mechanisms such as the Corporate Annual Report, OMBI Annual Report and the Quarterly Performance Report to Council.

Recommendation 5

That the Ottawa Fire Services complete the current risk assessment and station location study on a priority basis and ensure that opportunities for efficiencies are identified.

Management Response

Management agrees with the recommendation.

In 2004, Council approved funding for a Station Location Study. The study is currently underway and includes a partnership between Ottawa Fire Service and the Ontario Fire Marshal's Office. Part of the study includes the development of a risk assessment for the City of Ottawa based on the local available data. The final report is anticipated to be completed in Q3 2007 and will reflect opportunities for efficiencies and growth driven service requirements that are identified through the study. This report will also provide sufficient information to Council in order for them to approve emergency service response standards for the Fire Service based on the Ontario Fire Marshal's Public Fire Safety Guidelines.

Recommendation 6

That, once the current risk assessment and station location study is completed, the Ottawa Fire Services establish a process for regularly re-assessing fire risks in the community.

Management Response

Management agrees with the recommendation.

Once the risk assessment is approved by Council, Fire Services will be able to and are committed to regularly updating risks based on updates to input information (i.e., population density, building density etc.). The Public Fire Safety Guidelines (04-45-03) recommend that a municipality update their risk assessment every three years. Given the automated nature of the new risk assessment, the Ottawa Fire Service will be able to update their risk assessment regularly.

Recommendation 7

That the Ottawa Fire Services pursue the use of fire fighter resources to conduct 'in-service' inspections in order to enhance its current inspection program.

Management Response

Management agrees with the recommendation.

Ottawa Fire Services will continue using fire fighter resources to conduct 'in-service inspections' in support of specific targeted programs as has been done in the past. The current 'in-service' inspection program has focused on vulnerable communities such as elderly and the Wake-Up-Get a Working Smoke Alarm program, which has been highly successful and well received throughout the City. In the future, other

programs such as barbeque inspection and kitchen inspection are also being considered as a means of promoting life safety within our community. However, to use front line fire fighter resources for Code enforcement inspections would be cost prohibitive. Extensive training from the Ontario Fire College is required before being qualified to complete Fire Code enforcement inspections. In addition, that training is required to be maintained on a regular basis, which would also result in additional training cost being incurred by the Branch.

Recommendation 8

That the City re-assign responsibility for all hydrant inspections to Drinking Water Services and re-instate inspections of hydrants on City and privately owned properties on a cost-recovery basis.

Management Response

Management agrees with the recommendation.

This decision would expedite hydrant inspections, performed by Ottawa Fire Services, since a record of the hydrant inspection would be readily available from City records.

Private hydrant inspections on City owned land was provided on a limited basis by Drinking Water Services in the past, but it was assumed by RPAM as a result of a Universal Program Review reduction. As a result RPAM developed a regulatory-compliant Preventive Maintenance Program that provides an effective tracking system through a database. This service is contracted out and RPAM has contractual obligations ending on December 31, 2007. RPAM recommends that the decision for changing the current practice should be based on a cost-comparison analysis.

Drinking Water Services can't take on the responsibility of service without additional resources. However, if directed by Council, to take on the inspection service for hydrants on both City owned and private property, staff would first assess the level of service to these private hydrants to ensure full compliance with regulations and provide a report outlining the budget requirements, potential liability implications and preferred service delivery method. The cost for this service could be recovered on a fee for service basis, as was the case previously.

Recommendation 9

That the Ottawa Fire Services pursue opportunities to enhance the investigation program including :
(a) placing investigators on shifts vs. the current overtime/on call approach; and

(b) establishing a follow-up with on-site crews as part of the investigation process.

Management Response

(a) Management is supportive of the notion to review a shift rotation model for investigators and to complete a detailed cost/benefit analysis of implementing a

potential plan. However, any movement in this direction would require a memorandum of understanding to be added to the collective agreement and will require negotiation with respect to the collective agreement between the City of Ottawa and the Ottawa Professional Firefighters' Association.

(b) Management agrees with the recommendation. Currently there is a follow-up between investigators and on-site crews as part of the fire investigation process.

Recommendation 10

That the Ottawa Fire Services pursue the use of Fire Fighter resources to conduct certain types of fire investigations in order to enhance the current investigation program.

Management Response

Management agrees with the recommendation and has been implementing a solution over the past several years.

In 2002, the Fire Prevention Service Delivery Model approved by Council, included a fire investigations' component that identified the use of fire suppression staff to complete some fire investigations as well as a recommendation to Council that Fire Services increase the number of fires thoroughly investigated.

In an effort to achieve these recommendations, the Ottawa Fire Services signed a Memorandum of Understanding in 2003 with the Ontario Fire Marshal (OFM). The agreement was to allow Ottawa Fire Services to deliver the provincial "Fire Cause Determination" course locally, resulting in a lower cost and an accelerated pace of delivery. Currently, there are approximately 260 individuals who have received various levels of the Fire Investigator's Course allowing Ottawa Fire Service to be compliant with the legislation in that all fires are now being investigated. This allows our highly trained Fire Investigation staff to concentrate on those incidents that involve incendiary cause, which include our law enforcement partners – increasing the number of more thorough investigations. Fire Service intends to train all front-line firefighters at the basic level in the next several years.

Acquiring full investigator competencies in the front-line staff would be cost prohibitive based on the extensive multi-year training required not only through the Ontario Fire College but also the two-week course required by NFPA 921 and the Out of Country training provided by Police Services of Ontario.

Recommendation 11

That the Ottawa Fire Services pursue the development of a public education program related to false alarms.

Management Response

Management agrees with the recommendation.

Fire Services will be reporting back in Q4 2007 to Standing Committee after completing a follow up review of findings from comparable municipalities who have recently implemented false alarm programs to determine feasibility of a program in Ottawa.

Recommendation 12

That the Ottawa Fire Services implement a formal management-led incident debriefing process, including a standard format for discussion and documentation of all findings and recommendations and report the results on all major incidents to senior management.

Management Response

Management does not agree with the recommendation.

The current debriefing sessions for incidents are currently conducted at the appropriate operational level of the organization based on severity of the incident. The organizational structure within the Fire Services is as follows: Fire Chief, Deputy Fire Chiefs, Platoon Chiefs, District Chiefs, Captain, Lieutenants and Firefighters. The Incident Commander at a call could be a Captain, District Chief or a Platoon Chief depending on the severity of the incident. This is the senior person at the call and is therefore, the best-positioned staff to manage a debriefing session, as they were present and participated in the call. Feedback from the debriefing sessions is then provided to the Fire Chief and Deputy Fire Chief(s) – Management - through a variety of formal processes. The management team then provides direction on changes at a strategic level such as changes to coordination of other City services, tactics and policy and procedures necessary to address weaknesses identified through the debriefing session in an effort to ensure staff are better prepared in the future. Fire management can and do request and receive additional information that they may require on any incident in order to make necessary recommendations on improving services.

Ottawa Fire Service's debriefing process is the following:

- The incident commander submits a form, which included time of incident, damage, name of injured and the apparatus that responded, to the Platoon Office which in turn signs the form and submits it to all Deputy Chiefs and the Fire Chief

- Fires of 3rd alarm (fire requiring eight pump trucks, three ladder trucks, a heavy rescue truck and additional support vehicles in a hydrant area) or greater have a Deputy Fire Chief in attendance

- For all 3rd alarm fires or greater, the Platoon Chief meets with the Deputy for incident management critique

- A formal incident debriefing is held the next shift with most first response stations in attendance along with the Dispatcher that handled the call and the Investigator if available

- Recommendations from Incident Commanders on major fires are discussed at the monthly Platoon Chief/Deputy Chief meetings

- Incident report filed on major fires by Incident Commander with recommendations on equipment, response and tactics

- All Safety Officers complete a report on all "Working Fires". Any reports identifying problems or issues are submitted to the Deputy Chief of Operations for follow up and disposition.

- Issues from Incident Reports are brought forward to Health and Safety Committee, which is co-chaired by the Deputy Chief of Prevention and Training, for discussion and action. These actions are then submitted to Management Team through the Committee Co-chair for implementation.

Recommendation 13

That the Ottawa Fire Services develop a consolidated Long-Range Strategic Plan that outlines its future role and its strategy regarding the types of resources, training and skills that will be required in the future to best ensure public safety.

Management Response

Management agrees with the recommendation.

Ottawa Fire Services is in the initial stages of planning and has begun to develop a format and approach for the next stages for longer range planning anticipated to be complete in 2008.

Recommendation 14

That the Ottawa Fire Services revise its management structure by creating additional managerial positions below the Deputy Chief position, utilizing existing vacancies.

Management Response

Management agrees with the recommendation in principle.

The Ottawa Fire Services Branch agrees that additional managerial positions are required below the Deputy Chief position, however the issue is currently before an Interest Board of Arbitration regarding the Collective Agreement between the City of Ottawa and the Ottawa Professional Firefighters' Association.

Recommendation 15

That the Ottawa Fire Services explore other potential opportunities to revise its management structure including:

(a) Assigning Platoon Chiefs to non-shift regular hours;
(b) Exchanging the existing non-unionized Rural Sector Chief positions with the existing Platoon Chief positions.

Management Response

(a) Management disagrees with the recommendation.

The Collective Agreement between the City of Ottawa and the Ottawa Professional Firefighters' Association and the Fire Protection and Prevention Act prescribe the hours of work and shift rotation to be utilized in the Fire Service Suppression and Operations' Divisions. Accordingly, it would not be possible to assign these individuals to non-shift hours. To remove the position from the Platoon would require the consent of the Firefighters' Association, as it would be a collective bargaining issue. Secondly, it is important to note that the Platoon Chiefs are the sole persons in charge of each of four platoons in the 24/7 operations. They are the most senior person on duty citywide – including the rural areas, in the absence of Fire management, to provide oversight on behalf of the City. While management advocate that additional management positions are required overall per Auditor recommendation #14, the operations require oversight at the Platoon Chief level 24/7.

(b) Management disagrees with the recommendation.

Currently Ottawa Fire Service enjoys the service of a successful Volunteer Complement of approximately 400 Firefighters. At amalgamation, after careful consideration, a decision was made to create the rural management positions as excluded from any bargaining unit. The Rural Sector Chief is a unique position that manages the recruitment, training, retention, oversight and termination of volunteer (non-unionized) firefighters. Their job is non-traditional in nature where they manage operations as well as act as a community liaison between the community they serve and the Ottawa Fire Service. Their hours are irregular by definition with training and other work required in the evenings and weekends when the volunteers are available after traditional work hours. This particular job type does not fit within the Collective Agreement between the City of Ottawa and the Ottawa Professional Firefighters' Association and it is appropriate that the Rural Sector Chief positions remain Management and Professional Exempt (MPE) positions.

Recommendation 16

That the City realign its Labour Relations resources in order to provide additional support to the OFS.

Management Response

Management agrees with the recommendation.

Labour Relations' Management agrees with the recommendation in principle, however resource constraints preclude any action being taken at this time.

Recommendation 17

That the Ottawa Fire Services develop a set of core competencies for all officer positions and incorporate these into the job requirements in order to better facilitate merit-based promotions and succession planning.

Management Response

Management agrees with the recommendation.

It is important to note that the incorporation of competencies into the job requirements will require a major concession with respect to the provisions of the Collective Agreement between the City of Ottawa and the Ottawa Professional Firefighters' Association - which continues to advocate promotions based on seniority rather than on merit. Consequently, in order to enhance the promotional system in this manner, a revision to the Collective Agreement is required. In the interim Fire management believes that identification of core competencies for various job types in the Branch will allow the Service to provide training around those core competencies in an effort to ensure that although staff are currently being promoted to a great extent on a seniority basis, they have acquired the skills necessary to do the job. To accomplish this recommendation, significant support and expertise from the Employee Services COE will be required.

Recommendation 18

That the Ottawa Fire Services:

(a) examine the business processes related to incident reporting to ensure all information is captured as efficiently and effectively as possible;

(b) explore the potential to consolidate its information systems activities on a Branch-wide basis; and,

(c) in concert with Employee Services, integrate the Volunteer payroll with the corporate payroll system.

Management Response

(a)   Management agrees with the recommendation. Fire Services is currently undergoing a business process review related to incident reporting in an effort to improve the process for capturing information and to assist in ensuring accuracy.

(b) Management agrees with the recommendation. Ottawa Fire Service contemplates being able to achieve consolidation of information on a branch-wide basis with the full implementation of all modules within their RMS anticipated for 2009.

(c) Management agrees with the recommendation. The City is currently exploring alternate options for paying the volunteer firefighters.

Recommendation 19

That the Community and Protective Services Department explore the potential for,

(a) integrating its management information activities;

(b) consolidating its communications centre operations on a Department-wide basis.

Management Response

(a) Management agrees with the recommendation.

Currently, Ottawa Fire Service has implemented five modules within their RMS: incident reporting, prevention (inspections/property module), training, personnel, and permits modules. Currently being implemented is the asset management/preventive maintenance module with early meetings beginning to look at implementing the Roster Module, which is expected to be operational within the next 24 months. With this information available, Fire Services could provide performance reporting against performance standards in addition to the reports currently being provided per the Auditor's recommendation 3 & 4. This information could be reported on a branch basis in Q1 2008.

(b) Management does not agree with the recommendation.

A consultant's report completed at amalgamation recommended that the Emergency Services consider co-locating their communication centres. However, preliminary costs for a consolidated communication centre were projected to be considerable and far outweighed the benefits the City was likely to realize. A significant benefit of consolidating a communication centre is the capability to share information. This has been achieved by the implementation of the new Fire CAD system, which is the same system that Ottawa Police use and now both services are sharing information and resources where appropriate. The Ministry of Health and Long Term Care (MOHLTC) controls the Paramedic Communication Centre, although managed by the City of Ottawa, under a contract to the Province. Consequently, any changes to the Centre operations require approval by the Province. Some improvements have been made with information sharing by the limited implementation of the corporate radio system to the Paramedic Service. In addition, current technology allows for a seamless delivery of service to the citizens of Ottawa through the 911 system operated under contract by the Ottawa Police Service.

Finally, a recent benchmarking review of seven By-law Services in the Province, revealed that it is not a best practice to co-locate By-law dispatching services with other City services.

Recommendation 20
That the Ottawa Fire Services pursue the implementation of the Rostering module on a priority basis and ensure that adequate orientation and training is provided to staff to facilitate its acceptance and use.

Management Response

Management agrees with the recommendation.

To implement the Rostering module within the RMS planned by December 31, 2008. In order to complete the implementation of the Rostering module, Fire Services will need to:

- Upgrade the version of RMS from 4.2 to 6.0 (estimated time to do this is 1 year - IT resources are required for this) as FDM is currently only releasing Rostering in version 6.0.

- Hire a project and consultant team to train staff and resolve the issues. A work plan is currently being drafted.

A dedicated FTE is required to manage on an ongoing basis.

Conclusion

The OFS is proceeding in a number of areas to enhance efficiency and improve operations. Training requirements have been standardized and common operating procedures established. In addition, the undertaking of a comprehensive risk assessment and station location study and the implementation of a new management information system are two of the major initiatives currently underway.

There remain areas for further attention, however. The current management structure and many of the existing collective agreement provisions place significant barriers to ensuring an effective management control framework is in place within the OFS. The minimal number of management positions, a culture that discourages effective communication between unionized staff and managers and a promotional process that effectively prevents selecting candidates on the basis of merit has had significant implications on ensuring effective delegation of authority, staff supervision and oversight, assignment of resources, succession planning and performance monitoring.

With the serious restrictions imposed by the current environment on managerial decision-making, the line between protecting public safety and protecting an established way of operating has become increasingly blurred. Leaving aside managerial concerns, it is difficult to see how sustaining the current approach is financially feasible in the near future. It is perhaps an opportune time for the City of Ottawa to attempt to address these issues.

The development of a regulatory by-law that clearly sets out Council's expectations; a proactive risk assessment program that determines the best use of available resources to ensure public safety; creative approaches to using existing resources and to revising the current management structure; and the design of a consolidated Long-Range Strategic Plan that ties these concepts and strategies together, may make it possible to remove some of the current constraints to effective management control and to recast the fire service to more appropriately reflect current realities and requirements.

Acknowledgement

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

Also, the advice and assistance provided by staff of the provincial Office of the Fire Marshal has been especially valuable in our analysis.

3.4 Audit of the Building Services Branch

EXECUTIVE SUMMARY

Introduction

The Audit of the Building Services Branch (BSB or the Branch) was included in the City of Ottawa Auditor General's Audit Plan for 2006, presented to City Council on December 15, 2004. The purpose of the audit was to conduct an examination of all aspects of the City of Ottawa's BSB, including plan reviews, issuance of building permits, inspections, and enforcement.

Background

BSB is one of four branches under the responsibility of the Deputy City Manager, Planning, Transit and the Environment. It is responsible for ensuring that new construction meets the health, safety and structural sufficiency requirements of the Ontario Building Code (OBC) and other applicable laws, and to effectively manage the risks inherent in administering and enforcing the OBC. For 2006, BSB has an establishment of 175.25 FTEs employees, of which 166 are full-time employees and 9.25 temporary (summer students). Of the 166 FTEs, 42 are presently vacant. The majority of BSB employees are located at Ben Franklin Place, with the others co-located with Client Service Centre staff primarily at 110 Laurier, the Kanata and Cumberland offices and periodically at the other three rural Client Service Centres.

The three primary organizational units of the Branch are:

(i)   Building Permits – Plan Reviews and Approvals

(ii)   Building Permits – Inspections and Enforcement

(iii)   Legal and Service Integration

The Table below summarizes the Branch's building permit and inspection activity for 2004 and 2005.

Year	Permits Issued	Inspections Conducted
2004	8,539	82,759
2005	7,646	79,944

The overall objectives of BSB are to:

- Assist property owners and the development industry to ensure that building construction meets the health, safety, and structure sufficiency requirements of the

OBC and other applicable laws;

- Review pool enclosure applications, issue permits, and undertake safety inspections;

- Review and approve applications for permanent signs on private property;

- Assign civic addresses; and

- Provide accurate and timely compliance reports, agency letters of approval, release of development agreements, and access to building permit records and documents.

Recent legislation has significantly changed the role of the BSB and its clients, and established new requirements for the operation of the Branch. Key changes include requirements for the establishment of operational policies for Building Officials, certification requirements for BSB staff, prescribed timeframes within which decisions must be made on issuing building permits, and mandatory notices and inspections at key construction stages.

Audit Scope and Approach

The scope of our audit included an examination of BSB's:

- Compliance to regulatory requirements;

- Financial results of operations against short and longer term plans;

- Financial systems and controls against stated criteria to permit adequate recording and reporting of revenue collection and cost recovery; and

- Assessment of performance including management practices and goals and objectives related to monitoring and reporting against stated criteria to assess the efficiency, effectiveness, and economy of current operations.

The audit also considered the adequacy of support that BSB receives from the City of Ottawa's centres of expertise to support its basic functions, but did not examine the functioning of the centres of expertise or the activities of other groups that provide services to BSB.

We have drawn from the work of industry professionals, industry associations, and the municipalities of London and Mississauga to identify leading practices which remain relevant with changes in legislation, or which are emerging, as new requirements are met. Our work also included a review of permit and inspection files and assessing BSB against the criteria as identified below.

Audit Objectives and Criteria

The objective of the audit was to provide an independent and objective assessment of BSB and to evaluate the following:

Audit Objectives	Audit Criteria
Compliance to the OBC – to determine whether BSB is compliant	Staff qualifications meet legislative requirements.
	Municipal building bylaws implement legislative framework.

Audit Objectives	Audit Criteria
with the OBC.	The permit review process meets appropriate standard of care.
	The inspection process is consistent with the OBC, municipal policies, and standard of care.
	Permit fees and charges meet legislative parameters.
Financial Management Practices and Processes – to determine whether financial management practices and processes are in place.	Policies and procedures are in place to ensure that fees for applications are correctly calculated and charged.
	Financial performance is appropriately budgeted and monitored and expenditures are adjusted where required.
Performance monitoring and reporting practices and processes – to determine whether performance monitoring and reporting are in place to assess the economy, effectiveness, and efficiency of current operations.	Performance is measured to desired outcomes and the results are used to improve operations.
	Building Services effectively serves its clients.
	Operations are efficient and effective.

Summary of Observations and Recommendations

This section summarizes the observations and recommendations related to each of the audit objectives. Overall, we found that BSB has addressed many of the priority requirements resulting from the revisions to the OBC and appears to be meeting the needs of its clients. Consultations revealed that BSB coordinates and communicates its activities effectively with other Branches and service providers within the City, and that BSB staff are diligent, competent, and attentive to customer service. Further, we found that BSB has been proactive in reviewing and transforming its management practices and processes to become more efficient and effective. In summary, BSB has successfully adapted its service delivery to the new requirements. However, there are significant aspects of the change process that remain to be addressed. The recommendations address these areas.

Audit Objective #1 - Determine whether BSB complies with the OBC

Observations

Significant changes to Ontario's building regulatory system, set out in amendments to the *Building Code Act 1992* (BCA) came into effect over the past two years. The revisions outline the role of the Chief Building Official and include the establishment of operational policies for the enforcement of the Act and the Building Code, and co-ordination and oversight of its enforcement. While the BCA outlines what BSB must do, it is the potential for liability that determines how it should be done, and managing the risk of liability is a key concern.

A major concern with the new requirements is the requisite standard of care that Building Officials must provide in the conduct of their inspections. BSB has adopted an innovative approach involving refundable inspection fees and a target of same-day response to inspection requests to minimize wasted inspection effort. Both Mississauga

and London have implemented the legislated 48-hour turnaround time target for mandatory inspections to alleviate workload. While the result in Ottawa is better service to the industry, there is concern the quality of service may be compromised given current staffing levels and demand for inspections. Areas in which further improvements are necessary include:

- We understand that considerable effort is being devoted to achieving compliance to prescribed timeframes with respect to permit applications and building inspections; however, reporting on performance measures is not currently available to assess the actual level of compliance.

- Inspectors are working overtime in their efforts to complete all inspections required within the 24-hour target timeframe, resulting in some staff requiring stress leave and a risk of poor service delivery and inadequate resources to address peripheral issues;

- While it is clear that risk management is not a specific component of the OBC, it is an overarching theme for the required revisions to the Code and a key consideration in decision-making within the Branch. BSB's current risk management strategy is outdated. Consideration of risk was last addressed in the 1999 risk assessment conducted for the former City of Ottawa, which included specific established operational policy statements, but has not been updated since amalgamation, and more importantly, since the new BCA provisions took effect;

- Building Inspections has compiled a handbook entitled "Policies, Guidelines and Standards" which serves as a guide for all Inspectors to ensure consistency and thoroughness in the conduct of inspections. Similar documentation does not exist for all plans examination functions, and those that do exist predate the new BCA. In addition, this documentation does not emanate from an overall risk management policy statement approved by Council;

- Currently policies and procedures are not in place for the use and approval of equivalents. Further, mechanisms for considering precedents and the decisions made related to approval of equivalents are not documented; and

- Although not mandatory per the OBC, policies and procedures for the Legal & Service Integration Division have not been formally documented.

Recommendation 1

That BSB formally review, assess, prioritize, and document its significant risks, revise the risk management strategy, and ensure staff are trained in the risk management strategy once adopted. A risk assessment should be conducted more frequently, particularly when there is significant policy, legislative, regulatory, and/or court-decision related changes. The risk management strategy should include revised operational policies for the enforcement of the Act in the areas of inspections and permit approvals, and be developed in consultation with Legal Services.

Management Response

Management agrees with this recommendation. A formal review of the Risk Management Policy is scheduled for 2007 following the implementation of both the Building Code Statute Law Amendment Act, referred to as Bill 124 (January 1, 2006) and the new Building Code with the objective based code format (January 1, 2007). The updating of the Branch's operational policies, procedures and guidelines will follow suit as will risk management training of Branch staff. It is anticipated that these activities will be completed in Q4 2008.

Recommendation 2

That BSB consider documenting its policies and procedures for key activities within the Legal and Service Integration Division.

Management Response

Management agrees with this recommendation. Particular focus will be made on completing the documentation of those policies and procedures that are related to servicing building permits and the enforcement of the Building Code Act and Code. The process mapping of Legal and Service Integration has been largely completed and policies and procedures are being documented/developed. This is a work-in-progress as resources have been dedicated firstly to mandatory activities, that of servicing building permits and enforcing the Building Code Act and the Code. This initiative will be completed by Q1 2009.

Audit Objective #2 - Determine whether financial management practices and policies are in place

Observations

As part of its mandate, BSB is required to charge fees that correspond to its costs related to Building Code enforcement. Therefore, it is expected that BSB will recover its costs to sustain operations. Challenges arise in that expenditures are largely related to staffing costs, and are essentially fixed in the short term, however, revenues are variable and affected by external and other cyclical factors which the Branch does not control, or even influence.

In 2005, in order to address these concerns and meet its financial obligations, three separate reserve funds were established to deal with capital purchases, protection against litigation, and revenue stabilization; for the sole use by BSB. London and Mississauga have also established reserve funds.

Specifically we observed that expenditure adjustment is difficult due to fluctuating volumes, the significance of salaries and benefits as a major expenditure category, and the difficulty in recruiting qualified staff. However, the creation of the reserve funds provides some protection for BSB in the event of declining volumes, and/or damages

awarded through litigation. BSB's annual operating budget is approximately $11 million, however, the aggregated reserve fund balance, currently valued at approximately $2.2 million is inadequate to sustain current operating costs.

Recommendation 3

That BSB consider options that focus on building the reserve funds as rapidly as possible.

Management Response

Management agrees with this recommendation. In the report to Council entitled: Building Regulatory Changes – Impact of Building Code Statute Law Amendment Act and Ontario Regulation 305/03 (ACS2005-PGM-BLD-0010), Branch Management proposed to maintain the building permit fee rate ($13.50 per $1000 in construction value) to enable an accelerated rate of contribution over the next five years of surplus revenues into the reserve funds. At 2005 year end, $2.2 M in surplus revenues were allocated to the reserve funds. For 2006 year end, a higher contribution will be possible due to higher than expected vacancies and lower outsourcing costs.

Recommendation 4

That BSB maintain a log of outstanding litigation claims that could lead to damages awarded against the City and track the likely exposure to these claims against the reserve fund balance.

Management Response

Management agrees with this recommendation. This will be pursued following the updating and adoption of the Risk Management Policy. This initiative will be completed by Q4 2008.

Audit Objective #3 - Determine whether performance monitoring and reporting are in place to assess the economy, effectiveness, and efficiency of current operations

Observations

The new Building Code legislation has recognized performance measurement as a useful management tool and has incorporated several quantitative indicators as part of its requirements. BSB has addressed some Building Code requirements related to performance measures by capturing data on timeframes, but has mainly focused its efforts on developing the new service delivery model and meeting other key requirements of the revised Building Code Act.

The new legislated timeframes and other requirements for the issuance of building permits and related inspections have necessitated an increase in staffing levels. In the past, BSB relied on the services of contractors during peak periods and/or former BSB employees; however, legislated requirements related to certification and insurance have

effectively eliminated these options. In addition, there is competition from the construction industry, which also requires the same qualifications to prepare building permit applications, resulting in further difficulties with external recruitment. Further, the pay scale for Inspectors and Examiners appears to be a factor in deterring potential candidates from applying for positions within BSB. Added to this is the significant number of experienced staff that are expected to retire in 2008.

Benchmarking the activities of Mississauga and London found that both municipalities have improved their performance measurement system and maintain weekly performance reporting on permit processing timeframes, which is made available to the public. In addition both have implemented initiatives for increased e-service delivery.

Specifically we observed the following:

- Data is reported on building permit volumes and related value of construction activities, and there are systems in place to capture data on time frames as required by the new legislation. However, reporting on efficiency and effectiveness relative to legislative timeframes is currently not available;
- There are several long-term employees within BSB with significant corporate knowledge who clearly understand their tasks and tasks of others because of their familiarity with the procedures and actions; however, some policies and related procedures are not documented.
- Considerable effort has gone into developing effective interfaces between BSB and the other branches and services with which it deals, particularly By-Law Services and Planning and Infrastructure Approvals. However, these procedures have not been well documented; and
- Insufficient resources exist within BSB to continue to effectively manage workload. Currently, BSB has vacancies of approximately 42 full-time positions. BSB is experiencing difficulty in recruiting individuals who meet the new legislated qualifications and it does not appear that BSB has developed and documented a strategy to mitigate recruitment and retention risks.

Recommendation 5

That BSB focus on developing a suite of performance measures that cover outcomes related to legislative compliance, customer service, efficiency and effectiveness, and on developing the capacity to report on these measures, with results of these measures posted in public areas. While BSB should continue to work with Information Technology Services in this regard, it should also strengthen its internal ability and capacity to query and report on data within MAP.

Management Response

Management agrees with this recommendation. In tandem with the development and implementation of the new business processes as a result of Bill 124 and the

changes made to MAP (the City's computerized management information system), Branch management is developing the capacity to report on the Branch's performance with respect to the mandatory turnaround times and other services and activities. ITS Project 1085 – Building Services Performance is near completion and will provide reporting data on the Branch's performance vis-à-vis the mandatory turnaround times for decisions. This project is scheduled for Q1 2007 to coincide with the annual OMBI reporting timeframe and the first Annual Report to be issued by the Branch in accordance with the Building Code Act, on April 1, 2007.

Tracking the performance of inspections vis-à-vis the mandatory timeframe requires the development and implementation of remote technology and further MAP enhancements, the subject of Recommendation 8 (below).

Recommendation 6

That BSB develop and continue to evolve plans for effective use of technology, including portable devices and e-based application processing, consistent with evolving technologies.

Management Response

Management agrees with this recommendation. In 2003, the Branch undertook a business process analysis of Branch procedures and activities related to servicing building permits and enforcing the Building Code Act and Building Code. The assessment provided for the establishment of the Foundation Project, whereby process changes and MAP enhancements were identified that would streamline processes and enable the implementation of the Building Code Statute Law Amendment Act. The Foundation Project has served as a blueprint for a number of IT Projects, which have been underway since 2004. As technology evolves, BSB will review, assess (business case), test/pilot new technologies to determine their suitability in enhancing the Branch's effectiveness in meeting the legislative responsibilities and increasing efficiencies.

Recommendation 7

That BSB develop a human resources plan to deal with difficulties experienced in recruitment and retention of individuals qualified under the new Building Code Act. In addition, the human resources plan should include formal succession planning initiatives for the management team, and ongoing staff training initiatives with opportunities for continuing education and cross-training, including improving the technical knowledge of objective-based codes at all levels.

Management Response

Management agrees with this recommendation. Funding has been earmarked for core competency training of the Building Officials to expand their knowledge base and to ensure cover off and progression/succession. Due to recruitment difficulties

and the new legislated requirements for qualifications, a Building Official Internship Program has been developed. Specific components of the program will be submitted to the Province for review and approval. The Branch will identify and allocate resources in 2007 for the development of a Human Resources Plan and will continue to work with Employee Services in developing a succession plan and strategies for addressing recruitment difficulties. Completion of the Human Resources Plan, including a succession plan and strategies will be in Q2 2008.

Recommendation 8

That BSB consider improving its human resource and information technology skills set and experience with the recruitment of the two new positions within the Legal & Service Integration Division.

Management Response

Management agrees with this recommendation. Recommended resourcing relates to above Recommendations 6 and 7. A report on the establishment of two new operational support positions will be presented to Council Q2 2007 and recruitment will follow thereafter. Funding from building permit revenues is available to offset such additional costs as computers, compensation and accommodation.

Recommendation 9

To improve customer service, Client Service Centres should be provided with complete and accurate information on BSB activities on a regular basis. BSB should consider conducting periodic customer satisfaction surveys to obtain feedback to improve the effectiveness of service delivery through the identification of problem areas

Management Response

Management agrees with this recommendation. Customer satisfaction surveys targeted to building permit applicants will be undertaken with the assistance of the Client Services and Public Information Branch, commencing Q3 2007.

Recommendation 10

BSB should clearly identify and document the interfaces, relationships, processes, and activities that are coordinated between BSB, By-Law Services, and Planning and Infrastructure Approvals Branch.

Management Response

Management agrees with this recommendation. This initiative will be completed Q4 2009.

Conclusion

Since 2004, the Building Services Branch has been focusing its efforts on meeting the new provisions of the Act, in particular with respect to requirements for certification and training of staff. Innovative approaches such as refundable inspection fees have been well received and should improve operational efficiency for inspections and client services going forward.

There is a need to enhance the Branch's ability to monitor its compliance to the timelines established by the Act regarding permit issuance and inspections. Although the Act requires a 48-hour turnaround on inspections, the Branch has established an internal target of conducting inspections within 24 hours of the request. However, the Branch currently does not have an effective mechanism to track actual performance against the target or the legislative timelines.

Our analysis indicates that the decision as to whether a permit can be issued or not is for the most part made within required timelines. However, as with inspections, the Branch currently cannot generate reports to track compliance for permits.

The requirements of the new legislation regarding qualifications have created challenges in recruiting sufficient and adequate resources. Other Ontario municipalities appear to have had more success in this regard. A comprehensive human resources strategy is required at the City of Ottawa in order to ensure these challenges are addressed in a timely manner.

Finally, the nature of building permits and inspections processes requires that all municipalities have an effective risk assessment and strategy in order to demonstrate an adequate level of oversight on construction activities. The City's risk assessment in this area requires updating (and regular re-assessment) to ensure risks are adequately managed. The updating of the risk management strategy will necessitate developing policies and guidelines for both permit approvals and inspection. Once updated, the City's risk strategy should be presented to Council for approval.

Acknowledgement

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

3.5   Audit of Public/Private Partnership (P3) Processes

EXECUTIVE SUMMARY

Introduction

The audit of processes related to Public/Private Partnership (P3) initiatives was part of the 2006 Audit Plan brought forward by the City of Ottawa's Auditor General to City Council on December 15, 2004. The audit commenced in March 2006 with fieldwork completed in September 2006.

Background

A P3 is a partnership between the public sector and the private sector for the purpose of delivering and financing a project or a service traditionally provided by the public sector. P3s come in a variety of different forms, but at the heart of every successful project is the concept that better value for money may be achieved through the exploitation of private sector competencies and the allocation of risk to the party best able to manage it.

In June 2002, Ottawa City Council approved the concept of P3s and the formation of a "P3 Office" within the City Manager's Office. In this report, the "P3 Office" is used to describe what is now called the Economic Development and Strategic Projects Branch. This Branch falls within the Planning, Transit and the Environment Department (formerly known as the Planning and Growth Management Department). Since 2002, the City of Ottawa has undertaken a number of P3 initiatives which are at various stages of maturity.

There are complexities associated with P3s which require reliable processes and a resource infrastructure to ensure the City is positioned to both manage the risk and leverage the value associated with these arrangements from the initial conception/planning to procurement to implementation/management and, eventually, termination. P3 agreements can also reflect a broad range of terms and conditions that make each initiative unique. As such, individual P3 initiatives are often described as existing along a continuum of potential public sector-private sector relationships whereby the precise rights and responsibilities of each partner is based on the objectives of the public sector, the risks associated with the project and the most efficient allocation of those risks and negotiations between the public and private sector.

For each of the audit objectives described below, the City's Auditor General developed specific criteria that were used to gauge the reliability and sustainability of P3 processes and related infrastructure. The audit evaluated the end-to-end P3 process as a means to determine what processes or infrastructure can or should be improved as the City considers future P3 initiatives.

Scope

Based on input from Councillors, two completed P3 initiatives were selected for detailed review as follows:

1. The Ottawa Paramedic Service Headquarters, and

2. The Bell SensPlex.

The audit focused on both the adequacy of, and compliance with, prevailing process controls and the adequacy of City resources/infrastructure to support ongoing management of P3 arrangements. It also included an assessment of the information provided to Council on each of the above-noted initiatives. It should be noted that we did not audit the financial information provided to us by City staff.

Objectives

The objectives of this audit were to provide an independent and objective assessment of P3 processes as they relate to each of the following seven criteria:

1. The concept of P3 projects has been adequately and clearly defined for Council;

2. Business cases that were prepared to receive approval for P3 projects describe the allocation of risks between partners, address the City's operational and administrative requirements, and reflect Council's input;

3. Legal agreements generally reflect those principles agreed to and communicated during the preliminary phases and are monitored for compliance;

4. Actual financial impact to the City reflects approved budgets and the private partner's financial results are monitored by the City;

5. Current reporting mechanism for monitoring against the agreement are adequate;

6. City's current structure and resources are adequate to support ongoing management of P3 agreements; and

7. City's Request for Qualifications (RFQ) and Request for Proposals (RFP) process was followed.

Key Findings

Audit Objective 1: The concept of P3 projects has been adequately and clearly defined for Council.

We found that most Councillors felt comfortable with their understanding of P3s. There appears to be a range of technical insight/expertise with regard to key differentiators between P3s and traditional procurement. There was, however, a common view that the City needs to be particularly conscious of risk in that the profit motive of private partners, while an acceptable element of these partnerships, does imply differences in objectives for the project when compared to the City's goals. There is also an opportunity for greater clarity regarding the respective roles and

responsibilities of various City staff/departments through the life cycle of a P3 initiative.

In addition, there are opportunities to improve information provided by City staff. A number of Councillors identified specific opportunities to improve the effectiveness and efficiency of formal P3 reporting and thereby reduce reliance on anecdotal or other potentially unreliable information.

The overall strategic plan, or road map, for P3s was brought forward in 2002, and since that time there have been a number developments, including an increase in the City's experience regarding P3s. Refreshing the road map was considered to be a key step in ensuring that the use of P3s was aligned with an overall strategy that was endorsed by Council.

As a matter of context, our research, discussions and observations indicated that, while the City has gained experience with P3s, the use of P3s is still evolving and may be described as in the early stages of development.

Audit Objective 2: Business cases that were prepared to receive approval for P3 projects describe the allocation of risks between partners, address the City's operational and administrative requirements, and reflect Council's input.

Early in the audit, we identified that business cases prepared in connection with the SensPlex or the Paramedics Headquarters were less formal/structured. The business case for the ice pad facility was comprised of a formal study commissioned by Parks and Recreation which indicated a justifiable need for 2,400 hours of 'prime ice time' in either the east or west sides of Ottawa. This need formed the basis of requirements set forth in the request for proposal (RFP). For the Paramedics facility, the business case was comprised of a broadly acknowledged need for upgraded facilities and a timeframe based on impending expiry of leases for the previous facilities.

An evaluation of the merits or adequacy of either business case would require that business case criteria, including reporting formats and timing, be defined up front and agreed to by the decision makers. Until these criteria and requirements are formalized, such an evaluation is not feasible. We did, however, note that both projects made use of Public Sector Comparators (PSCs) to evaluate costs, and both projects were supported by submissions to Council Committees outlining many key terms, conditions and other details.

There are opportunities to enhance and streamline business case-related information regarding potential projects such that decision makers can quickly grasp the key decision criteria and make informed decisions. The critical components of business cases should be defined for Council and subject to its agreement.

Audit Objective 3: Legal agreements generally reflect those principles agreed to and communicated during the preliminary phases and are monitored for compliance.

Through our procedures, we found that legal agreements were approved by authorized individuals and reflect those principles agreed to and communicated during the preliminary phases of the project and the approved/desired allocation of risks as communicated in the business case and tender documentation. Our interviews also revealed a process, though more reactive than systematic, to monitor compliance with legal agreements. For example, legal terms and conditions were reviewed upon notification of a potential issue. Legal agreements did not specifically address training, procedural or operating standards that would prevail in the case of a traditional procurement (direct City ownership and operation).

The lack of a clear legal definition for 'prime ice time' has created unanticipated scheduling challenges since the SensPlex facility opened. The use of a cross-department steering committee or similar initiative may serve to optimize exposure to P3 arrangements among key City staff and afford a vehicle for communicating lessons learned.

Audit Objective 4: Actual financial impact to the City reflects approved budgets and the private partner's financial results are monitored by the City.

Financial reporting is provided by the private sector partner concerning the ongoing financial results achieved. However, monitoring of this reporting is not sufficient to ensure the City would be appropriately prepared for the eventuality that the private partner would not be in a position to fulfill its financial obligations.

During the course of our audit, the City Manager informed us that the private partner on the SensPlex initiative was facing financial difficulties. As the financial issues potentially involved a default situation, Parks and Recreation and Financial Services staff escalated the situation to the Deputy City Manager of Community and Protective Services, the Chief Corporate Services Officer and the City Manager. The City Manager assumed responsibility to take steps in response to the SensPlex situation.

There is need to enhance the process to identify and monitor deviations from the private sector partner's financial projections. This includes a clear delineation of roles and responsibilities as they relate to monitoring and oversight. This delineation should reflect the City's hierarchal structure whereby conditions warranting escalation are clearly established. There should be clearly defined and acknowledged processes and responsibilities applicable to those individuals with financial, operational and property oversight roles.

Audit Objective 5: Current reporting mechanisms for monitoring against the agreement are adequate.

We found that there is an informal process to monitor and report issues related to contract terms and conditions and that both contracts contained provisions for dispute resolution and remedies in the event of non-compliance. We noted that monitoring activities tended to be reactive in nature and did not appear to include a formal process to forecast various scenarios. As such, there is limited ongoing oversight in a formal sense. Also there is a need to further clarify responsibilities of various City staff under default scenarios including the required internal reporting, escalation and hierarchy of authority.

Audit Objective 6: City's current structure and resources are adequate to support ongoing management of P3 agreements.

There is a need to improve clarity regarding overall accountability (i.e. hierarchy of authority, division of duties among departments and internal support services, etc.) for contract management through each of the unique phases of contract negotiation, construction and operating life cycle. The City currently is unable to clearly identify and actively manage costs related to managing and administering P3 initiatives. These costs are expected to become more and more significant as the City increases the number of P3 contracts.

Finally, we identified that P3 initiatives are not integrated into the City's reporting and monitoring systems in the same way as traditional projects. This would improve transparency and quality of information available on an increasing number of P3 projects.

Audit Objective 7: City's Request for Qualifications (RFQ) and Request for Proposals (RFP) processes were followed.

Through our observations, we found that the City's RFQ/RFP processes for these two initiatives were generally followed. In addition the City made use of a Fairness Commissioner for the SensPlex whose mandate was to provide an independent assessment of the fairness, openness and transparency of the process to evaluate bidder's competency at RFQ and then the bid at RFP stage. We also noted that results of the bidder evaluation generally reflect the principles described in the RFP framework, as presented to Council, and are consistent with subsequent communications with Council.

Recommendations

Recommendation 1

That Management develop materials for Council that will address the current gaps in information in order to more clearly define and differentiate P3s from traditional procurement.

Management Response

Management agrees with this recommendation. With the assistance of staff from the Canadian Council for Public-Private Partnerships, staff will prepare as part of a P3 Policy for Council's adoption in Q2 2007 an information package on the continuum of P3 procurement options, as compared to the traditional municipal procurement approach.

Recommendation 2

That Management refresh the overall strategic plan (or road map) for the continued use of P3s including an indication of where the City intends to operate in terms of the maturity models/continuums described above.

Management Response

Management agrees with this recommendation. New knowledge has been gained in developing the various P3 projects that have been completed to date. Practical lessons have been learned from the operational experiences of these projects, and the City now has a better insight into the value and consequences of risk sharing with the private sector. Staff will bring forward a report to Council refreshing the road map for the continued use of P3's, identifying procurement options and the preferred risk distribution with the private sector by the end of Q2 2007. This report will be in the form of a P3 Policy, which together with a procedural manual is currently under development.

Recommendation 3

That Management develop a monitoring and reporting mechanism that would enable it to provide Council with feedback on the status of previously approved P3 initiatives.

Management Response

Management agrees with this recommendation. A yearly report will be provided to Council explaining the financial and operating status of each P3 project. Operational and programming performance will be benchmarked against what was requested and what was received from the proponent through the City's procurement process.

Recommendation 4

That Management clarify with Council the required components for P3 business cases and develop a template to ensure business cases adequately address all desired elements.

Management Response

Management agrees with this recommendation. The components for P3 business cases and a corresponding template will be included as part of the P3 policy and procedural manual identified in the management response to Recommendation 2.

Recommendation 5

That Management include provisions in future P3 legal agreements to address potential gaps in operating practices between the City and the private partner in areas such as training, bilingualism, public safety and community access.

Management Response

Management agrees with this recommendation. However while staff will ensure that future P3 legal agreements consider these issues, it is not Management's intention to automatically include these provisions.

The City of Ottawa entered into the two P3s (Ottawa Paramedic Headquarters and Bell Sensplex) with the understanding that one of the advantages of P3s are the respondent's ability to extract "value-for-money" or "best value". The definition of best value is described in reports to Committee and City Council. Inclusive within the description of best value is consideration for a degree of flexibility in the process. Some of the benefits of P3s include the potential gaps in operating practices between the City and the private partner in areas such as training, bilingualism, public safety and community access. These gaps may be components of the business case advantage that makes a project best value. Requiring the private partner to "address potential gaps in operating practices between the City and the private partner" is likely to decrease the value for money, assessment. This recommendation may also be a disincentive to prospective respondents in an RFQ/RFP process wherein the level of prescription could become prohibitive to a business' ability to earn a reasonable profit. Our experience shows that through negotiations these issues become important in establishing the risk and cost profile of the project for the private partner. Management's recommendation is to address these issues on a project -by- project basis as required by actual needs and seek Council approval in each case.

Recommendation 6

That Management develop a formal process to capture lessons learned through the construction and ongoing operations of completed P3s and reflect these lessons in future legal agreements.

Management Response

Management agrees with this recommendation. In the future, a post-mortem assessment will be made within four months of construction completion of a P3 project and yearly reviews as per management response to Recommendation 3 will be used to build upon lessons learned.

Management has already begun to incorporate "lessons learned" into new P3 agreements. The Auditor General asserted that the Bell Sensplex agreement did not contain a clear legal definition of "Prime Time Ice". Therefore using lessons learned, the definition was improved upon, in the Kinburn Partnership to remove the

vagueness from the length of season and to ensure that there was a fair balance between weekday ice and weekend ice.

Recommendation 7

That Management enhance processes and clarify accountabilities related to the proactive identification and monitoring of deviations from financial plans and inform Council of these deviations when appropriate.

Management Response

Management agrees with this recommendation.

The P3 policy and procedure manual will clearly identify accountabilities related to deviations from financial plans and other elements of the agreement and Council will be informed accordingly.

Staff will develop a greater reporting system in our legal agreements and in our escalation process, which will take into account the severity, the frequency and the impact on the City.

Such a reporting system and any necessary templates can then be incorporated into the actual agreement between the City and the private partner.

Recommendation 8

That Management develop a framework for equitably and consistently addressing adjustments to proposed construction costs (either due to budget constraints or other circumstances such as unforeseen building code issues) and inform Council of these adjustments when appropriate.

Management Response

Management agrees with this recommendation. As per the current practice, staff will continue to provide the best information possible to Council at the approval stage. Should unforeseen requirements be identified that potentially impact the Council approved project budget, staff will establish through negotiations a change order process in future P3 agreements that will attempt to mitigate these costs through a value engineering exercise, minor scope reductions or other actions. Failing this, all variances or necessary project scope adjustments beyond the City Manager's delegated spending authority will be brought to Council for approval.

Recommendation 9

That Management develop a process to periodically assess and monitor overall compliance with agreements including:

- **Defining possible indicators of future issues and action plans;**

- **Defining roles and responsibilities, in the event of defaults or breaches under one or more agreements; and**

- **Informing Council of these of defaults or breaches when appropriate.**

Management Response

Management agrees with this recommendation. The P3 policy and procedure manual will incorporate a process to periodically assess and monitor overall compliance with agreements.

Recommendation 10

That Management enhance the clarity of overall accountability for P3 initiatives through the various phases of the facility's life cycle, including the specific roles and authorities of the P3 Office, RPAM, and client departments.

Management Response

Management agrees with this recommendation. In the proposed P3 policy and procedural manual, all roles and accountabilities throughout the operational phase of the P3 initiatives will be clarified. Current P3 projects will be incorporated into RPAM's system for life cycle monitoring.

Recommendation 11

That Management develop a means to capture the financial and related costs associated with ensuring continued management of P3s and that these costs be considered in budget/resource decisions for those participants most impacted by an increasing number of P3 projects.

Management Response

Management agrees with this recommendation. During the pre and post construction phases of P3 initiatives, all staff time will be captured and considered through the budget process to ensure suitable resource decisions can be made for P3 projects. This is particularly important for some Centres of Expertise like RPAM and Supply Management who play a significant role in the P3 procurement and negotiations process.

Conclusion

Our audit of processes revealed a commitment on the part of the P3 Office and City staff in general to ensure P3 processes and infrastructure will support the continued use of P3s. There is an awareness of the need to continually improve processes and ensure that the resources and other infrastructure are sufficient to sustain these initiatives in the best interests of the City.

Although there is evidence of regular reporting to Council on P3 initiatives, there is a need to re-visit the nature of Council communications with a view to enhancing their practical value to decision makers and to foster a consistent understanding of P3 principles, strategies and key differentiators compared to traditional procurement.

Similarly, there is a need to enhance the means to efficiently and consistently present information regarding proposed P3 initiatives to promote common understanding of these initiatives and their respective pros and cons. Finally, there is a need to enhance the formality of various processes including those related to continuous improvement, monitoring of agreements and results, and capturing costs of P3 support services and accountabilities through the life cycle of a P3 initiative.

Acknowledgement

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

3.6 Audit of the IT Processes of the Computerized Financial System

EXECUTIVE SUMMARY

Introduction

The Audit of the IT Processes of the Computerized Financial System (SAP) was part of the 2006 Audit Plan brought forward by the City's Auditor General and received by Council on December 15, 2004.

Since amalgamation, all City of Ottawa departments have had to adopt new business practices. Audits conducted over the past two years, such as the Audit of the Management Control Framework and the Management Letters given to the City of Ottawa subsequently to their fiscal 2003, 2004 and 2005 year-end financial statement audits, have highlighted the need for a detailed review of the City of Ottawa's IT Processes of the Computerized Financial System.

Background

- In 1999, two years prior to the City's amalgamation, the Regional Municipality of Ottawa-Carleton completed an $11 million implementation of SAP to replace non-Y2K compliant legacy systems used for financial management, procurement, maintenance management and transit vehicle maintenance functions at the Region.

- In 2000, the Transition Board identified SAP as the new City of Ottawa's Enterprise Resource Planning (ERP) system.

- To consolidate municipal legacy systems, the Integrated Business Solutions (IBS) program was initiated. This program consisted of two capital projects:

  1. IBS Phase 1 (2001) addressed the consolidation of 12 different municipal financial and procurement systems at a cost of $5.3 million; and

  2. IBS Phase 2 (2004) consolidated 8 Human Resource systems, implemented an entirely new application for the City's corporate landlord function and consolidated various maintenance management systems into SAP at a cost of $39.2 million.

- The SAP environment is currently supporting the financial reporting process and multiple sub-systems, including the revenue and disbursements cycles.

- In November 2006, there were approximately 8,750 active users of the system, with approximately 7,400 being Employee Self Service users, which allows them, among other things, to manage their personal human resources records.

- The SAP Support Centre has an operating budget of $5.3 million to cover compensation costs of $3.1 million, and service purchase costs of $2.2 million of which $1.5 million is for SAP annual maintenance, which consists primarily of

license costs. There are 32 full-time equivalent (FTE) staff positions in the SAP Support Centre Unit and approximately 365 FTE staff positions, in Information Technology Services Branch.

- The recent large-scale SAP initiative is the SAP Platform Sustainment Program; with a work plan that included management reporting, bar coding, and other enhancements at a cost of $17.7 million (as of May 2006).

- The total up-to-date implementation cost is $73.2 million, not including the latest deployment of the SAP Human Resources module.

- The most recent SAP initiative was the deployment of the SAP Human Resources module, which provided access to all employees to manage their personal information file.

Audit objectives

The objectives of this audit were to provide an independent and objective insight into:

- The effectiveness of the IT general controls surrounding the SAP environment;

- The current state of SAP security; and

- The appropriateness of specific SAP-based documentation.

Audit scope

The scope of the project was restricted to the following processes relevant to the live SAP production environment:

IT General Controls Supporting the SAP Environment

The criteria used were as follows:

- Are there well designed and operating program change controls;

- Are there well designed and operating logical access management controls; and

- Are there well designed and operating operations controls.

In testing the IT general controls supporting the live production SAP environment, we applied a statistical sampling approach to obtain a selection of representative samples. We utilized a statistical method based on the expectation of finding few or no errors. As a result, based on Poisson-based audit risk tables, we applied the lower of 25 or 10% of the population rule.

SAP Security

The criteria used were as follows:

- Appropriateness of logical access to BASIS[1] sensitive transactions;

- Appropriateness of SAP application layer security parameters;

- Assessment of "Super-user" existence; and

- Assessment of additional key risk areas.

SAP-Based Documentation

The criteria used were as follows:

- Appropriateness of documented IT General Controls support documentation;

- Appropriateness of user support documentation; and

- Appropriateness of logical access support documentation.

Key findings and Recommendations

1. IT General Controls

The existing IT general controls, while well designed, lack consistent evidence to determine whether they are operating effectively.

Specifically, we noted that there appears to be occasional lack of adherence to the formally documented internal control activities associated with the logical access[2] and program change management[3] processes. These results indicate an apparent lack of adherence to documented internal requirements and generally accepted sound IT control practices.

The existing control environment is highly supported by manual controls, versus automated SAP controls. Consequently, as consideration is given to increasing to a more appropriate automated control level, improvement must occur at the IT general control levels since it is these controls which lay the foundation for the continued effective and authorized operation of the SAP application.

Recommendation 1
That Information Technology Services Branch ensure that:

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[1] BASIS is the SAP term equivalent to a system administrator; who has very powerful accesses.

[2] Logical access processes include the creation of new users within SAP, changing user accesses to existing users as well as removing departed/terminated users on a timely basis.

[3] Program change management processes include proper approvals of program changes, appropriate testing prior to implementation in the live production environment, and a separation of duties between programmers and those individuals approving and promotion changes into the live production environment.

(a) The control activities set out within the City of Ottawa policy documents be emphasised as required steps in all circumstances;

(b) The evidence of the performance of the prescribed control activities be retained for audit and monitoring purposes; and

(c) As it pertains to withdrawn/terminated users, more diligent application of logical access management policies as well as a more robust communication protocol between Employee Services Branch and Information Technology Services Branch be enforced to ensure timely reaction to access removal. Furthermore, routine (i.e. quarterly) review of employee lists, last logons, etc. would also greatly reduce the risks associated with having terminated users.

Management Response

1(a)/1(b): Management agrees with this recommendation. The Information Technology Services (ITS) Branch will continue to communicate the importance of following documented processes and retaining appropriate evidence, to staff, by means of email reminders, staff meetings, and employee performance evaluations.

1(c): Management agrees with this recommendation. On October 30th 2005, the City implemented an Enterprise Directory Services (EDS). EDS provides the information required to automate the locking of "terminated" employee Network and SAP applications accounts. It also automates the adjustment of SAP application privileges when employees move from one position to another. This has significantly improved the administration and timeliness of account administration.

2. SAP Security

We noted that sensitive access has been appropriately restricted and the highly complex production SAP environment is relatively securely configured.

However, we have observed that some key BASIS sensitive transactions are not appropriately limited to BASIS personnel, of which there should only be approximately four to five. Furthermore, there was one instance of an Information Technology Services Branch student[4] having highly privileged access.

BASIS objects are high risk because, in combination with certain transactions, they have the potential for the corruption or destruction of the SAP R/3 system or data.

Additional emphasis should be placed on maintaining, and improving, the SAP security layer, since it plays a vital role to the continued operational effectiveness of SAP.

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[4] As was verbally represented to us when we inquired as to the identity of the user.

Recommendation 2

That Information Technology Services Branch, SAP Support Center Unit (SAP security group), in conjunction with senior management, using the information noted herein as well as the existing authorization audit reports:

(a) Execute a review of users with access to BASIS sensitive development activities, objects, transactions and Standard SAP BASIS profiles to ensure that high level access in SAP is restricted to users who require this level of access as part of their job;

(b) Remove access to the productions environment for all SAP ABAP developers;

(c) Place a particular emphasis on external consultants, who normally have privileged levels of access. Their accesses should be approved, well monitored and removed in a timely fashion; and

(d) Reconsider providing highly privileged access to SAP to a temporary Information Technology Services Branch student.

Management Response

2(a): ITS Branch currently conducts a monthly review of all sensitive user accounts and the assignment of sensitive privileges. ITS will investigate the impact of further access restrictions to sensitive BASIS roles. This will be initiated in Q2 of 2007.

2(b): Management disagrees with this recommendation. SAP ABAP Programmers require production access to investigate and diagnose production- related problems. SAP Production global system settings prevent programmers from altering programs or altering application configuration tables. These changes can only be created in the development environment and must follow the published approval process before being promoted to production. Adjustment of global system parameters is restricted, monitored and logged.

2(c): Management agrees with this recommendation. External consultants are not automatically provided production access. Production access is provided to consultants to allow them to perform their roles only after competence and performance is assessed. Consultant network accounts currently have end dates applied when created, this ensures that accounts are automatically locked by the EDS interface when contract end date are reached. This will be initiated in the second quarter of 2007.

2(d): Management agrees with this recommendation. It is not standard practice to provide student positions with privileged access. In the instance cited, the temporary student employee was granted the access after gaining four months of experience and being retained for a second work term. ITS will review authorization assignments to determine if more restricted roles can be assigned. This will be initiated Q2 2007.

3. SAP-Based Documentation

We noted numerous instances of documentation which appears to be outdated or in draft format. As a result, there is a risk of inappropriate decision-making based on no longer, fully or partially, applicable documentation. In addition, if used for troubleshooting, maintenance or training purposes, there is an increased likelihood of lost time and effort due to the possible inaccuracy of some of the document contents. Finally, a lack of updated documentation or long-standing draft status may be an indicator of weaknesses in the overall internal control framework, which mandates the requirement for updating and formally approving policies, process descriptions, procedures and key support documents.

Furthermore, we reviewed documentation associated with the initial installation and configuration of SAP which assisted with the automation of certain control activities, or lack thereof. The documentation and the responses therein, demonstrate that there is a significant level of manual controls in place versus having preventive and detective controls with SAP. While the level of automated controls within a business process is highly dependent on the nature in which business is actually conducted; automated preventive controls are more sensitive and timely than manual controls. They support a more robust control environment and, when properly configured, reduce the likelihood of material errors, inappropriate transactions, the need for more time-consuming manual activities, etc.

Recommendation 14

That Information Technology Services Branch require that all relevant SAP-based documentation be:
- **Immediately updated;**
- **Routinely[5] updated;**
- **Formally approved and communicated, to represent the current state of each process; and**
- **Incorporated within the scope of their existing document management strategy, which has refresh and update requirements.**

Management Response

Management agrees with this recommendation.

The ITS Branch recognizes the importance and necessity of maintaining current documentation. Workload demands, staff vacancies, and the volume of documentation dictate that different priorities are placed on different document

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[5] Generally accepted guidelines on regularity include a minimum of once a year assessment, or in conjunction with material environmental changes, for continued applicability. Furthermore, as part of any significant SAP project activity, there should be a required procedures/step to "Assess the impact of the project to existing documentation and updating thereof".

types. System administration procedures and system configuration are given the highest priorities. The Branch will formally implement a document process for high priority documents to ensure they are approved, periodically reviewed and updated.

The ITS Branch identifies a requirement for a technical document writer to assist with document preparation and updating (140 days @ $600 per day – $84,000) to be initiated in Q3 2007 depending on resource availability.

In the case of business process documents, the ITS Branch relies on business process owners to vet all requested SAP change requests to ensure they comply with acceptable business practices and procedures. In the case of major changes or addition of controls, business acceptance testing is also performed.

4. Recommendations Arising from the Detailed Report

The following provides a summary of the specific recommendations as well as management responses resulting from the detailed audit work. The full discussions relating to these can be found in the detailed audit report, Section - Detailed Findings and Recommendations.

4.1 Dormant Users

Recommendation 3

(a) That Information Technology Services Branch review, the users who are inactive, have never logged on or work on a seasonal schedule with a particular and immediate focus on excluding those users who only have SAP access due to the SAP ESS/HR functionality granted to all employees.

(b) That Information Technology Services Branch remove/restrict/disable accounts that are no longer required on a regular basis (i.e. quarterly).

(c) That Information Technology Services Branch determine the true usage rates of SAP to provide context for any more stringent access controls and possible user account removal.

Management Response

3(a): Management agrees with this recommendation.

Non-ESS/MSS accounts are reviewed regularly because of the costs associated with the licensing. ITS will include Employee Self Service accounts in the nightly process, which automatically locks accounts dormant for more than 60 days. This will be initiated in Q2 2007.

The ITS Branch in conjunction with Employee Services Branch will review the number of re-activation requests in Q4Q4 2007 to determine if the development of a self-serve account re-activation function is warranted. Should the re-activation function be required, the Branch estimates 20 days of effort ($20,000 of consultant services) to be initiated in Q1 2008.

The Employee Services Branch has also identified several initiatives in their Q3 2007 work plan designed to increase the usage of ESS. These initiatives include updating current content and reports to make the site more user friendly as well as undertaking a promotion campaign focusing on the usability and convenience of the site.

3(b): Management agrees with this recommendation and it has already been implemented. With the implementation of the Enterprise Directory Services (EDS) in October 2005, all SAP accounts are automatically reviewed daily with current SAP HR employee status information. SAP user accounts are automatically locked upon employee termination and access privileges are adjusted based on the position that the employee occupies. In addition to the implementation of EDS, ITS uses an SAP password generation utility to assign a system generated initial password. Users are notified of the initial password by email or by phone and must login and change password within 24 hours or the account is automatically locked. In the case of ESS accounts, system generated passwords are generated and stored in SAP. These account passwords are never published. ESS user authentication is based on Microsoft's active directory single sign-on utilizing the user's network account

3(c): Recommendation requires the implementation of recommendation 4B. After profile usage logging has been implemented, the Branch will generate new usage rates based on log information in Q2 of 2008.

4.2 SAP System Parameters

Recommendation 4

That Information Technology Services Branch enable SAP auditing as per generally accepted practice to allow for the auditing of key activities within SAP. In conjunction with the enablement, IT and business management should define the key events they wish to audit and on what frequency while balancing the need for timeliness of review. Similarly, these events should be regularly assessed for continued applicability.

Management Response

ITS Branch, in partnership with the affected business process owners (e.g. Financial Services, Employee Services, and Surface Operations Branch, etc.), will conduct an assessment of the impact of implementing audit logging in Q3 2007.

Implementation will begin in Q1 2008 depending on requirements and resource availability identified in the assessment phase. The assessment will begin in Q3 of 2007. The initial high-level assessment for the implementation is identified as approximately: 20 days audit consultant $45,000; 10 days Basis $10,000; and 30 days business staff $10,000.

4.3 SAP Standard BASIS Profiles

Recommendation 5

(a) That Information Technology Services Branch immediately review the users and generic user ids with access to SAP Standard BASIS profiles S_A.CUSTOMIZ; S_A.DEVELOP; S_A.SYSTEM; and SAP_NEW for reasonableness as well as continue to systematically monitor access levels through their existing authorization audits.

(b) That Information Technology Services Branch consider establishing monitoring controls for when the profiles are actually utilized.

Management Response

5(a): Management agrees with this recommendation. The Branch will complete a review of Userids with access to SAP Basis roles to reduce the total number of assignments in Q2 2007.

5(b): The Branch will implement quarterly monitoring controls of profile usage. This recommendation is dependant on the implementation of audit recommendation 4B scheduled for Q2 2008.

4.4 Development Activities

Recommendation 6

(a) That Information Technology Services Branch restrict or provide at display-only access in production, to Data Dictionary Maintenance (SE11) and Program Maintenance (SE38) transactions. Any changes should be made in the development environment, be properly tested, and then transported to production.

(b) That Information Technology Services Branch immediately review the users and generic user ids with access to Data Dictionary Maintenance (SE11) and Program Maintenance (SE38) for reasonableness as well as continue to systematically monitor access levels through their existing authorization audits.

(c) That Information Technology Services Branch limit access to the Data Dictionary Maintenance (SE11) transactions to database administrators and implement mitigating controls to ensure these types of changes are not occurring in the production environment without proper approval.

Management Response

Management agrees with this recommendation. At the beginning of 2006, the ITS Branch implemented a granting approval process for several sensitive transactions including SE11 and SE38 in production. Access is granted for a specific duration and only with Support Centre project manager approval. SAP Production global system settings prevent any program maintenance access. Program changes can only be created in the development environment and must follow the published approval

process before being promoted to production. Adjustment of global system parameters is restricted, monitored and logged.

4.5 Transport Administration Access

Recommendation 7

(a) That Information Technology Services Branch immediately review the users and generic user ids with access to impact the transport system through SE01, SE06, SE10 and STMS transactions for reasonableness as well as continue to systematically monitor access levels through their existing authorization audits.

(b) That Information Technology Services Branch restrict access to a limited number of BASIS users.

Management Response

7(a): Management agrees with this recommendation. ITS Branch will review Userids with access to SE01, SE06, SE10 and STMS transactions for reasonableness in Q2 2007.

7(b): Management agrees with this recommendation. The ITS Branch will restrict transactions to a limited number of users, however these will not necessarily be limited to BASIS accounts only. This action will be initiated Q2 2007.

4.6   SAP BASIS Sensitive Objects[6]

4.6.1   Role Administration (S_USER_AGR)

Recommendation 8

That Information Technology Services Branch review the users and generic user ids with access to object S_USER_AGR for reasonableness as well as continue to systematically monitor access levels through their existing authorization audits to ensure appropriate segregation of duties are maintained.

Management Response

Management agrees with this recommendation. This action will be initiated in Q2 of 2007.

4.6.2   Displaying or Maintaining Source Code (S_DEVELOP)

Recommendation 9

That Information Technology Services Branch immediately review the users and generic user ids with access to object S_DEVELOP for reasonableness as well as

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[6] SAP Authorization objects control what transactions and operations users can execute.

continue to systematically monitor access levels through their existing authorization audits.

Management Response

The ITS branch will initiate this recommendation in Q2 2007.

4.6.3 Transport Management (S_TRANSPRT)

Recommendation 10
That Information Technology Services Branch immediately review the users and generic user ids with access to object S_TRANSPRT for reasonableness as well as continue to systematically monitor access levels through their existing authorization audits.

Management Response

Management agrees with this recommendation. Information Technology Services Branch does not identify any new or additional cost and will be initiated second quarter 2007.

4.6.4 Administration of the Change and Transport System (S_CTS_ADMI)

Recommendation 11
That Information Technology Services Branch immediately review the users and generic user ids with access to object S_CTS_ADMI for reasonableness as well as continue to systematically monitor access levels through their existing authorization audits.

Management Response

Management agrees with this recommendation. This action will be initiated in Q2 of 2007.

4.6.5 Changing Client-Independent Tables (S_TABU_CLI)

Recommendation 12
That Information Technology Services Branch immediately review the users and generic users ids with access to object S_TABU_CLI for reasonableness as well as continue to systematically monitor access levels through their existing authorization audits.

Management Response

Management agrees with this recommendation. This will be initiated in Q2 of 2007.

4.6.6   Controlling Table Displaying and Maintenance (S_TABU_DIS)

Recommendation 13

That Information Technology Services Branch immediately review the users and generic user ids with access to object S_TABU_DIS for reasonableness as well as continue to systematically monitor access levels through their existing authorization audits.

Management Response

Management agrees with this recommendation. This action will be initiated in the second quarter of 2007.

Conclusion

Controlling access to its information technology system(s) is a key component for any corporation to uphold a robust control environment. Successful internal controls must therefore start with management stringent access restriction and continuous review of its access administration framework for non-compliance and excessive access. In our opinion, the City may have a greater number of privilege users, than typically expected, posing a potential risk to the City's Corporate Financial Management System (SAP).

The existing IT general controls were found to be well designed. However, we found a lack of consistent internal control activities associated with the logical access and program change management process.

Clear and readily accessible documentation is indicative of sound internal controls. Although SAP-based documentation was available for review, these were found to be in long-standing draft form and therefore may no longer be valid and not reflect the current state of the system. Outdated documentation poses the unnecessary potential risk that changes or steps are no longer relevant or may no longer apply. Improvements are therefore immediately needed to clearly update Corporate Financial Management System (SAP) documentation and a process established to ensure its adequacy and continual review and update.

We believe that all recommendations contained in this report can be implemented without the requirement for additional funds. However, this may require strategic redeployment of existing resources, both dollars and persons.

Acknowledgement

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

3.7 Audit of Fleet Services

EXECUTIVE SUMMARY

Introduction

The Audit of Fleet Services was included as part of the 2006 Audit Plan brought forward by the City's Auditor General to City Council on December 15, 2004.

Background

In 2005, Ottawa's combined municipal and transit fleet was approximately 3,875 units, including 907 transit buses. The 2005 expenses are approaching $160 million and capital expenditure on fleet replacement is over $50 million. Fleet Services is a Branch of Public Works and Services. It is structured as a Centre of Expertise charging back all its costs to user departments. The Fleet Services Branch has a total of 552 full time equivalents (FTEs).

The Fleet Services Branch offers three main services:

Fleet Maintenance – 47% of Fleet Services' costs

- o Management of seven municipal maintenance facilities with a parts inventory of $2.4 million and a staff of 84 mechanics and other maintenance employees supported and supervised by 23 people for a total of 107 FTEs.

- o Management of three transit maintenance facilities with a parts inventory of $11.3 million and a staff of 334 mechanics and other maintenance employees.

Life cycle Management – 4% of Fleet Services' costs

- o Management of the vehicle replacement, acquisition and disposal processes as well as technical support for all of Fleet Services.

Operations – 49% of Fleet Services' costs

- o Management of fuel provisioning, licensing, registration, information systems and overall administration processes.

Note: Other corporate services used and/or provided by Fleet Services are not part of the Fleet organization since they are shared with the rest of the City's departments. These services include Facilities Management and Materials Management for example. It should be noted that materials and supplies alone represented an expense of $64 million for Fleet Services in 2005 but all the procurement processes as well as stores management are under the responsibility of the Materials Management units. These units dedicate 78 people to support Fleet Services (56 for Transit Fleet Maintenance and 22 for Municipal Fleet Maintenance). These additional resources are not counted in the

552 FTEs employed by Fleet Services but the cost of parts are accounted for in Fleet Services expenses.

Scope and Objective of the Audit

The objective of this audit was to review all aspects of the City of Ottawa's Fleet Services Branch, including fleet maintenance, life cycle management, and fleet operations. The scope of the audit included an examination of:

1. **Performance** (value-for-money) – to examine management practices, goals and objectives, controls and monitoring and reporting systems across the Branch to assess the economy, efficiency and effectiveness of current operations. This part included:

   - reviewing management structures
   - reviewing staff utilization
   - benchmarking against other municipalities and industry best practices
   - identifying opportunities for efficiencies
   - determining adequacy of performance measurement and reporting
   - determining adequacy of inventory controls and safeguarding of City assets.

2. **Compliance** – to determine if the Branch is conforming to all laws and regulations that govern its operations, including all relevant legislation and spending authorities contained in the annual budget.

3. **Financial Management** – to examine the financial results of operations against short- and long-term plans and validating the reliability of financial systems including revenue collection, cost recovery structure and controls.

Findings

As a general statement, it would be fair to mention that Fleet Services has adopted many of the industry's best practices, for example:

1. **Business model**
   - Most public fleet managers in North America would recognize the virtues of a Municipal Enterprise, a Special Operating Agency or any other form of internal business unit with a chargeback mechanism and zero based budgets. Ottawa Fleet Services, with its Centre of Expertise concept, operates under a very similar mode.

2. **Asset management**
   - Lifecycle management: Fleet understands the concept and apparently tries to apply the theory to its replacement programs

      o   Replacement funding: Fleet has implemented a replacement reserve concept to secure proper annual replacement funding

      o   Remarketing: Professional auctioneer services (Adesa) handle all municipal remarketing transactions which normally represents a good way to maximize resale revenues

3. **Fuel management**

      o   Automated fuel terminals: Major project underway

4. **Maintenance management**

      o   Off-hour shifts: Some evening and night shifts in operation

5. **Parts management**

      o   Computerized inventory

6. **Systems**

      o   Data available for analysis

7. **Administration**

      o   Most process owners are clearly identified
      o   Organization is well documented
      o   Service Level Agreements are in place
      o   Self insurance

Many of the best practices are still not implemented. Performance has to be measured and compared and finally, many issues were raised during our interviews and confirmed with our analyses. These issues are as follows:

Municipal Fleet Performance

1. **Vehicle Standards**: Vehicle standards need to be established and deviation from low-cost standards should not be made.

2. **Fleet size**: The overall number of vehicles used by Ottawa as well as their average annual utilization fall within expectations but up to 259 cars are used less than their economical break-even point.

3. **Fleet age**: The average age of the fleet is 6.5 years for vehicles and 5.2 years for machinery. While this may seem old to laymen, municipal fleets are typically much older and the age of the fleet from our surveyed municipalities ranged between 8 - 12 years. Since municipal vehicles are typically of low usage and relatively customized with low resale values, total lifecycle costing models tend to support

long replacement cycles. Short replacement cycles might be economically sound but only if the extra amortization costs are offset by lower maintenance costs. Since the fleet is relatively younger, we expect lower maintenance costs.

4. **Maintenance costs**: The maintenance costs are generally lower than average for most categories except medium and heavy trucks which are costing 15% more than our sample. This gap represents a potential savings of approximately $574,000 per year compared to the benchmark.

5. **Fuel costs**: A major project is underway for installing automated fuel sites across the City. Fuel is often the second largest fleet cost after depreciation so it needs to be tracked closely.

6. **Vehicle abuse**: Over $900,000 of expenses caused by misuse and abuse of equipment in 2005 without any specific actions undertaken to minimize this amount.

7. **Preventive maintenance**: Breakdowns and operator reports represent 41% of the mechanics' workload. Only 46% of the maintenance expenses are of preventive nature whereas, ideally, up to 80% should be planned maintenance.

8. **Outsourcing**: Ottawa outsources 32% of its fleet maintenance, which represents twice as much work as our benchmark survey, without any evidence of cost comparisons. Much of this outsourcing was done without a competitive procurement process.

9. **Productivity**: Productivity of the mechanics is not measured even though the systems have the capacity to compile all the data.

10. **Work Orders:** The work order system (M4 by Maximus) in place since 2001 is not fully utilized.

11. **Inventory and parts management**: The inventory turnover is low at 1.2 times per year which is two to three times below the norm. Mechanics complain about waiting times at the counter. Mechanics have access to stores after hours and controls are weak, relying solely on self-reporting. Many parts are outside the inventory and outside control of stores.

12. **Supervision and suppor**t: The level of supervision and support is at 27%. This ratio is comparable with documented benchmarks.

13. **Customer satisfaction**: Some customers are not satisfied with Fleet Services and have voiced their opinion during the audit, yet no means of collecting comments or measuring customer satisfaction are in place.

14. **Accountability**: Accountability for fleet size and costs is shared between Fleet Services, its suppliers and its clients. Fleet Services perceives its role as a service provider serving clients' needs and relies mostly on chargeback as a self-regulating mechanism. The result is a fleet that may be larger than required, a budget overrun of $10 million for 2005 and no one is really accountable.

15. **Information system**s: Fleet Services is still debating whether it should use SAP, the standardized municipal ERP system currently used to manage Transit's maintenance or M4, a specialized fleet management software used for Municipal fleet maintenance. Fleet Services uses the two systems in parallel. This issue was previously raised in a 2003 audit conducted by the former Audit and Consulting Services Branch at the City.

Transit Fleet Performance

Performance indicators are not tracked systematically. Nothing indicates a major performance gap in general but St. Laurent Depot (St. Laurent) may need more attention.

1. **Bus utilization:** Transit Fleet's average utilization, at over 61,000 km/year/bus, is 16% higher than our benchmark survey and is over 35% higher than the cities of Quebec or Montreal.

2. **Fleet age**: Transit Fleet's average age is comparable with other surveyed transit operators.

3. **Staff size:** The number of buses per employee, at 2.8, is comparable with other transit operators.

4. **Supervisor ratio**: The ratio of supervision at 6% is comparable to our survey.

5. **Kilometre per employee**: Transit Fleet is getting over 172,000 km/employee/year, which is 19% better than our survey.

6. **Shop space**: Transit has an average of 13.4 buses per bay, which is 30% higher than the norm.

7. **Parts-labour ratio**: A ratio of 44%-56% is in line with expectations.

8. **Cost/kilometre**: At $0.85, Transit Fleet is higher than the global average of our survey but outperforms large operators like Quebec or Montreal cities.

9. **Labour rate**: At $31.76 per internal labour hour, the rate is within standards.

Even though overall performance is good, our analyses nonetheless revealed a few problems:

1. **Missing data**: Data is not available to calculate downtime or reliability of the buses or productivity of the mechanics.

2. **Parts management**: Inventory may be twice as large as comparable jurisdictions at $13.6 million. Also, approximately $1 million worth of new parts and reconditioned components lay around the St. Laurent shop and are outside of the official inventory.

3. **Parts management:** There is a variance of $19.4 million between Transit Fleet and Material Management regarding annual spending on parts.

4. **Succession planning:** Lists of employees were not made available for analyses but interviews confirmed that the average age of mechanics is approaching 50 years and that succession has to be better prepared.

5. **Maintenance practices**: A number of practices differ from best practices, namely:

    o preventive maintenance programs for bodies;

    o engine failures and reconditioning;

    o re-occurring bus fires,

    o component reconditioning; and

    o bus refurbishing.

6. **Bus Fires:** The number of documented bus fires (33) is a major concern. There is no documented risk assessment strategy to address this issue.

Compliance Issues

The following issues have been identified:

- Some confusion on responsibilities of each party with respect to circle checks and repairs;

- Unclean and congested work environment at the St. Laurent facility;

- Array of legal issues arising from improper use of fleet facilities – All related to mechanics working on their personal vehicles;

- Statutory and regulatory interpretation – Employees accountable are not well versed on the meaning of the many regulations;

- Environmental Waste – Some confusion on who is responsible for what;

- Insufficient training, especially for equipment and heavy vehicle operators;

- Licensing requirements – Confusion on who is responsible for operator licensing;

- Driver abuse and accident management;

- Operating licenses for garages – Vast confusion on who is responsible; and

- Labour issues – Supervisors and mechanics belonging to the same union.

Financial Issues

Systems and processes in place certainly have the capacity to handle all financial aspects according to best practices. Yet, some issues were identified during analyses:

1. **Budget variance**: The final budget adopted by Council in February 2005 showed a variance of $13.6 million. At year end 2005, Fleet Services actually exceeded its budget by $10.6 million which represents a variance of 7%, significantly more than

the benchmark of 2.5%. Numerous reasons are given to explain the variance but ultimately, Fleet Services is not held accountable and future overruns are likely to reoccur.

2. **External fuel**: Even though the City has a full network of on-site fueling stations, over $3.4 million worth of fuel is being purchased at retail stations at a premium cost of 8 to 13 cents per liter. This practice is costing the City over $459,000 in additional fuel cost.

Recommendations

Recommendation 1

That Fleet Services continue reporting vehicle utilization regularly but focus on identifying units that are used less than their respective break-even point. Specifically,

(a) Determine break-even points between owning a City vehicle and other transportation alternatives (minimum number of kilometres/year, number of days, etc.);

(b) Fleet Services has determined thresholds for cars but that same exercise should be repeated with other vehicle categories;

(c) That end users be held accountable to justify the identified low use vehicles directly to Council.

Management Response

1(a)/(b): Management agrees with these recommendations. These practices have been followed since amalgamation.

1(c): Management agrees with the recommendation. Fleet Services will provide the appropriate information, to Deputy City Managers, to enable them to take appropriate action.

Recommendation 2

That Fleet Services:
(a) Revise its replacement criteria using total lifecycle costing, which may result in extended lifecycles;

(b) Elaborate a sustainable replacement plan based on documented criteria instead of theoretical lifecycles; and

(c) Quantify all impacts of delaying replacements.

Management Response

2(a)/(b): Management agrees with this recommendation. Management currently submits a sustainable vehicle replacement plan through the Long Range Financial Plan. Council determines affordable funding levels during annual budget cycles. Fleet Services vehicle lifecycles are based on industry standards; the City fleet is older than these standards as supported by independent analysis. There is a process

of assessing replacement priority that considers age, usage, condition, cost and operational needs. Fleet Services will commence a process of determining economic life by implementing the equivalent annual cost (EAC) methodology through phases in 2007, starting with identifying the best opportunity for savings and priority identification by end of Q3 2007. This process may lead to shorter or longer lifecycles.

2(c): Management agrees with this recommendation. Since 2005 Fleet Services has identified impacts of delayed replacements in the annual replacement report to Council in advance of budget deliberations and will continue to do so.

Recommendation 3

That Fleet Services complete the implementation of its new fuel management system and start monitoring fuel consumption and identify and investigate vehicles consuming more than expected.

Management Response

Management agrees with this recommendation and this practice has been underway since 2005. As well, Fleet Services is currently in the process of completing the standardized fuel management system for all City owned fuel sites, which will automatically perform checks relating to fuel consumption. The target date for completion is Q4 2007.

Since 2002, fuel usage per vehicle has been recorded and included in the monthly billing. High fuel consumption is noted,tracked and reported.

Recommendation 4

That Fleet Services review its maintenance and repair cost performance for heavy and medium trucks.

Management Response

Management agrees with this recommendation. In 2007 Fleet Services will expand its benchmarking efforts. On top of the internal performance measures and those included in OMBI, Fleet Services is going to be searching across Canada for additional national benchmarks. Over the course of the past two years, Fleet Services has been leading the benchmarking initiative for the Canadian Association of Municipal Fleet Managers (CAMFM). In the Q3 2007, CAMFM will mark its first year of comparing fleet measures across the nation.

Recommendation 5

That Fleet Services:
(a) Establish benchmarks, Key Performance Indicators (KPIs) and target performance levels, identify key success factors, identify gaps and investigate exceptions;

(b) Should implement a dashboard or balanced scorecard system to track all KPI's on a regular basis and increase accountability of the organization;

(c) Document vehicle abuses and elaborate strategies to minimize the costs related to misuse; and

(d) Elaborate an action plan to reduce the number of breakdowns and operator reports by reviewing preventive maintenance programs and measuring work quality in terms of Mean Time Between Failures (MTBF) or downtime and drilling down per category, per garage or per user groups until the root causes are identified.

Management Response

5(a)/(b): Management agrees with this recommendation and it has already been implemented. The branch has been and will continue to work with OMBI and CAMFM (Canadian Association Of Municipal Fleet Managers) to establish and report on fleet performance benchmarks. The branch presently reports on 17 performance measures with OMBI and 19 with CAMFM. Service performance is monitored and reported on a daily basis as part of our dashboard or scorecard system.

5(c): Management agrees with this recommendation and it has already been implemented. The branch has been reporting vehicle abuse to operating departments monthly since 2005, however it is the responsibility of the operating department to take corrective action. A new initiative is being launched in Q2 of 2007 by the Fleet Services branch to review monthly abuse statistics with client departments to find out the root cause of the abuse/misuse and take corrective action. Both the Fleet Maintenance and Fleet Operator Training divisions will participate in these reviews.

5(d): Management agrees with this recommendation. Fleet Services currently does failure analysis on a case-by-case basis to meet known problems. With the implementation of the new FMIS, a systematic review of mean times between failures will be established. Implementation is scheduled for end of Q2 2008.

Recommendation 6

That Fleet Services evaluate its level of outsourcing and undertake a comprehensive review of the workload of all the shops based on benchmarks and budgeted number of maintenance hours per year per vehicle categories. Even though that exercise may have been done at amalgamation, the level of outsourcing as well as the number of mechanics per vehicle differ from comparable organizations, the situation has evolved since amalgamation and accurate data is now available to verify the original estimates. The use of activity based costing methods is highly recommended to determine which activity should remain in-house.

Management Response

Management agrees with this recommendation. The recommendation will be reviewed as part of the Branch Process Review scheduled to be undertaken in 2007.

Recommendation 7

That Fleet Services set productivity targets per mechanic in three ways:

(a) Establish Vehicle Equivalent (VE) standards per mechanic based on NAFA's averages. Allocate annual hour budgets per vehicle based on the same VE method and track budget variances;

(b) Establish standard times per major activity based on Mitchell's OnDemand flat rate standards, American Trucking Association (ATA) standards or other recognized time estimating guides and track variances; and

(c) Record and compile all billable and non-billable hours on work orders and set a target of at least 60% of paid hours.

Management Response

7(a): Management agrees with this recommendation. Fleet Services establishes the needs for mechanics based on an assessment of actual cost applied against growth equipment. This option will be examined for analysing our structure during the course of this year.

7(b): Management agrees with this recommendation. It was implemented in 2006.

7(c): Management agrees with this recommendation. Fleet Services has been recording billable/non-billable hours since 2001 and is well above the industry benchmark of 60%. The total 2006-year benchmark for this category is at 68%. No further action is required on this recommendation.

Recommendation 8

That Fleet Services, with Supply Management, optimize the supply chain and logistics of spare parts in order to increase the turnover ratio up to the standards.

Management Response

Management does not agree with this recommendation. The Auditor has correctly indicated that turnover rates are a controlling characteristic indicative of the performance of the supply chain process. However, Materials Management is concerned that the Auditor has too narrowly interpreted or misapplied the components of the equation yielding an incorrect turnover rate that would become a standard going forward in evaluating inventory performance. This will have very real effects on service to the public if blindly implemented. Materials Management are of the opinion, that the rate should be evaluated against comparable sized fleets taking care to recognize clearly the fleet composition and characteristics.

Recommendation 9

That Fleet Services adopt a proactive approach and reduce interpretation by documenting the levels of service expected from each client and by measuring satisfaction levels more accurately.

Management Response

Management agrees with this recommendation and it is already the practice. Fleet Services management meets regularly with the management teams of their largest clients (Surface Operations, Fire Services, Transit Services and Paramedic Services). This presents a forum for discussion of upcoming issues as well as resolution or identification of the way forward for any ongoing issues. In addition, the Service Level Agreements (SLA's) clearly outline the responsibilities and accountabilities of each party as well as documenting escalation processes for any unresolved issues.

Recommendation 10

That Fleet Services assign an account manager to clients and produce accurate and timely reports measuring different parameters such as:
(a) Days of downtime;
(b) Compliance to inspection schedules (preventive maintenance);
(c) Customer's survey and customer satisfaction levels; and
(d) List of complaints received and actions taken.

Management Response

Management agrees with this recommendation. Fleet Services retained KPMG in 2003 to build a client relationship model and perform a customer satisfaction survey. While no specific account manager was necessarily assigned, each functional area in the branch has a person assigned to the appropriate level in the client's branch.

A multitude of reports are provided to clients, monthly, quarterly, and at the end of each year. The information contained in these reports include: actual expenditures, budget forecasting, training provided, collisions tracked, fuel consumed, kilometres travelled, vehicle under utilization, and much more. For participating clients, monthly management meetings are held where issues are raised, addressed, and the outcomes documented. Fleet Services agrees another customer satisfaction survey is warranted and will schedule for completion in Q4 2008.

Recommendation 11

That Fleet Services join Materials Management in a combined effort to:
(a) Revise store staffing requirements;
(b) Improve training for storekeepers;
(c) Measure waiting times at the counter and set targets acceptable to Fleet Services;
(d) Document and eliminate clandestine inventory; and
(e) Introduce performance measures for stores and include them in a service level agreement with Fleet Services.

Management Response

11(a): Management does not agree with this recommendation. Management agrees with the recommendation however it disagrees that it can be implemented within

existing resources. Approval will be requested for an additional $180K Operating Budget funding in 2008 in order to allow Municipal Materials Management to hire three (3) Purchasing Stores Clerks to support currently unattended technician shifts. Presently, there are not any available resources to transfer staff from a regular day shift to an evening or night assignment.

11(b): Management does not agree with this recommendation. Management agrees with the recommendation, however it disagrees that it can be implemented within existing resources. Training is required in order to maximize the efficiencies of SAP and improve training in other areas of concern to Fleet Services. Approval is required for an additional $100K in the 2008 Operating Budget in order to allow Materials Management to complete this training by January 2009.

11(c): Management does not agree with this recommendation. Management agrees with the recommendation however it disagrees that it can be implemented within existing resources. Materials Management will request approval for one-time Capital Budget funding of $60K in order to purchase an electronic queuing system and an on-going Operating Budget increase of $7K is required to cover the life cycle costs for the continued use of the system. It will be completed six (6) months after the receipt of the 2008 budget approval.

11(d): Materials Management agrees with this recommendation. Materials Management will continue to assist Fleet Services by cataloguing and restocking parts that are presented to Materials Management by Fleet Services to be held in inventory.

11(e): Materials Management agrees with this recommendation. Materials Management, in conjunction with Fleet Services, will review requirements and establish service level performance measures.

Recommendation 12

That Fleet Services:

(a) Ensure that vehicle log books are used especially for light passenger vehicles and perform random audits to determine how often the vehicle is required. Kilometres may not always represent a good indicator to validate whether a vehicle is justified or not. Unjustifiable vehicles should be reported to Council;

(b) Facilitate vehicle pooling by adapting the chargeback model and transferring as many vehicles as possible to a daily rental mode;

(c) Improve the "Fleet Analysis Reports" sent out to clients at each period. The reports should focus on performance indicators, identify benchmarks, highlight exceptions and require actions. Indicators may include: Fuel consumption, utilization statistics, misuse, accidents, etc.; and

(d) Establish vehicle standards per types of task and discourage deviations from the low cost standards by requiring approval from upper management or Committee of Council.

Management Response

12(a): Management does not agree with this recommendation. Logbooks are a client responsibility. Fleet Services reports usage whereas the client determines the justification.

12(b): Management agrees with this recommendation. Fleet Services maintains a vehicle pool that clients can access for rental units.

12(c): Management agrees with this recommendation. Fleet Services has been providing reports to clients detailing all the indicators mentioned since 2002.

12(d): Management does not agree this recommendation. Fleet Services uses best practices by developing vehicle specifications based on operational requirements of the client department. The client department is responsible to determine the capability requirement and Fleet Services is responsible to prepare a specification to meet that requirement in a cost-effective manner. The standard specification is for a base model in each category. Options are added depending on specific application or as a result of departmental request with justification and authorization. Options not supported by Fleet Services are escalated to the Executive Management Team, and if necessary, Council for approval.

Recommendation 13

That Fleet Services perform a basic survey to evaluate the number of daily calls in and out of the help desk. After statistics are compiled, a business case should be made to acquire an appropriate phone system and adjust staffing to cover the evening and night shifts.

Management Response

Management agrees with this recommendation and it has been implemented. In conjunction with ITS, Fleet Services has investigated the number of calls to the City's Call Centre and the possibility of a call management system. From the analysis made on the light traffic pattern on the call centre, it was determined that the system is adequately equipped to handle the volume of calls and that the investment of $19K in a call management system is not economically justifiable. However the situation will be continually monitored and the necessary action will be taken should it become economically justifiable. No further action will be taken on this recommendation.

Recommendation 14

That Fleet Services make a decision between M4 and SAP as recommended in the 2003 audit.

Management Response

Management agrees with this recommendation. The decision has been made to move to a single Fleet Management Information System, M5. Implementation is currently underway and is planned to be completed by the end of Q4 2007.

Recommendation 15

That Fleet Services establish a series of performance indicators, track them systematically in a dashboard and be accountable for them.

Management Response

Fleet Services agrees with this recommendation. Fleet Services already has some established performance indicators, namely those that are part of OMBI (Ontario Municipal CAO's Benchmarking Initiative) and some that are strictly internal to the City of Ottawa (including one dashboard measure). Fleet Services is leading the development of other indicators with CAMFM (Canadian Association of Municipal Fleet Managers). With the arrival of a single Fleet Management Information System, Fleet Services will be in a position in 2008 to expand the dashboard indicators.

Recommendation 16

That Materials Management and Fleet Services reconcile their inventory numbers in terms of parts issued to Fleet and parts assigned to buses and municipal vehicles.

Management Response

Management agrees with this recommendation. An analysis of inventory issues against fleet receipts was completed in mid April 2007 that reconciled all variances between Materials Management and Fleet Services. In the course of the 2007 Audit of the Inventory Management Process, Management will provide additional analysis on specific items discussed in the variance reconciliation provided to the Auditor General.

Recommendation 17

That Materials Management consolidate and repatriate all parts, new, used and remanufactured, within the official inventory.

Management Response

Management does not agree with this recommendation. Management agrees with the recommendation, however it disagrees that it can be implemented within existing resources. Materials Management believes that the used and remanufactured material currently residing outside their span of control should be moved from Fleet Services control into a secure environment and recorded in the SAP system. The opportunity to create a secure and effective storage area will present itself with the opening of the Swansea Rebuild area under the Fleet CapaCity Optimization project. Three (3) new staff positions at a cost of $183K were approved in the 2007 Operating

Budget. Additional funding requests of $140K are planned for 2008 for racking and equipment to create a clean, safe and controlled storage environment. Materials Management will assume control and movement of the materials in 2007, where appropriate, following a risk assessment and cost-benefit analysis. Full and secure control of the appropriate stock will occur by the end of 2008 following budget approval.

Recommendation 18

That Fleet Services and Employee Services develop a strategy for succession planning as Transit may have a shortage of qualified mechanics within a few years.

Management Response

Management agrees with this recommendation. This skill shortage is an industry-wide issue. The ongoing replacement of mechanics has already been identified as a component of the City's Succession Management/Talent Management Strategy. Fleet Services and Employee Services branches are currently working together on succession strategies including expansion of the apprenticeship program.

Recommendation 19

That Fleet Services implement a preventative maintenance program for bodies and structures.

Management Response

Fleet Services agrees with this recommendation.

A Materials/Mechanical engineer was hired in 2005 to develop a preventative corrosion protection program for bus chassis and structures. This program for all the transit bus fleet is under development, with support from other transit agencies such as STO (Gatineau) and STM (Montreal), as well as bus manufacturers.

In the interim, Fleet Services has implemented an inspection protocol for its newest transit bus models, D60LF (227 buses) and D40i (239+ buses). Inspections have been established in 2005 and updated in 2006, and meet the bus builder recommended preventative maintenance schedule.

Recommendation 20

That Fleet Services elaborate and implement a risk assessment strategy and a clear procedure in case of bus fires due to malfunction or poor design.

Management Response

Management agrees with this recommendation. The documentation of the risk assessment strategy will be completed by September 2007.

Recommendation 21

That Fleet Services and Supply Management determine the exact costs of reconditioning components (Activity Based Costing) and charge all the reconditioned parts to the inventory.

Management Response

Management agrees with this recommendation. However, costing the components is complex and needs further review by Supply Management, Accounting and Reporting and Fleet Services. This work will be completed by the end of 2008.

Recommendation 22

That Fleet Services elaborate and document its refurbishing program.

Management Response

Management agrees with this recommendation. A procedure is already in place for determining which buses will be reconditioned and on what frequency. A spreadsheet detailing past, present and future activity exists, however the process has not been documented. Fleet Services will undertake to complete this documentation of the process by Q3 2007.

Recommendation 23

That Fleet Services document the preventative maintenance program and train and inform the mechanics.

Management Response

Management agrees with this recommendation. Transit Fleet's Preventative Maintenance program is presently under review. Some changes have already been implemented and it is anticipated that further modifications will be introduced by Q3 2007. Training is being carried out as part of the review as is the use of working groups to optimize the programs. Also, the implementation of a new Fleet Management Information System (FMIS) in the latter part of Q4 2007 will provide Transit Fleet Maintenance with the tool necessary to better manage the program.

Recommendation 24

That Fleet Services redirect resources to planned repairs and routine maintenance and review its procedures pertaining to circle checks and routine maintenance to ensure that the individuals responsible for performing said operations are properly versed with their responsibilities and make use of the training programs available.

Management Response

Management disagrees with this recommendation. Clear accountabilities already exist for operators for inspection and repair and they are documented and incorporated in training programs.

No further action needs to be taken on this issue.

Recommendation 25

That the St. Laurent shop be cleaned up.

Management Response

Management does not agree with this recommendation. Cleanliness in the garage is not the issue, however, the crowded work-space does contribute to the untidiness of the garage.

Daily shop maintenance routines performed by Transit Fleet maintenance staff include cleaning their work areas during and upon completion of each bus repair. Area cleaning is also done by Transit Fleet maintenance staff on an as-needed basis and equipment cleaning and maintenance is done on a scheduled basis by RPAM. The St. Laurent garages are well utilized and although crowding of buses and components is a challenge to work around, cleanliness is a priority.

Crowding of most areas will be significantly reduced by the end of 2007 when the major repair operation moves to another garage thereby providing additional storage space for components and cores presently stored in these bays. There will be an opportunity to improve the "area" cleaning component at that time, and action will be taken following this move.

Recommendation 26

That Fleet Services management direct staff to immediately stop any personal vehicle repairs from being carried out. That all employees be re-educated about the details of the City's Code of Conduct requirements and that strict adherence (zero tolerance) to the existing policy be enforced rigorously.

Management Response

Management agrees with this recommendation and it has been implemented. A directive was issued to all staff on July 6, 2006 detailing the prohibitions outlined in the Code of Conduct. Fleet Services has also been monitoring this to ensure ongoing compliance.

Recommendation 27

That Fleet Services commission an easy to read and updateablemanual for the ease of reference of managers, mechanics and operators. As an alternative, we recommend that additional training be provided to managers and supervisors about the various regulations and the applicability of the federal and provincial statutes to Fleet Services.

Management Response

Management agrees with this recommendation. Applicability of federal and provincial statutes already forms part of the comprehensive training programs and is incorporated into Fleet's numerous procedures. While no single manual is planned (would be too large to be of use) Fleet will continue to leverage electronic access to up-to-date information. As part of Fleet's move to a single Fleet Management Information System, more information will be accessed via the web (i.e. procedures, vehicle specifications, parts listings, etcetera). In addition, we work directly with our clients to help inform them of changes at the federal/provincial levels and help build solutions to meeting new and changing legislation.

Recommendation 28

That Fleet Services ensure that all managers and senior staff understand their role as it relates to environmental waste disposal.

Management Response

Management agrees with this recommendation. As stated in the audit, this was simply a miscommunication between the staff interviewed and the Auditors. This issue was quickly sorted out and all senior staff and managers do understand the rules as it relates to environmental waste disposal. No further action is required.

Recommendation 29

That Fleet Services reallocate existing resources to the Fleet Driver Training Unit to ensure that all operators are provided with sufficient training. Operator supervisors (clients) should also recommend additional training whenever possible.

Management Response

Management agrees with this recommendation.

Fleet Services, as part of the annual budgeting process, aligns training resources to the client training needs. As a result, two trainers were added in 2006. Fleet Services training programs are based on legislated and mandated requirements. Additional training resources are not required until 2008.

Recommendation 30

That Fleet Services educate all mechanics and operators regarding their responsibility as it relates to the loss and suspension of category G licenses. Operator education must be strengthened in the following areas:

- **operating a vehicle without a valid license;**

- **consequences for violating the Code of Conduct are severe when compared to reporting a temporary loss of license; and**

- **liability of operating a City vehicle without a valid license relating to personal liability.**

Management Response

Management does not agree with this recommendation. Fleet Services does not have the authority for providing this type of education. Employee orientation at hire, which is the responsibility of the supervisor, is the appropriate place to both review the code of conduct (which is given to each new hire) and all other related issues (including discipline) specific to the job the employee is being hired into.

Recommendation 31

That Fleet Services implement strategies and document a process to reduce the expenses related to misuse and/or repairs caused by abnormal utilization.

Management Response

Management agrees with this recommendation and it has been implemented. The branch has been reporting vehicle misuse to operating departments on a monthly basis since 2005, however it is the responsibility of the operating department to take corrective action. A new initiative is being launched by the Fleet Services to review monthly abuse statistics with client departments to find out the root cause of the misuse and take corrective action. Both the Fleet Maintenance and Fleet Operator Training divisions will participate in these reviews. In addition to the above, Fleet Service reports misuse information annually, at the year-end, customer reports which are provided to the branch Directors as well as the Deputy City Managers to enable them to take appropriate action.

Recommendation 32

That one specific individual be put in charge of all Ministry issued licenses, or as an alternative, have one person responsible for dealing with the Ministry on behalf of Fleet Services.

Management Response

Management agrees with this recommendation and it has been implemented. Fleet Services has consolidated all garage and technician licensing under one (1) person in Transit Fleet Maintenance (for transit garages) and under one (1) person in Municipal Fleet Maintenance (for municipal garages).

Recommendation 33

That the management members of the unions be bargained out of the existing collective bargaining unit and into a separate unit when the contract is renegotiated in the future.

Management Response

Management does not agree with the recommendation. The Transit Fleet garage supervisors belong to a CUPE local and the staff they supervise belong to an ATU local, therefore a conflict does not exist since supervisory staff are in a different

Union. The best-case scenario occurs when any level of supervisory staff is either non-union or from a bargaining unit different than the bargaining unit to which staff belong.

Arbitral jurisprudence allows functional supervisors to be from within the same bargaining unit. Functional supervision can include scheduling and assigning work, as it does in this case. These are not true management responsibilities. The management staff from the MPE group or the garage supervisor's bargaining unit is responsible for the management of disciplinary issues.

Recommendation 34

(a) That Fleet Services' budgeting process be reviewed to:

(b) Reassess its process for informing the appropriate client/business unit of expected budget overruns;

(c) Reassess the accountability of each business unit (Fleet Services, Supply Management or Fleet Services' clients) over expenses incurred by Fleet Services;

(d) Identify the cost drivers for each of Fleet Services' expenses;

(e) Develop tools to measure and track each cost driver; and

(f) Allocate each cost driver's responsibility to the appropriate business unit, and incorporate performance measures to the budget of each business units controlling these cost drivers.

Management Response

Management agrees with the recommendation. The current billing system of charging actual costs to clients does not accurately reflect the allocation of responsibilities for cost drivers. A lease-based system would more accurately reflect these cost drivers, including usage, workshop efficiencies, accident damage and misuse. Fleet Services will investigate the opportunity of moving to a lease-based system by the end of 2008.

Recommendation 35

That Municipal Fleet promotes the use of the City's fuelling stations, review the reasons why some vehicles are being fuelled outside the City's stations, and approve or rectify such practice.

Management Response

Management agrees with the principle of this recommendation. Fleet Services actively promotes the use of City owned fuelling stations. Fleet communicates with drivers via the use of pamphlets provided in all City owned vehicles and by the use of corporate e-mail (for those who have access). City management is also apprised of the benefits of using City owned sites via e-mail, monthly client billing (which shows City vs. retail fuel usage), and quarterly/year end reports which identify the amount of dollars which could have been saved had City-owned fuel stations been used. However, it must be recognized that there are valid operational reasons why the use

of City fuelling facilities is not always practical. Further the decision to use City owned fuelling stations is at the discretion of the operating department.

Recommendation 36

That Municipal Fleet renews its standing offers to lock in discounts on fuel purchases.

Management Response

Management agrees with this recommendation. Supply Management has already been working with Fleet Services on this initiative. As well, this past February, a draft of the proposed standing offer was circulated to the fleet group for further input. The RFSO will set-up authorized retail fuel outlets based on set criteria, and a firm discount from the pump price, in relation to urban and rural districts stipulated in the document. The RFSO will be issued on the internet based Merx site during Q2 2007, and it is anticipated that the call-up list will be approved in time for use during the latter part of 2007.

Conclusion

During our analyses conducted during the audit, some important gaps were identified mostly in the application of certain policies as well as in performance measurements. These gaps prompted a total of 36 recommendations. We believe that all the recommendations contained in this report can be implemented without the requirement of additional funds. In fact, implementation of those recommendations should generate savings of over $1.3 million annually as well as make Ottawa's Fleet Services comparable to the best in class.

Ottawa Fleet Services is an organization that is well documented, it has reached a level that makes it comparable in size with the largest public fleets in North America, and it has all the resources needed to make it comparable in terms of performance as well.

Acknowledgement

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

3.8   Audit of Property Management

EXECUTIVE SUMMARY

Introduction

The Audit of Property Management was included as part of the 2006 Audit Plan first presented to City Council in December 2004.

Real Property Asset Management (RPAM)

Included under the heading "Real Property Assets" are vacant lands, buildings, sites, streetscapes, parks, public malls, and monuments. A current summary of these assets is as follows: 3,790 properties, including 798 major buildings comprising over 11,000,000 square feet of space with an estimated replacement value of more than $2 billion. As of September 2006, RPAM had an annual net budget of approximately $95 million (with a gross budget of $121 million) and 731 FTEs.

Audit Objectives

The objectives of the comprehensive Audit of Property Management were to provide City Council with an opinion regarding:

- the appropriateness of management practices in place to ensure compliance with all legislation, laws and regulations by the property management function;

- the appropriateness of the financial management framework (i.e. fee structure for venture properties, budget development and monitoring, contract management and overtime management); and

- whether or not the property management framework is adequate to allow the property management function to assess the economy, efficiency and effectiveness of its current operations.

Audit scope

Our audit was limited to the adequacy of the framework and the practices in place at the City of Ottawa to meet the above-mentioned objectives. Sites visits were conducted at the Nepean Sportsplex, the Champagne Bath pool and the OC Transpo maintenance facility on St. Laurent Boulevard as a sample to determine the adequacy of on-site property management activities. The Department of Public Works and Services facility on Maple Grove Drive was also examined to identify any property management issues arising from the recent fire event at this site.

Strengths

There are two areas where we believe that the Real Property Asset Management (RPAM) Branch has exhibited particular strengths in ensuring adequate property management services.

First, RPAM has a comprehensive building inventory system and condition assessment process. RPAM prepares various building condition reports for the major City facilities on a rotating basis and is making progress to complete condition audits for the entire building portfolio using a mix of in-house and external resources.

These condition estimates and detailed audits adequately project the life cycle renewal and repair/maintenance requirements for a facility and establish the short, mid and long-term financial implications of the condition assessment.

Second, the RPAM Branch provides a very comprehensive and well-defined framework for the property management function of the City.

RPAM addresses the requirement for long and short-term operational and strategic planning through participation in a formalized planning cycle involving the preparation of four major planning documents:

- Strategic Accommodation Plan;

- RPAM Branch and Divisional Work Plans;

- Long Range Financial Plan (LRFP) Budget Submission; and

- Annual Corporate Operating and Capital Budget – Annual Plan and Quarterly Reporting.

The long-term planning process is integrated with the City's strategic plan and with the other City programs through participation in the:

- Integrated planning framework;

- City Corporate Plan; and,

- Corporate Services Plan identifying RPAM responsibilities for specific program services definition and delivery.

RPAM, through their participation in the Ontario Municipal Benchmarking Initiative, their own internal planning and performance evaluation activities (notably the Asset Rationalization Process, Alternate Service Delivery Study, and their on-going development of a Green Building Policy) have demonstrated both their relative expertise and leadership in the field of municipal property management services delivery.

Findings

Our review noted four areas of concern for the City:

1.   Adequacy of funding levels for capital renewal/repair and maintenance

Our major observation is that the capital budget development process, although taking into consideration the comments of the decision makers, often results in a financial

allocation being provided to RPAM for its projects (life cycle, repair, maintenance) based on the availability of funds versus funds needed. The Long-Term Strategic Asset Plan identifies capital expenditures for life cycle renewal and repairs on an industry standards basis. However, the number of items that need to be postponed as a result of the review to attain the target budget figure provided by Finance is significant. Under-capitalization of assets requires the annual deferment of necessary life cycle renewal and repair activities for the physical plant. This deferment could result in interruption or loss of program services and higher maintenance costs.

The following table summarizes the extent of the current and projected shortfall within the capital life cycle renewal programs for general buildings, heritage facilities, libraries and transit facilities (excludes Police assets and utilities infrastructure), using data from August of 2005.

Life Cycle Renewal Forecast (in millions of dollars)			
Year	Requirements Projected	Funding from LRFP	Variance
2004	25.9	5.5[1]	20.4
2005	39.1	12.8[1]	26.3
2006	19.5	9.5[1]	10.
2007	24.9	16.1[2]	8.8
2008	23.7	14.5[2]	9.2
Totals	133.1	58.5	75

1 Actual budget figures for referenced programs.

2 Figures from updated LRFP 2, these target projections do not traditionally get reflected in annual approved capital budgets.

As reflected above, the issue of under-funding of life cycle renewal represents a growing issue for the City. Furthermore, current life cycle projections for Parks and Sites forecast an additional shortfall of more than $10 million over the next three years.

We recommend these funding challenges and their long-term implications be clearly articulated during the 2007 budget process.

2.   Absence of a fully articulated long-term vision for Lansdowne Park

The lack of a long-term plan and vision for Lansdowne Park means the City may not be able to maximize the use of the park as a financial investment or cultural facility.

In order to provide clearer direction on the use of Lansdowne Park and in order that future usage of the park be done in conjunction with the citizens' expectations, we recommend that a long-term plan and vision be developed by City Council.

3.   State of Service Level Agreement documents

Maintenance standards have in the past been developed and agreed to with program stakeholders through the preparation of detailed Service Level Agreements (SLA).

Clearly, delineated performance standards need to be developed, tailored to specific program types based on what is required and what is sustainable. While RPAM has identified the development of a pilot "Lease" Client Service Agreement as part of the new model of client chargeback to replace the SLA's, there still exists a requirement at the moment to provide individual SLA's with the major program portfolios.

The absence of updated, detailed SLA's, in general, restricts the ability of RPAM to establish a cohesive cost of ownership model, a primary objective of total asset management, on a program-by-program basis.

We recommend that the City identify the resources necessary to renew and/or create SLA's for all major program and facility type clients.

4.   Compliance to health and safety provisions of the Ontario Building Code

The building condition report (Type II) audit includes, in part, an audit of the life safety systems to examine the building for code compliance with respect to provisions for fire and life safety in general, and specifically those related to fire fighting access routes, adequate water supply and distance to hydrants. Our review of several building condition reports, however, indicates that provisions for fire fighting (Section 3.2.5 of the OBC) have not formed part of the Building Condition review.

The Branch should develop a plan to complete and update the building condition assessments for all major facilities. As part of this plan, the Branch should identify for City Council all facilities requiring a review to confirm compliance with the fire fighting provisions of the Ontario Building Code and the funding required to complete these assessments on a priority basis.

Recommendation 1
That the Branch establish guidelines governing the negotiation of fees and charges based on a volume and type of business by defining scales of fees to be charged to their various clients.

Management Response
Management agrees with this recommendation.

There is already in place a published schedule of fees and charges, for the use of Lansdowne Park facilities. This includes a sliding scale for potential rental discounts when other revenue streams are taken into account, which is applied in a consistent, transparent and equitable manner. Commercial activities, such as entertainment

events, require that a degree of flexibility be exercised by management in order to attract business in an extremely competitive environment. In 2007, management will review the largely market-driven fees and charges schedule and associated application guidelines to ensure that they are in line with good business practices.

Recommendation 2

That the Branch develop, for City Council approval, a long-term plan and vision for Lansdowne Park in order that future usage of the park be done in conjunction with the citizens' expectations.

Management Response

Management agrees with this recommendation.

Studies completed prior to amalgamation recommended long-range plans for Lansdowne Park that did not come to fruition. In 2002, Lansdowne undertook a full operations review and since amalgamation the Lansdowne Park operating budget has gone from a $1.2M deficit to a $250K deficit. However, the annual revenue stream does fluctuate from year to year. The lack of vision and long-term planning has impeded the development of long-term, sustainable business strategies for the site in the face of increasing competition in the event industry.

Lansdowne Park initiated an Economic Impact Study that is currently out for RFP. The results of that study, lead by the Economic Development Division, Planning, Transit and the Environment, are due at the end of the first quarter 2007.

Over the years Lansdowne has successfully supported a variety of activities and events ranging from professional and amateur sporting activities, entertainment events, social activities and expositions, including the annual Exhibition. However, a long-term vision along with a strategic plan for implementation is required to identify and secure the necessary resources to ensure a long-term viable and sustainable site. A long-term plan and vision for Lansdowne Park will be in front of City Council for approval in Q4 2007.

Recommendation 3

That the Branch renew or create service level agreements for all major program and facility type clients.

Management Response

Management agrees with this recommendation.

The Service Level Agreements (SLA) drafted and approved in 2001/2002 were dramatically impacted by the UPR exercise in response to the 2004 operating budget process. Since that time, clients and service providers have been focusing on specific issues needing immediate attention. In 2006 a program was initiated that involves all COE Branches and their clients that will address SLAs on a more comprehensive

basis. This program is being managed from the office of the Chief Corporate Services Officer.

Recommendation 4

That the Branch, as part of its 2007 budget submission, clearly articulate the need for adequate funding for life cycle renewal/repair and maintenance and the implications of reduced funding on the long-term condition of City facilities.

Management Response

Management agrees with this recommendation.

Although a report entitled, "Comprehensive Asset Management Strategy for Buildings and Parks" was tabled at City Council in 2004, which raised and quantified the level of deferred life cycle renewal and proffered several approaches to address the concern, further communication is warranted. The manner in which RPAM will inform City Council of inadequate funding for life cycle renewal and the consequences of the shortfall will be coordinated with the budget process.

Recommendation 5

That the Branch present the draft Life Cycle Renewal Policy document, based on the principles presented to City Council in 2004 and finalized in 2006, to City Council in the second quarter of 2007 for review and approval.

Management Response

Management agrees with this recommendation.

The draft policy was reviewed by the Management Advisory Committee and will require Executive Management Committee (EMC) review and approval prior to its tabling at a City Council meeting. This is anticipated to be complete by the end of Q1, 2007.

Recommendation 6

That the Branch develop a plan to complete and update the building condition assessments for all major facilities.

Management Response

Management agrees with this recommendation.

RPAM has audited over 5 million square feet of building area since amalgamation. The City building inventory measures approximately 11 million square feet. RPAM will define the costs associated with undertaking Type II building condition audits on the remaining building portfolio that has not undergone this type of assessment. The condition audits are funded from the life cycle capital program and, as such, the requisite timeframe to complete these assessments is dependent on the level of capital funding afforded to the Branch. A master schedule will be developed to

reflect the funding allotment. Timelines, that will be included in the plan for completion of building condition assessments, will be dependent on funding.

Recommendation 7

That the Branch review all facilities without access to City water service to confirm compliance with Section 3.2.4 (Fire Alarm & Detection) and Section 3.2.5 (Fire Fighting Provisions) of the Ontario Building Code.

Management Response

Management agrees with this recommendation.

Management will ensure that the compliance reviews will provide the level of detail necessary to identify the non-compliance issues, the scope of remedial actions required for compliance and the resourcing required to implement the retrofit work. The results of these reviews will be shared and coordinated with the Fire Services Branch, Community and Protective Services. The review of all facilities will be completed in time for the 2008 budget process.

Recommendation 8

That the Branch ensure that all building condition assessments include a compliance review of Sections 3.2.4 (Fire Alarm & Detection) and 3.2.5 (Fire Fighting Provisions) of the Ontario Building Code.

Management Response

Management agrees with this recommendation.

The existing protocol and content of the Branch's condition auditing process are focused, in part, on identifying non-compliant, deficient or otherwise absent building assemblies or components which are required for safe and proper building operation. The inclusion of specific code review requirements within the building condition audit is a logical next step. This recommendation will be implemented in Q2, 2007.

Recommendation 9

That the City provide the funding required to conduct the reviews, and any corrective measures identified as a result, referred to in Recommendations 7 and 8.

Management Response

Management agrees with this recommendation.

Capital funding to implement corrective measures associated with compliance retrofit work will be identified separately from the life cycle renewal program with funding need to be identified and recommended to City Council in the 2008 capital budget.

Recommendation 10

That the Branch review priorities for the completion of threat risk assessments for all City facilities and establish a timeframe for completion.

Management Response

Management agrees with this recommendation.

Corporate Security has visited all City facilities and continues to conduct threat and risk analysis as resources permit, based upon the level of incidents and threat level inherent in the location and operation of the facility. Formal analysis will continue in this vein on an ongoing basis, as threat and risk analysis needs to be regularly re-visited in order to remain current. Threat and risk analysis priority will be given to facilities where the risk level is identified as elevated by the Corporate Security Division. Implementation of this recommendation will be ongoing and dependent on funding.

Recommendation 11

That the Branch re-confirm the timeframe for the completion of the Integrated Security Management System (ISMS) implementation and monitor this implementation to ensure its completion.

Management Response:

Management agrees with this recommendation.

The schedule for the completion of the base ISMS in 2009 is still the timeframe within which Corporate Security is working. However, this time frame is dependent upon funding availability, changes to facility usage and the addition of new facilities, etc. Corporate Security has ongoing project monitoring in place to ensure that the timeframe is respected and that all projects are completed on schedule as funding allows.

Recommendation 12

That the Branch finalize and bring forward for City Council approval draft policies regarding security.

Management Response:

Management agrees with this recommendation.

Corporate Security has finalized the draft policies and is able to bring them forward for the appropriate approvals. It is not expected that all draft policies will require City Council approval; many may be able to be approved and adopted by Senior Management. Corporate Security will bring forward draft policies, along with the Divisional Standards for ISMS projects, for Director's approval and actioning to the appropriate approval authority in 2007.

Conclusion

Based on our review, we believe that RPAM has appropriate management practices in place to ensure compliance with all legislation, laws and regulations affecting the property management function; an appropriate financial management framework to address fee structure for venture properties, budget development and monitoring, as well as contract management and overtime management. The current framework is more than adequate to allow the property management function to assess the economy, efficiency and effectiveness of its current operations.

Our review did note four areas of concern. Due to limited funding, the City tends to reduce or defer the life cycle program budget year over year. The lack of a long-term plan and vision for Lansdowne Park means the City may not be able to maximize the use of the park as a financial investment or cultural facility. High-level service level agreements with clients have not been refreshed or renewed to take into account the realities of the 2004 Universal Program Review. Finally, a strategy is required to ensure that the building condition assessments for all major facilities are complete and up to date.

Acknowledgement

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

3.9   Audit of the Financial Control Environment

EXECUTIVE SUMMARY

Introduction

The Audit of the Financial Control Environment was part of the 2006 Audit Plan brought forward by the City's Auditor General and received by Council on December 15, 2004.

Background

The City of Ottawa is a large organization, with 4 major departments supported by 10 Financial Support Units (FSUs).   This organization employs over 12,000 full-time equivalent (FTEs) staff positions of which 345 work under the Director of Financial Services and City Treasurer (excluding 140 Supply Management staff).

In the 2005 operating budget, the City of Ottawa's operating expenses amount to approximately $2.1 billion.

The 2005 approved capital budget totalled $612.3 million.

The City's internal financial controls are essential to the effectiveness and accountability of its operations.

The scope of the audit addressed the internal financial controls in place in fiscal 2006. We performed analysis using both 2005 and 2006 data.

Audit Objectives

The objectives of this audit were to:

- Determine whether there are adequate financial controls in place within the processes selected;

- Determine the role and effectiveness of the Financial Support Units;

- Determine the role and effectiveness of the Accounting and Reporting Division with respects to the processes reviewed; and

- Evaluate the utilization of the financial systems (reporting and management tools).

At the beginning of this audit the Chief Corporate Services Officer indicated his agreement with the objectives of the audit. His goal was to use the issues identified by the audit as the basis on which to develop his work plan to improve the financial control framework of the City.

Audit Criteria

- Determine whether there are adequate financial controls in place in the processes reviewed.

- Determine if opportunities exist to detect and decrease risks due to process and control weaknesses, as identified through data analysis of disbursements and revenues.

- Determine the roles and effectiveness of the Financial Support Units and of the Accounting and Reporting Division with respect to the processes reviewed.

- Evaluate the utilization of the financial systems (reporting and management tools).

Audit Scope

To assess the financial control environment in place in 2006, a representative sample of FSU processes were reviewed. The FSU selection was based on both a consideration of the transactions dollar value as well as the assortment of transaction types relevant to the individual FSU.

The City's Corporate Financial Management system is composed of SAP (enterprise resource planning for Finance, Supply, Human Resources, Real Property and Asset Management, Field Operations), complemented by various integrated sub-systems such as CLASS, M4, GIS, MAP, etc.

Key Findings

1. Financial Control Effectiveness

To ensure its adequacy and increase its reliance, ownership and accountability for the internal control process needs to be clearly assigned.

A coordinated financial management control framework helps to mitigate risks, ensure that control procedures are firmly entrenched in the organization, and that the processes are repeatable and sustainable. This is a fundamental requirement in demonstrating mature financial management capabilities. According to the Office of the Auditor General of Canada regarding financial management capabilities:

The lack of repeatable, sustainable practices of financial management and control means that any data produced may not be complete, accurate or reliable. Similarly, without an adequate control framework, assets may not be adequately protected or resources adequately controlled.[1]

The effectiveness of financial controls should be supported by established, clear and complete processes that require that control procedures have been consistently carried out. To sustain its effectiveness, a financial control framework should continually be documented, re-assessed and communicated. We found that there were numerous instances where there was insufficient evidence of control procedures having been carried out and there is a lack of documentation of the City's financial processes. Financial controls were also found to be inconsistent across FSUs. Our review of the City's Corporate Financial Management System (SAP) found that there were significant deficiencies related to system access capabilities. It is our opinion that there are significant deficiencies in the City of Ottawa's system of financial controls.

The external auditors have also been unable to rely on many of the City's financial controls and have therefore followed a substantive audit approach for their statutory audit. A controls-reliance audit would likely be more efficient and provide for a more timely completion of statutory audit procedures.

1.1   Process Documentation

We found that there is generally a lack of established processes, whether formal or informal, documentation or guidance on procedures to be followed in the processing of financial transactions. Obtaining up to date policies and procedures from certain FSUs was often challenging. For example, one FSU was unable to provide adequate and updated support regarding delegation of authorities. The support provided was a 2003 email on which the related director had been copied.

We noted that the City has achieved a reasonable consistency and documentation with regards to the Purchasing Card process. We found that a clear and formal procedure exists for this process and is followed fairly consistently across all FSUs and related departments. Detective controls are also in place since the Policy and Compliance Unit frequently completes reviews over this process. Such clear policies and consistent compliance should exist for all other processes.

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[1] Financial Management Capability Model published by the Office of the Auditor General of Canada, 1999.

Recommendation 1

That Financial Services Branch establish and continually document, and review financial processes with staff of the various FSUs and other finance groups. This would reinforce the requirement to follow expected control procedures and provide clear references for testing that the controls are effective.

Management Response

Included in the overall management response.

1.2   Evidence of Review or Control Procedures

We found numerous instances where there was no evidence that required control procedures had been carried out.   In many cases, this would require only a signature to attest that an approval or oversight review had been completed.   In other cases the report or worksheet on which an analysis or reconciliation was performed should be retained.   Without such evidence there is little basis to conclude that internal control procedures are effective.

Recommendation 2

That Financial Services Branch ensure that the review, approval and other control procedures are clearly evidenced by signatures or retention of documents.

Management Response

Included in the overall management response.

1.3   Job or Task Descriptions

We noted that many employees, either because they were recent hires or replacing other staff, did not adequately understand the requirements of their position.   We often did not find task or detailed job descriptions to which new or temporary employees could refer.   This situation resulted in a high reliance on professional expertise (see section 1.4) and a risk of inconsistent and/or inappropriate procedures.

Recommendation 3

That Financial Services Branch in conjunction with Employee Services Branch ensure that detailed task and job descriptions are developed as part of process documentation in order to provide a basis for training and reference for finance employees.

Management Response

Management disagrees with this recommendation.

The City's current practise is to develop job descriptions that reflect the skills, knowledge, professional qualifications and experience requirements of the positions, and to list the major duties of the position. This is of value to the City with respect to

multi-incumbent positions where only one generic job description is needed. Financial Services will instead improve the detailed process descriptions.

1.4   Staff Qualifications and Training

Only 22 employees out of 345 employees (excluding Supply Management Division) within the Financial Services Branch currently hold an accounting designation. In the absence of formal and informal processes, a greater number of professional designations would instill reliance as to the effectiveness and adequacy of the financial environment and would provide staff with guidelines in instances where procedures are lacking.

Recommendation 4

(a) That Financial Services Branch develop finance and accounting specific training and that finance staff be encourage to pursue such training.

(b) That Financial Services Branch identify an appropriate number of positions that require an accounting designation.

Management Response

(a) Included in overall management response.

(b) Management disagrees with this recommendation.

Management believes that Financial Services already has an appropriate number of staff with accounting designations in the Financial Support units and the Accounting and Reporting division. Within these divisions, there are currently 18 professional accountants out of a total of 62 positions, almost a 1:3 ratio. All positions in Financial Services were reviewed with respect to the requirement for a professional designation following amalgamation. The branch will continue to determine the skills and abilities required of its staff, including the requirement for an accounting designation, as new positions are created and job requirements change to meet emerging needs. Management feels that it is more appropriate to look at the number of professional accountants within CIPP and the management groups within the FSU and Accounting and Reporting divisions of Financial Services.

1.5   Data Analysis of Disbursement and Revenue Streams

We conducted detailed data analyses and trend reports, which permitted us to investigate unusual business transactions within the disbursement and revenue streams.

From these reports we were able to identify that:

- From a sample of 279 entries, 19 were duplicates payments totalling $9,064;

- We identified 5,606 invoices totalling $23.6 million, which were potentially dated prior to the purchase order date. On a test basis, a sample of 50 invoices was reviewed to determine if the invoice date was entered correctly. Our review identified that 98% of the invoices sampled were dated prior to the purchase order date. This practice is not in conformance with standard purchasing practices, which requires a purchase order to be in place prior to the ordering, receipt or payment of any purchase; and

- We identified 186,476 disbursements totalling $499 million, which may have been paid prior to the generally accepted practice of paying 30 days from the invoice date. We estimated foregone interest revenues of approximately $291,000. The Office of the Auditor General is considering conducting an audit of the City's Treasury function.

Recommendation 5

That Financial Services Branch conduct periodic reviews of disbursements with a particular focus on those that appear to be inconsistent with the City's policies and general business practices.

Management Response

Included in the overall management response.

2. Roles and Effectiveness of the Financial Support Units

We found that the Financial Support Units strive to meet their client departments' needs. However, their practices and procedures are inconsistent and not adequately documented. No division or branch appears to exercise oversight of all FSUs. Without such oversight, it is unlikely that the effectiveness and consistency of FSUs can be adequately monitored.

2.1 Consistency of FSUs Control Procedures

In our review of the various FSUs Portfolio Units, we noted that the execution of control procedures was often completed but inconsistent.

Recommendation 6

That Financial Services Branch ensure that guidelines be developed within the City's financial control framework to ensure that FSUs implement consistent control procedures.

That Financial Services Branch ensure that in those rare instances where internal control practices need to differ between FSUs, these are based on risk assessment, and are clearly communicated and documented. Units or divisions that rely on controls within FSUs should have a clear understanding of the internal control processes.

Management Response

Included in the overall management response.

2.2   Consistency in Range and Level of Services and of FSUs Roles and Responsibilities

During the course of our work in 2005 and 2006, the Office of the Auditor General identified several instances where Financial Support Units' performance did not meet expected service delivery level, in areas such as practice consistency; rule enforcement and level of involvement in controls and/or processes. While service level agreements between centres of expertise and client departments have been prepared, they are out-of-date and not being applied. In practice, the level of service provided by FSU varies significantly.

Recommendation 7

That Financial Services Branch review all practices used by FSUs so as to develop one stringent set of guidelines and procedures for all FSUs to adhere to.

That, as part of its Financial Management Control Framework, Financial Services Branch clearly delineate, document and communicate the role and responsibilities of FSUs.

Management Response

Included in the overall management response.

3.   Role and Effectiveness of the Accounting and Reporting Division

We found that the Accounting and Reporting Division of Financial Services Branch has a very limited role in monitoring compliance with the City's financial controls. Further, no division or unit within Financial Services Branch has been assigned the oversight responsibility for the maintenance of adequate systems of internal controls. This is inconsistent with acceptable practice in organizations of a size and financial activities comparable to the City of Ottawa**.**

3.1   Accounting and Reporting Division

We found that the FSUs did not have a clear understanding of the role of the Accounting and Reporting Division. More significantly, no division within Financial Services Branch has been assigned the overall responsibility for monitoring the effectiveness and compliance with an adequate system of internal controls. This is contrary to acceptable (i.e. minimum) standards in organizations of a size and financial activities comparable to the City of Ottawa. We would expect that assigning the responsibility of the financial control framework to a specific division would strengthen and streamline procedures.

This situation exposes the City to unacceptable risks of financial losses due to potential fraud or accounting errors.

Recommendation 8

That Financial Services Branch assign the overall responsibility for oversight of the City's financial controls to Accounting and Reporting Division or another division within the Branch.

That Accounting and Reporting Division develop and implement financial procedures, which would include the practice of reviewing a predetermined percentage of invoices and other financial instruments on a continual basis.

Management Response

Included in the overall management response.

4. Utilization of Financial Systems (reporting and management tools)

We found that the City of Ottawa's Financial Management System (SAP) and related sub-systems e.g. CLASS recreation program registration and facility booking) are not sufficiently used for financial control purposes. This results from inadequate monitoring of system access and instances where programmed controls are bypassed or overridden. We also found instances where the system functionalities were not fully utilized and information was downloaded to spreadsheets to manually perform functions that could likely be completed within the Corporate Financial Management System (SAP). The City of Ottawa is therefore not obtaining the full benefits from the significant investment it has made in its financial systems.

4.1 Incompatible Duties and Segregation of Duties

Our review of the Corporate Financial Management System (SAP) user access data allowed us to determine which City of Ottawa staff had the ability to execute sensitive actions or to execute incompatible transactions. With this information, we found numerous potential segregation of duties issues.

Examples of potential segregation of duties issues include:

- At least 24 users currently have the capability of creating a purchase order (PO), releasing that same PO, entering an invoice against the PO, posting a goods receipt against the PO, creating cheque information and posting an outgoing payment;

- At least 25 users are capable of creating a vendor, entering invoices, creating cheque information and posting outgoing payments;

- At least 11 users have the capability of creating a customer, creating a sales order, cancelling a billing document, posting payments and entering a customer credit memo; and

- At least 52 users have the capability of creating a PO, posting a goods receipt and altering the inventory listings.

Recommendation 9

That Financial Services Branch review current Corporate Financial Management System (SAP) user authorization in relation to incompatible duties and modify access as required and that such reviews be conducted periodically.

Management Response

Management agrees with this recommendation.

The Auditor General noted that 25 users have the ability to create a vendor, enter an invoice, create cheque information and post outgoing payments. Of these 25 users, 3 are operational staff and 22 are ITS staff. Management is aware of the assignment of these duties to operational staff. In this case, the Manager of Accounting and Reporting has provided written authorization approving operational staffs access to meet operational requirements. ITS staff use their access to provide user support to Helpline calls and to research reported problems. ITS will take steps to review the number of staff who have access and will apply the same standard of care with respect to incompatible duties, although these staff do not update data and transactions within the production environment. This review will commence in Q2 2007.

4.2 Corporate Financial Management System (SAP) Application Control Overrides

During our walkthrough of transactions within the Corporate Financial Management System (SAP), we found that significant overrides were allowed, and SAP's automated internal control functionalities were not fully utilized. We observed the following:

- The Corporate Financial Management System (SAP) permitted the overriding of prices originating from the CLASS recreation program registration and facility booking system[2];

- Invoices could be processed twice for payment;

- The Corporate Financial Management System (SAP) cheque runs could be printed more than once;

- Sick days taken can exceed allowable amount (e.g. From January 1 to December 31, 2006, 724 employees (42 CIPP and 682 CUPE 503 Inside/Outside) had taken a total of 5,587 days of uncertified sick leave over the allowable limit of their respective collective agreements. Based on the employees December 2006 pay rate, this represents an estimated cost of approximately $1,094,000);

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[2] The system in which all registrations for each program is entered, and subsequently uploaded into SAP

- Annual leave (vacation) banks could be accumulated in excess of the allowable carry-over entitlement. We found a total of 1,713 employees carried-over annual leave, in excess of their maximum allowable entitlement, totalling $6.8 million; and

- Pay rate increments could be overridden.

We also identified instances where an employee, without the proper authority, could navigate to certain screens within the Corporate Financial Management System (SAP) and potentially bypass its imposed limitations.

In July 2004, at the time Council was presented with the City of Ottawa's audited 2003 consolidated financial statements, Council inquired into issues relating to segregation of duties as well as to the robustness of access controls of the City's Corporate Financial Management System (SAP). At that time, management had indicated that a thorough review of the controls would be undertaken. We did not come across the results from this review during our work.

Recommendation 10

That Financial Services Branch in conjunction with Information Technology Services Branch review systems design to implement controls to disallow overriding prices, processing of duplicates, drawing and taking greater than set sick leave allowance, etc., and that reviews be conducted on a regular basis to confirm that any override capabilities deemed necessary are appropriate and approved.

Management Response

Management disagrees with this recommendation.

There are operational requirements that require overrides of the standard processes. Management understands there are additional risks associated with such overrides, but there are compensating controls to mitigate such risks. For example, in order to release contract holdbacks, the system requires that the authorizing document be amended. There is no way to release holdbacks without this override ability. The compensating controls are that the ability to amend the document is limited to the supervisor of Accounts Payable and that every override has to be documented. The system generates a report for review by management of all overrides so that they can be checked against the list maintained by the A/P supervisor. These types of compensating controls exist for all system overrides. Specific management comments regarding the audit findings are as follows:

a. SAP override - No such functionality exists in SAP. CLASS is a stand-alone program that is linked to SAP via an interface file. Pricing information does not exist within SAP and thus price overrides are not possible.
b. Duplicate invoice payments - See management response in Section 5.3.1
c. Cheque printing – See management response in Section 5.3.5
d. Sick days – See management response in Section 5.4.5

e. Annual leave - See management response in Section 5.4.8
f. Pay rates - See management response in Section 5.4.5

4.3 Corporate Financial Management System (SAP) Utilization

We found that many FSUs used software, in addition to Corporate Financial Management System (SAP), for their reporting requirements. This was observed in instances where the FSU completed various reconciliations and/or had specific reporting requirements.

This situation either results from inadequate system design or insufficient (or deficiency in) user training, which ultimately negates the Corporate Financial Management System's (SAP) functionalities. Using Corporate Financial Management System's (SAP) full functionalities to generate reporting requirements would instill greater reliance on the accuracy of the data and limit human error during downloads and would likely be more efficient and less costly.

Recommendation 11

That Financial Services Branch in conjunction with Information Technology Services Branch analyze and modify the Corporate Financial Management System (SAP) design and reporting functions to better meet the needs of FSUs and other users.

That Financial Services Branch in conjunction with Information Technology Services Branch develop and offer "advanced" Corporate Financial Management System (SAP) training to increase staff capabilities.

Management Response

Included in the overall management response.

Recommendations Arising from the Detailed Report

The following provides a summary of the specific recommendations as well as management responses resulting from the detailed audit work. The full discussions relating to these can be found in the detailed audit report, section 5 - Detailed Findings and Recommendations.

5.1 Revenue Stream - Parks and Recreation Branch – Sportfields and Arena Rentals

5.1.1 Control Access

Recommendation 12

That Financial Services Branch in conjunction with Information Technology Services Branch limit the level of access to the CLASS system to those persons who require access for the performance of their duties and have proper authorization level and

provide "read only" access to those who do not necessitate and are not authorized to make changes to the arena and sportfields modules of CLASS.

Management Response

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

Financial Services and ITS will continue to work in partnership with Parks and Recreation, as the business process owners of the CLASS application, to ensure the adequacy of the internal controls.

The process of ensuring the adequacy of internal controls will be ongoing, whereby facility supervisors/managers will sign-off on the appropriate security profile for their staff.

5.1.2 Contracts Verification

Recommendation 13

That Financial Services Branch in conjunction with Parks and Recreation Branch require the review of open contracts become a formal process requiring reports to be printed and signed off by the area managers. Follow-up should be documented on the reports supporting the analysis and work performed. This will ensure that appropriate revenues are recorded in a timely manner.

Management Response

Management agrees with the recommendation.

Financial Services in consultation with Parks and Recreation will develop a formal process for the sign off of the Rental Control Report by Q3 2007.

5.2   Revenue Stream - Parks and Recreation Branch – Sportfields, Registrations and Summer Camp

5.2.1 Pricing

Recommendation 14

That Financial Services Branch in conjunction with Information Technology Services Branch review CLASS system design to prohibit price overrides and that price changes only be allowed by supervisory approval and completed separately in order to differentiate the sales at regular prices and the discounts or other changes made.

Management Response

Management agrees with the recommendation.

Financial Services and ITS will continue to work in partnership with Parks and Recreation, as business process owners of the CLASS application, to ensure the adequacy of the internal controls.

In 2006, management reviewed and restricted price override capabilities through the security group control in the program registration module of CLASS. An additional review of other CLASS modules will be completed by Q3 2007 to determine other areas where these controls can be further restricted.

5.2.2 Cash Deposits
Recommendation 15
That Financial Services Branch in conjunction with Parks and Recreation Branch implement a procedure requiring cash deposits to be prepared by at least two individuals to the extent possible. Although this will not eliminate the risk of collusion, it will reduce the risk of fraud and theft.

Management Response
Management agrees with this recommendation and it is already is place.

The comprehensive Cash Management Policy and Procedures manual requires that more than one person prepare the cash deposits, to the extent possible. Financial Services will continue to work with Parks and Recreation to enforce this requirement except in facilities where there is only one employee working, in accordance with the existing manual. Financial Services will also expand the scope of compliance reviews to include cash collection and management processes.

5.2.3 Refunds
Recommendation 16
(a) That Financial Services Branch in conjunction with Parks and Recreation Branch establish a refund policy and procedure, setting out clear cut-off dates for refunds and part refunds and that these do not extend past a program's end date.

(b) That Financial Services Branch in conjunction with Parks and Recreation Branch and Information Technology Services Branch review the CLASS system design to disallow refunds past the program end date.

(c) That Financial Services Branch establish a procedure requiring the appropriate FSU to review a predetermine percentage of CLASS refunds.

Management Response
(a) Management agrees with this recommendation and it is already in place.

The Parks and Recreation branch already has an established refund policy that states that refunds are not permitted after 50% of the program has elapsed.

 (b) Management disagrees with this recommendation.

The technology is not available in the CLASS system to customize the program registration module in this way. There is a system limitation that does not allow the

automated prevention of refunds after 50% of the program has elapsed. In the registration module, each registration session (spring, summer, fall, winter) must be marked "completed" before refunds can no longer be processed. With thousands of programs each session with different start and end dates, this is a back-end function completed by the CLASS Support team and is set at 30 days after the end of each session. This window of opportunity is necessary for staff to perform a final clean-up of accounts as a result of cancelled classes, etc.

(c) Management agrees with this recommendation.

Financial Services will expand the scope of the compliance review program to include CLASS refunds if it determines that the value of such refunds exceed the cost of the additional resources required to carry out the reviews. Such a review will also assess the compensating controls that are in place, or have recently been put in place, to mitigate the financial risk inherent with issuing refunds. Management has agreed to implement this recommendation, however, feels that additional or reallocated resources are required. Prior to requesting additional funds during the 2008 budget process, management has made a commitment to advance the review of Financial Services, as part of the Branch Process Review Program, to identify efficiency savings for reallocation towards the required resources. The total estimated resource requirements is $60,000-$75,000.

5.2.4 Accounts Receivable Balances

Recommendation 17

That Financial Services Branch in conjunction with Parks and Recreation Branch analyze and review account receivable balances on a timely basis and retain documentation for follow-up and actions being taken by the City.

Management Response

Management agrees with this recommendation.

In 2006, the Parks and Recreation Branch implemented quarterly reviews of outstanding receivable balances from reports provided from CLASS. In addition, clear direction has been given to staff regarding the timely collection of account receivables and training on the running of reports has commenced for facility supervisors.

The Parks and Recreation Branch has an established practise of transferring overdue accounts receivable to the Accounts Receivable unit who has the expertise for collecting on overdue accounts. This is in accordance with the COE model adopted and implemented by the City at amalgamation.

5.2.5 Pricing Review
Recommendation 18

That Financial Services Branch in conjunction with Parks and Recreation Branch retain documentation on the pricing review. Support staff should retain support of their findings in order to ensure that the pricing is accurate throughout the year and correctly entered by the programmers.

Management Response

Management agrees with this recommendation.

The current practice by Parks and Recreation is to retain records of the pricing review process. The Guide Review process requires that programmers sign in/out and authorize all editing and pricing accuracy by signing off on guide reports. These reports are held until the next guide is released.

5.3 Procurement and Disbursement Process

5.3.1 Posting of Duplicate Invoices
Recommendation 19

That Financial Services Branch in conjunction with Information Technology Services Branch review the system design to include controls that do not permit entry of duplicates, as well as, reports that identify possible duplicate entry.

That Financial Services Branch establish more stringent review by FSUs, and greater follow-up by Accounts Payable to prevent duplicate payments. In addition, a program of on-going review designed to identify duplicate invoice processing would also reduce the risk of duplicate payments or serve as a mechanism for cash recovery. A comprehensive approach would serve to prevent duplicate entries, reduce duplicate payments, and increase the prospect for cash recovery in the event of a duplicate payment.

That Financial Services Branch recover duplicate payment totalling $9,064 and the overpayment of $750 (see 5.6.2), identified in this audit.

Management Response

Management disagrees with this recommendation.

Management is of the opinion that internal controls to prevent the processing of duplicate supplier invoices are already appropriate to manage the risk of such errors in a cost effective manner. The error rate of this review was a small fraction of 1%.

However, as a precautionary measure, Financial Services is assessing the value of using Audit Control Language as a detective tool to identify any duplicated payments and will be completing a review of the accounts payable process by the end of Q4 2007.

Financial Services has recovered all the duplicate payments identified in the recommendation.

5.3.2 Three Way Match (Purchase Order – Goods Receipt – Invoice)

Recommendation 20

That Financial Services Branch review all practices used by FSUs so as to develop one stringent set of guidelines and procedures for all FSUs, which include the consistent occurrence of three way matching.

Management Response

Included in the overall management response.

5.3.3 Invoice Authorization

Recommendation 21

That Financial Services Branch establish a practice requiring all goods based invoices be signed off by the client department as evidence of receipt of goods. If the invoice is not signed, that the Accounts Payable staff return the invoice to the FSU for approval on a timely basis.

Management Response

Management disagrees with this recommendation.

The current process requires that vendor invoices be routed directly to Central Accounts Payable, where staff relies on the controls embedded in SAP to process the payments for goods-based invoices. Service-based invoices are re-routed to the FSU for the client's approval and sign-off.

It is also important to distinguish between inventory goods and non-inventory goods receipts. For inventory goods, a goods receipt entry is processed at the inventory location on the basis of a packing slip. The packing slip is retained at the receiving site. Compensating controls include an automated inventory management system and physical inventory counts. For non-inventory goods, the goods receipt is entered by the client or the FSU on the basis of a packing slip, if one is available, otherwise, an invoice is used for that purpose. The packing slip is retained at the receiving site.

The above processes leverage the best practices embedded in SAP, including the three way match between the purchase order, goods receipts, and vendor invoice. Management's preference is to have all goods receipts issued on the basis of packing slips and to continue routing all vendor invoices to Central Accounts Payable. This will minimize the number of lost or misplaced invoices and reduce the likelihood of late payment fees.

5.3.4 Three Way Match Exception Reports

Recommendation 22

That Financial Services Branch in conjunction with Information Technology Services Branch review the Corporate Financial Management System (SAP) design and configuration to disallow changes to the status of the transaction by anyone that is capable of processing invoices payments.

Management Response

Management disagrees with this recommendation.

There are a number of valid reasons for allowing or requiring changes to the status of accounts payable documents. These include the release of holdback and changes to the method of payment.

Based upon a review of the findings, management has determined that the incident reported by the Auditor was caused by an error of omission. Financial Services staff at one of the City's locations was improperly removing the system-generated payment blocks. Further investigation revealed that this was a gap in process training. Management has corrected this oversight. There are compensating controls to detect the inappropriate removal of payments blocks and this report will now be reviewed on a regular basis.

5.3.5 Printing of Daily and Weekly Cheques

Recommendation 23

(a) That Financial Services Branch in conjunction with Information Technology Services Branch review the Corporate Financial Management System (SAP) design and configuration to permit for a single download of the daily and weekly Corporate Financial Management System (SAP) cheque run to the printer or at a minimum require special approval for the file to be re-printed.

(b) That Financial Services Branch, in accordance with the related City's policy, monitor and document all cases of fraudulent activities, including occurrences where a fraudulent attempt failed and the items were turned back by the bank. In addition, that these cases be reported to Corporate Security.

Management Response

(a) Management agrees with this recommendation.

Management believes that there is already sufficient compensating controls in place in its accounting for the usage of the secure forms used to crease cheques. However, in response to this recommendation, management, in conjunction with ITS, will review SAP design and configuration options to permit for a single download of the daily/weekly SAP cheque run to the printer or at a minimum require special approval for the file to be re-printed. It is estimated that the modification to the system will cost $25,000-$50,000 of professional services effort. This includes

conducting an IT security threat and risk assessment and reconfiguring SAP to ensure the proper security measures are in place to permit a single download of the weekly cheque run to the printer. Due to other corporate IT priorities, this work will not commence until late Q4 2007.

(b) Management agrees with this recommendation.

Included in the overall management response.

5.3.6 Physical Cheque Log
Recommendation 24
That Financial Services Branch maintain a log of all cheque supplies whereabouts and perform periodical inventories and reconciliation of cheques on hand.

Management Response

Management agrees with this recommendation and it was already in place prior to this audit.

The cheque stock log is maintained inside the vault. All movement of cheque stock is duly noted in the presence of a second attendant. The log is maintained by Printing Services who is in custody of the cheque stock. A desk audit of cheque stock usage has been and will continue to be performed by the Financial Services.

Management would also like to provide additional information on the cheque stock. The cheque stock is special bond paper that contains several security features, the City of Ottawa logo and a serial number on the reverse side. It does not contain any banking information or MICR coding, it is essentially a blank piece of paper. The print operation provides the additional text and characters necessary to convert the piece of paper into a cheque.

5.3.7 Daily and Weekly Cheques
Recommendation 25
That Financial Services Branch consider separate cheque orders for locations where cheques are printed.

Management Response
Management agrees with this recommendation.

This recommendation will be implemented in Q2 2007.

5.3.8 Print Shop Segregation of Duties
Recommendation 26
That Financial Services Branch establish a procedure requiring two signatures on all cheque requisitions and that reconciliations be maintained by someone other than the individuals who orders and receives the cheques.

Management Response

Management disagrees with this recommendation.

Management believes that there are already sufficient manual controls in place. Part of the control processes include that the City's supplier of cheques verify the person and organization placing the order and ensure continuity and completeness with respect to document number sequence.

As well, incoming cheque stock orders are delivered to shipping and receiving where they are verified against the accompanying packing slip. The packing slip is initialled by the receiver and delivered with the cheques to the print shop coordinator who passes them to the senior supervisor for final verification and safe storage. It should also be noted that the cheque stock, as is the case for any type of secure document, are produced under tight controls by the paper manufactures.

As part of the continuous improvement process, management will explore the possibility of assigning the ordering function to an individual other than the supervisor.

Corporate Security also reviewed the procedures when the print shop started to print Employment and Financial Assistance cheques.

5.3.9 Supply Management Division Review
Recommendation 27

That Financial Services Branch require that Supply Management Division verifying the authority of staff that are approving budgetary releases. In addition, if such releases are not approved by an FSU staff, that Supply Management Division ensure that the employee has the proper authority.

Management Response

Included in the overall management response.

5.4 Payroll

5.4.1 Request for Personnel Action (RPA) form - Approval Authority
Recommendation 28

That Employee Services Branch require a supervisor sign and approve all Requests for Personnel Action before any action is undertaken.

Management Response

Management agrees with this recommendation and it is already the current practice.

The Request for Personnel Action form is an electronic form that must be sent from the supervisor's/manager's desktop. The electronic release of the form from the supervisor's/manager's desktop is considered the authority to action.

5.4.2 Signed Employment Offer Letter

Recommendation 29

That Employee Services Branch require that Employment Offer Letters be prepared by the Human Resources Consultant (HRC) for all Requests for Personnel Action and signed by the hiring program manager or supervisor and the employee being hired. The signed copy should also be forwarded to the employee personnel file.

Management Response

Management agrees with this recommendation.

This recommendation reflects the current practice at the City with the exception of part-time and casual hires. For efficiency reasons, Employee Services has provided the client departments with a standard employment letter template for part-time and casual hires, which is signed by the hiring manager/supervisor and acknowledged by the employee. A copy is placed on the employee personnel file.

5.4.3 Review of Incumbent Report

Recommendation 30

That Employee Services Branch require that supervisors ensure there is an Incumbent Report for the staff directly reporting to them and review these for any errors, incorrect data entered or unauthorized employees or changes to employees pay grade or level.

Management Response

Management does not agree with this recommendation.

The role of Employee Services is to ensure that human resource reports are available to managers and to provide training on the use of these reports. Employee Services does not control whether managers use these reports. Managers are responsible for managing their staff, which includes reviewing human resource reports on a regular basis.

The Position Incumbent Report is available at all times in SAP to managers, their administrative assistants, and to supervisors of 15 or more direct reports as per the SAP licensing model approved during the IBS Project. Managers can also access their Position Incumbent Report via the City's intranet without using SAP.

5.4.4 "Maintain" Access to Employee Master Data

Recommendation 31

That Employee Services Branch require that Display Changes to Employee Pay Information Report can be generated and reviewed by:
a) **Payroll Analysts; and**

b) **Supervisors.**

Management Response

(a) Management agrees with this recommendation and was already in place prior to the audit.

Payroll Analysts have always had access to a report to review changes to employee pay information. An enhanced report was built in late 2006 and Payroll Analysts now utilize Report ZRXHR126B to view changes to employee pay information each pay.

(b) Management does not agree with this recommendation.

Regarding the supervisors, presently there are already many controls in place to ensure changes to employees pay are complete and accurate. These include: written authorization by the manager for pay rate changes, payroll audits, management reports such as the Position Incumbent Report and Cost Center Report that identifies charges against the manager's budget.

5.4.5 Options to Override

<u>**Recommendation 32**</u>

(a) That Information Technology Services Branch in conjunction with Employee Services Branch identify all significant system overrides and these be eliminated. That in the rare occasion when overrides are deemed necessary, that they are restricted to a limited number of users. At a minimum, create detective controls that would prevent errors from flowing through the financial data.

(b) That Information Technology Services Branch in conjunction with Employee Services Branch review the Corporate Financial Management System (SAP) design and configuration to assess the viability of restricting uncertified sick leave days in excess of allowable limits.

Management Response

(a) Management does not agree with this recommendation.

Management believes that is not necessary to eliminate overrides as the Payroll division already has controls in place to ensure that all pay rate changes including pay overrides are in accordance with management's authorization.

For example, the salary scales in the ATU 1760 contract have only a minimum and maximum salary. In some unions, employees have red-circled rates of pay as allowed under collective agreement provisions. In both these situations it is incumbent for the Payroll division to manually update the system with the appropriate pay rate.

With respect to economic increases, where overrides are required, an independent verification of the override is performed by a second Payroll Analyst to ensure compliance with collective agreement provisions. Payroll currently performs many audits to capture system changes including overrides.

(b) Management does not agree with this recommendation.

Currently, all managers have access to an SAP-generated report that provides accumulative sick leave information. Once staff has reached their sick leave limit, based on their collective agreement requirements, it is the responsibility of all managers to ensure that staff are providing a doctor's certificate within the required timelines.

The Payroll division will work with ITS to determine the viability of building the system to meet this requirement based on the rules of the various collective agreements in the 2008 workplan. The delay in exploring this initiative is because Employee Services is concentrating on the overtime initiatives from the 2006 Deloitte Branch-by-Branch Overtime Review. As in interim measure, Employee Services will immediately send out a communiqué to all management reminding them of the sick leave requirements.

5.4.6 Time Report Summarization – Segregation of Duties
<u>Recommendation 33</u>
That Employee Services Branch in conjunction with Long Term Care facilities review their time report processes.

<u>Management Response</u>
Management agrees with the recommendation.

Long Term Care in conjunction with Employee Services has conducted a review of the time report processes. Effective November 2006, time reports in the four Long Term Care Homes are being prepared and summarized by the program administrative clerk and not the staffing coordinator. Reports are then forwarded to a centralized payroll clerk for inputting.

5.4.7 Time Report Entry
<u>Recommendation 34</u>
(a) That Employee Services Branch require that Time and Transaction Assistants (TTA) perform a complete review of the Audit "Time" Report of another TTA. This will ensure an independent review of correctness and completeness of time entered in the Corporate Financial Management System (SAP) against the source document.

(b) That Employee Services Branch ensure appropriate controls are in place for processing of all ELR/TR forms to ensure appropriate authorization is present and ensure incomplete, or ELR/TR forms with errors, are not accepted and returned to the client group for complete information before processing.

<u>Management Response</u>
(a) Management agrees with the recommendation and it has already been implemented.

Since mid 2006, reviews are conducted where one TTA audits the majority of the work of his/her peer. These reviews are done daily and concentrate on the higher risk areas, such as additional payments for overtime, on-call, mileage etc. A complete or 100% review would not be cost effective or practical with existing resources.

(b) Management agrees with this recommendation and it has already been implemented.

Management agreed with this recommendation in the 2005 Auditor General's Audit of Overtime Report, which resulted in Employee Services branch implementing changes.

In 2006, time/leave forms were enhanced to include a specific area for the authorizing manager/supervisor to print his/her name, title and extension number. Authorization lists have been developed in conjunction with operations that identify the individuals who are authorized to complete timesheets. All time leave forms are currently being reviewed for proper authorization and completeness and are returned to the business for follow up when required. In mid 2006, peer audits were introduced where one TTA audits the majority of work of another TTA.

5.4.8 Annual (Vacation) Leave Bank
Recommendation 35

(a) That Information Technology Services Branch in conjunction with Employee Services Branch review the Corporate Financial Management System (SAP) design and configuration and restrict annual leave carry-over in excess of employees' yearly entitlement.

(b) That Employee Services Branch address the increasing balance of annual leave in excess of employees' entitlement by requiring employees carrying excess leave to identify the period in which they will take the excess leave (in addition to their yearly entitlement) or have the excess leave balance paid out before the end of the 2007 calendar year.

Management Response

(a) Management does not agree with this recommendation.

The various collective agreements allow for carry forward of more than one year's entitlement, therefore it is not recommended that the SAP system be redesigned to restrict this carry over. Management already has access to SAP-generated reports to monitor excess vacation leave.

(b) Management does not agree with this recommendation.

The issue of financial liability regarding vacation leave balances was already brought to the attention of Council in the 2005 management letter from the City's external

financial Auditors and was discussed at Corporate Services Economic Development Committee February 6, of 2007.

The audit identified that City staff are carrying forward a significant amount of unused vacation leave, which results in a considerable financial liability for the City. At any time this liability includes:

o Accumulated vacation credits for employees in the current year as per the terms and conditions of employment and collective agreements

o Carry-forward of vacation credits by employees from prior years in keeping with the terms and conditions of employment and collective agreements

o Additional vacation credits from prior years carried forward in excess of the above

The City policy accommodates the first two components of this liability. The third component is addressed in the collective agreements which allows for excess carry forward of unused vacation leave beyond the regular entitlement under exceptional circumstances provided that appropriate approvals are obtained.

Furthermore, the leave balances of some members of the management group include a large amount of excess carry forward of unused vacation leave that were primarily brought forward to the new City at amalgamation from positions held in the former municipalities.

Since the audit, staff have conducted a detailed analysis of outstanding vacation leave banks for all City staff. Staff will be reporting back to Committee and Council by the end of Q2 2007 on a plan to eliminate the outstanding liability associated with the excess carry over of vacation credits.

Management will also be reminded through a communiqué that they are responsible to monitor staff vacation, encourage staff to take vacation, and ensure that a letter of approval is submitted to the employee's file if vacation leave is in excess of entitlement.

5.4.9 Review of Cost Centres

Recommendation 36

That Employee Services Branch require that Supervisors review Payroll Cost Center reports.

Management Response

Management does not agree with this recommendation.

Employee Services has made Payroll Cost Center Reports available to managers, program managers, and supervisors with more than 15 direct reports. Employee Services also provides SAP-HR manager and refresher training sessions to instruct users on the uses of this report, and encourages them to review their reports

regularly. The Financial Services branch also works with managers on an ongoing basis to review cost center charges and identify anomalies. The City's accountability framework for managers stipulates that human resource and financial management is the responsibility of the operating manager.

In addition to the Payroll Cost Center Report, managers have access to financial cost center reports that provide a comprehensive picture of the manager's entire budget.

5.4.10 On-Demand Cheques
Recommendation 37
(a) That Employee Services Branch ensure that access to the Corporate Financial Management System (SAP) transaction code for Subsequent Processes Off-Cycle Activities (where cheques are processed and printed) be restricted in all test and Quality Assurance (QA) of the Corporate Financial Management (SAP) environment.

(b) That Financial Services Branch require that unused cheques be stored in a secure location at all times.

Management Response
(a) Management agrees with this recommendation and it has already been implemented.

The test environment is restricted to allow only certain payroll staff access to produce a facsimile of a pay cheque to verify test results.

(b) Management agrees with this recommendation and it was implemented prior to this audit.

The audit finding in this section relates to an isolated case. It has been the observation of Financial Services that Employee Services has diligently met these requirements.

5.5   Effectiveness of the Financial Support Units

5.5.1 Verification of delegation of authorities - Real Property Asset Management
Recommendation 38
That Financial Services Branch require that the FSU verify the levels of employee authority prior to the purchase order being issued to prevent improperly authorized expenses.

Management Response
Included in the overall management response.

5.6 Corporate Financial Management System (SAP) Data Analysis

5.6.1 Revenue Stream Analysis
Recommendation 39
That Financial Services Branch in conjunction with Parks and Recreation Branch review the provided reports to ensure that results are within expectations and are in line with the current practices as well as their knowledge of current operations.

Management Response
Management agrees with this recommendation.

Accounts with zero balances are a positive reflection that clients are conforming to the policy and paying for programs and services before they occur. A review to determine if "aged" accounts with zero balances can be purged from the database could be considered, however it is not recommended that we purge the accounts of customers who are regular users. A definition of "aged" is required, since many clients may only frequent our services on an annual basis, for example each summer for camp registrations only, as reflected in the review under Section 5.6.1 Revenue Stream Analysis. This will be implemented in Q2 2007.

5.6.2 Disbursement Analysis
Recommendation 40
That Financial Services Branch, as part of their periodic disbursement review, examine the supporting documentation, transaction details, investigate unusual items and take appropriate action.

That Financial Services Branch, direct staff to ensure purchase orders be established prior to the ordering, receipt or payment of any purchase.

That Financial Services Branch, develop and implement a policy relating to invoice payment terms and payment practices.

Management Response
Included in the overall management response.

Consolidated management response to recommendations 1, 2, 4(a), 5, 6, 7, 8, 11, 20, 23(b), 27, 38 and 40:
Management agrees with these recommendations.

This is to be considered a consolidated management response, to address audit recommendations 1, 2, 4 (a), 5, 6, 7, 8, 11, 20, 23 (b), 27, 38 and 40. It deals with the recommendations focusing on internal controls and the Financial Management Information System (FMIS).

At amalgamation, the Financial Services branch created a new policy and compliance unit responsible for: conducting regular compliance reviews; developing,

documenting and maintaining policies and procedures; creating business processes and operating guidelines; and dealing with all commodity tax issues.

The organizational structure for the policy and compliance unit has 11 FTEs, with 2 FTEs dedicated to developing and maintaining the 53 policies and procedures for which the branch is responsible. However, the 2 staff assigned to the policy area, were redeployed due to the increased workload of this unit, stemming from the credit card audit, the Universal Program Review and changes in legislative requirements. As a result, Financial Services has focused insufficient attention on policy and procedure documentation of internal controls.

Management has re-staffed the policy and compliance unit to its original complement. This unit will continue to document and review financial processes, with the staff of the Financial Support units and other finance groups ensuring that consistent control procedures are applied. The policy and compliance unit will also develop new policies and guidelines to support the City's financial control framework.

The compliance unit was initially focused on conducting compliance reviews in the area of credit card transactions, but has been expanded to cover key financial processes such as payments without reference to a purchase order, travel claims, petty cash, departmental purchase orders, hospitality, gifts and entertainment, and other such activities as determined by senior management. Compliance reports are circulated to management and financial services staff on a quarterly basis. In response to the recommendations in this audit, the scope of the compliance unit will expand to include periodic reviews of disbursements and invoices to ensure they are in compliance with the City's policies and business practices.

As part of the compliance review, Financial Services will continue to ensure that staff is establishing purchase orders prior to the commencement of work or the receipt of goods, when the purchase order is the basis of the contract. There are some rare occasions where exceptions to this principle are warranted in order to ensure there is no interruption of essential City services such as in the purchase of salt and gas. Furthermore, Financial Services will also continue to ensure that the employee authorizing expenditures has the appropriate level of delegated authority.

The training budget for Financial Services was established at amalgamation in 2001 at approximately $67 per employee. Due to on-going budget constraints, the training budget has not been increased since that time. Subsequently, Financial Services staff training has lagged behind optimal levels. In response to the audit recommendation, specific finance and accounting training will be offered to staff. Training will be provided, through a combination of in-house and external providers, on City-specific policies and procedures, including the use of the Corporate Financial Management System (SAP).

Section 286 (1) of the Municipal Act assigns responsibility for financial internal controls of the City to the Treasurer. City Council, through its approval of the City's organizational and management structure and the Centre of Expertise model, has directed the Treasurer to discharge these responsibilities within this organizational framework. To ensure sufficient financial controls are in place, the City Treasurer delegates relevant responsibilities for financial internal controls to specific divisions within Financial Services, including the accounting and reporting division.

Management recognizes that the Corporate Financial Management System (SAP) requires on-going modifications to increase the utility of the system. In 2006, the Financial Services and Information Technology Services branches implemented an on-going process for the identification, prioritization and implementation of SAP enhancements in order to actively control this process within Finance. When these improvements are made, it will be easier for Financial Services staff to use the technology to track activities and create reports. In addition, a number of SAP "real-time" financial reports are available for managers to access on the City's intranet. This allows managers to keep up-to-date on financial management issues within their areas of responsibility.

Financial Services will also continue to work with ITS to review the ability to disallow changes to the status of transactions in order to ensure that only essential, authorized persons, as approved by management, will have this access. Financial Services continues to work with ITS to ensure proper training and supervision of staff. Ernst & Young identified the issue of segregation of duties in the inventory management area in their 2005 management letter. As a result, Council approved additional resources in the 2007 budget that permits appropriate segregation of duties and system access.

Management has also committed to creating a Financial Management Information System (FMIS) unit within the accounting section. This unit will be modeled after the Employee Services Human Resources Information System (HRIS) unit. Creating a specific unit allows the Financial Services branch to develop in-house system experts within the branch capable of ensuring that SAP will be modified to meet the diverse needs of the branch. Modification will ensure increased operational efficiency and will allow the branch to maximize the return on the City's investment in the technology.

Financial Services will develop a Payment Terms Policy as part of its planned review of the accounts payable process. This review will start in Q2 2007 and will be completed by Q3 2007. It should be noted that the process controls for invoice payment terms are already in place.

This audit has allowed management to implement many improvements that will strengthen existing internal financial controls. Management agrees with the Auditor's recommendations and will ensure they are implemented. In order to fully comply with the Auditor's recommendations, the Financial Services branch has

examined existing resource levels with a view to redeploying resources wherever possible. As a result of this analysis, it has determined that some reallocation is possible, however, the branch will require additional resources.

Resources will be required to provide adequate staffing, implement system modifications and provide training identified by the Auditor General. To fully comply, it is estimated that the cost will be approximately $725,000 to $900,000. Prior to requesting additional resources, management has made a commitment to advance the review of the Financial Services branch, as part of the Branch Process Review Program. Any savings identified through this process will be used to fund activities related to implementing the Auditor General's recommendations. The BPRP review will take place by Q4 2007.

Conclusion

At amalgamation, the City was presented with the task of consolidating the former 12 municipalities various systems into one integrated financial control environment. Centres of expertise, such as Financial Support Units were created in recognition of the City's need to centralize its expert knowledge and specializations to ensure consistent levels of support services were being provided and received across the Corporation. Although conceptually a sound idea, we find that further improvement is needed to support management's achievement of this goal.

The City's endeavours also fell short by not clearly developing a financial control framework or assigning the oversight for the financial control environment. In our opinion, we can only benefit from strengthened controls in this key area. "One voice" could communicate and uphold its existing and new controls and ensure that we remain compliant with policies and operating procedures relating to financial management.

FSUs play a pivotal role in the City's financial control environment. Clearly the lack of oversight result in inconsistency of financial practices and procedures throughout the Corporation - hence a fragmented framework. We could find no clear Corporate direction or understanding of their roles and responsibility. While FSUs have taken great stride to meet their clients' needs, we have observed that they still required improvement in terms of consistency of internal financial control, as well as compliance with policy and procedures. As a first step, one stringent set of guidelines and procedures, for all FSUs to adhere to, need to be established, communicated, continually reviewed and clearly documented.

We found the role and responsibility of Accounting and Reporting Division in respect to the financial control environment to be limited. Improvements in terms of guidance and greater monitoring and regular compliance reviews of actual disbursements, revenues, operating performance and cash flows would strengthen controls.

The City has made great progress by investing in a state of the art financial system. In our opinion, challenges still exist in relation to the utilization of its full functionalities. The City still lacks a full financial control environment on which the external auditor could rely on while conducting the statutory attest audit.

In summary, we found a lack of an overall financial control environment, which is critical when trying to set an atmosphere conducive to effective management operations in conjunction with the sound operations of a reliable financial system.

Some of the weaknesses of the City's management control environment were also raised in the Office of the Auditor General's 2005 Audit of the Management Control Framework. We found that during 2006, management had not taken action, which they had agreed to, to resolve the significant issues raised in this audit. Management had agreed to implement the 2005 audit's recommendations at no additional cost. We understand that it is management intent to seek third-party independent advice in 2007 at a cost of $100,000 to develop an effective internal control framework for the City.

We have attached as Appendix 2 of the detailed audit report contained in the Auditor General's Annual Report, an excerpt of our observation and recommendation as well as management's response relating to our 2005 work on the Financial Management Control Framework.

In our opinion, all recommendations contained in this report can be implemented without the requirement for additional funds. However, this may require strategic redeployment of existing resources, both financial and staff.

Acknowledgement

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

3.10 Audit of the Wastewater and Drainage Services Division

EXECUTIVE SUMMARY

Introduction

The Audit of the City of Ottawa's Wastewater and Drainage Services Division was initially included in the Auditor General's 2007 Audit Plan which was presented to City Council on December 15, 2004. At the request of City Council, this audit was brought forward to 2006.

Background

Prior to amalgamation in 2001, the services currently provided by the Wastewater and Drainage Services Division (WDSD) were split between the various municipalities and the different levels of municipal government (Region and local municipalities). The main wastewater treatment facility (R.O. Pickard Environmental Centre), trunk sanitary sewers and large sanitary pumping stations were operated and maintained at the regional level. All remaining infrastructure was essentially the responsibility of the local municipalities. As such, following amalgamation, WDSD has experienced a high degree of change. This is different than the WDSD "sister utility", the Drinking Water Services Division, a completely regional operation from the river to the customer's tap since 1969. As with most departments within the City, all areas of the WDSD operations have been impacted by the City's 2001 amalgamation.

As a result of substantial new legislative and regulatory requirements, WDSD was selected for an audit to determine whether it is in compliance with the regulatory changes.

The City of Ottawa operates under a "centres of expertise" model, with the result that WDSD also relies on specialized groups to support its activities in such areas as real infrastructure services, property management, fleet services, financial services, information technology, public relations, legal services and human resources management.

Audit Objectives

The audit included an examination of WDSD regulatory compliance and performance as outlined and defined through the audit objectives, which were to determine:

- Compliance with applicable federal and provincial guidelines, standards, and regulations;

- The City's program to reduce inflow and infiltration into the sanitary sewer system;

- The Structure and overall efficiency of the Wastewater Collection Section within WDSD;

- The overall operations of the WDSD with respect to best practices; and

- The City's status on meeting upcoming Provincial regulatory requirements (Quality Management System).

Audit Scope

The audit focused on WDSD, but also included an examination of the Customer Services and Operational Support Division, and other Infrastructure Services Branch Divisions, that have substantial impacts on customer service levels and on the operations and maintenance of the sewer infrastructure. The audit considered the adequacy of support WDSD receives from centres of expertise to support its basic functions, but did not examine the functioning of the centres of expertise or the activities of other groups that may be charged to the wastewater fund, either directly or indirectly.

While this audit focused on the operational activities of WDSD, it also reviewed the various other groups across the City that provide services to the wastewater and stormwater system infrastructure. The audit approach included:

- An initial document review and selected interviews;

- Development of audit objectives and criteria as part of an audit plan;

- Review of the audit plan with key management members;

- Review of the relevant legislation and regulations and reports expected to lead to changes in legislation and/or regulations;

- Collection, review and analysis of related documentation, reports and data from the City, industry associations and municipalities Canada-wide, comparing regulatory compliance and performance of wastewater system operations;

- Benchmarking comparisons with cities from across Canada;

- Extensive interviews within WDSD, Customer Services and Operational Support Division, and the Infrastructure Management and Construction Services – Development Divisions within the Infrastructure Services Branch; and

- Review of the report by management, and the inclusion of their comments.

Key Findings

1.   The WDSD meets all federal and provincial guidelines, standards and regulations, with the exception of operator training.

- The City's wastewater system meets all guidelines and regulations with the exception of operator training required as defined under the provincial certification process. Licensed Wastewater Treatment and Wastewater Collection Operators in WDSD are required to undergo a minimum amount of training on an annual basis as per provincial regulations. Over 55% of the WDSD Certified Operators did not meet the minimum of 40 hours of training in 2005.

2. The City does not have an overall sewer inflow and infiltration reduction strategy.
The City does not have a dedicated program or any dedicated resource to address inflow and infiltration into the sanitary sewer system. Large quantities of inflow and infiltration from surface runoff or groundwater go into the sewer conveyance system (sewers) and can have numerous detrimental consequences, including:

- reduce the available capacity in the sewers,

- impacts the pumping capacity at pumping stations,

- reduce the treatment capacity at the wastewater treatment facility,

- increase operating costs,

- generate sewer backups, and

- generate sewer overflows to receiving streams.

- Although there is no dedicated inflow and infiltration reduction program, the City does address inflow and infiltration through a number of other capital infrastructure programs related to the sewer fund. Many individual inflow and infiltration problems are corrected through the integrated road/water/sewer infrastructure replacement or rehabilitation projects.

- An overall wet weather flow management study should be undertaken for the City. An inflow and infiltration strategy should be a component of the wet weather flow management study.

- Data collection related to inflow and infiltration has been focused on areas of highest concern, such as areas where basement flooding has occurred. There is no current strategy to collect the data needed to understand the overall inflow and infiltration impact on the City's sanitary sewer system.

- Resources have been dedicated to try and meet known sewer backup problems. Recent sewer rate adjustments have provided capital investment for infrastructure improvements. The focus of sewer infrastructure improvements has been on large inflow problems or sewer capacity issues.

- Current flow monitoring data is being tabulated more for system growth or storm flooding events as opposed to specific inflow and infiltration issues.

- The City should gain a better understanding of the private sewer systems that discharge into the municipal system, including their impact on inflow and infiltration.

3.   The City's R.O. Pickard Environmental Centre is an efficiently operated and maintained facility.

- The R.O Pickard Environmental Centre is classified at a level 4 (highest level) facility by the provincial Ministry of the Environment and meets all treatment and environmental discharge regulatory requirements.

- The co-generation facility at the R.O. Pickard Centre is considered a "best-in-class" operation within the wastewater industry.

- The R.O. Pickard Environmental Centre is expanding (new digesters) to meet greater wastewater flow requirements in the immediate future.

4.   The amalgamation of the City's 75+ sanitary and storm pumping stations has been efficient.

- An inventory and condition assessment of all pumping station facilities and equipment was undertaken over the last four years and programs are in place to replace or rehabilitate equipment as required over the next ten plus years.

- The amalgamation of the sanitary and stormwater pumping stations across the City has proceeded with little impact to customers or the environment.

- The City has implemented a new Supervisory Control and Data Acquisition system for all pumping stations, allowing these facilities to be operated and maintained more efficiently.

- The fact that the WDSD has been able to centralize the operation of all of these pumping stations and implement a comprehensive operations and maintenance plan in such a short time frame is commendable.

- The Construction Services Division within the Infrastructure Services Branch has provided excellent engineering and construction management support to the WDSD during the program to consolidate the operations and maintenance of the pumping stations.

5. The City's combined sewer system requires upgrades to meet the provincial Ministry of the Environments Procedure F-5-5.

- The Ontario Ministry of the Environment (MOE) implemented a procedure in the mid 1990's for municipalities to deal with combined sewer systems and their associated overflows to receiving streams.

- The City has a plan in place to meet key components of MOE Procedure F-5-5, referred to as the Real Time Control Program. This program is meant to replace the previous Somerset Street storage tunnel, at a lower overall cost, and in a shorter time period.

- The City still has to address a number of other components of MOE Procedure F-5-5, including a Pollution Prevention and Control Plan.

6. The amalgamation of WDSD Wastewater Collection Section is a continual improvement process.

- During the past five years, sewer operations and maintenance staff of the Wastewater Collection Unit have undergone numerous changes, including: recentralizing their operations from the City's Bayview Yards to the R.O. Pickard Environmental Centre; restructuring from five groups to three groups to two groups (East & West split); and staff training on new systems for maintenance management, human resources, procurement and finance.

- Sewer maintenance activities in this unit continue to be more reactive than proactive as staffing levels cannot keep pace with workload. In 2005, City Council approved an additional 11 staff for the WDSD, of which 6 are to be assigned to the Wastewater Collection Unit to meet workload issues. As of late summer 2006, some of the vacant supervisory positions had been filled internally, but eleven positions remain open. Management is actively working towards filling these positions.

- Maintenance activities on the sewer system are completed by various groups across the City.

7. The City's stormwater management facilities and rural drainage responsibilities are well operated.

- The amalgamation of all municipal drains into one section within the City was completed smoothly.

- The operations of the City's municipal drains meets all regulatory requirements, are well documented and are considered "best-in-class".

- The operations of the City's stormwater management facilities meet all regulatory requirements. The Stormwater Management Unit within WDSD has a good

inventory database of all 160+ public and private stormwater management facilities across the City. Design standards for new stormwater management facilities are in place. Approximately 10 new stormwater management facilities come on line each year.

8. Accountability for the operation and maintenance of the City's wastewater system is dispersed, with only the Deputy City Manager of Public Works and Services having overall responsibility.

- The operations and maintenance of the City's wastewater system is dispersed between various divisions in the Utility Services Branch and the Infrastructure Services Branch.

- Both Utility Services and Infrastructure Services claim overall responsibility for the sewer system. It is recommended that overall responsibility for the operations and maintenance of the wastewater system be clarified below the level of Deputy City Manager, and that units not directly reporting to the lead organization be accountable to it via service level agreements.

Recommendations

Recommendation 1

That WDSD continually update and closely monitor their staff training regulatory requirements to make certain these are met.

Management Response

Management agrees with this recommendation. The Training Coordinator now meets with the Divisional Management Team on a monthly basis to review the training plan and monitor progress to ensure that all certified operators receive the required training.

Recommendation 2

That City-wide decisions with regards to reducing staff training or restriction on staff travel consider the regulatory training requirements of staff in both WDSD and the Drinking Water Services Division.

Management Response

Management agrees with this recommendation. The Training Coordinator, through the Divisional management team, will ensure all regulatory requirements are satisfied and completed. Quarterly reports will be received to monitor the number of training hours to ensure full compliance with training requirements.

Recommendation 3

That the City develop a Wet Weather Flow Management Strategy.

Management Response

Management agrees with this recommendation. This is an initiative that has been identified by the Infrastructure Services Branch as part of the overall asset management program for the wastewater and storm water systems. Commencement of this project is anticipated in 2008. The cost of the project will be estimated once the scope has been defined.

Recommendation 4

That WDSD conduct an inflow and infiltration study of the overall sanitary sewer system to address sewer capacity and system integrity issues.

Management Response

Management agrees with this recommendation. This initiative will be led by the Infrastructure Services Branch in close collaboration with the Wastewater and Drainage Services Division of the Utility Services Branch. The recommendation will be included in the Wet Weather Flow Management Strategy for 2008. Cost estimates will be determined once scope has been defined.

Recommendation 5

That WDSD bring forward a report to City Council addressing all elements of their inflow and infiltration reduction strategies, including:
    a) inflow and infiltration data capture and monitoring;
    b) sewer system analysis;
    c) sewer system remediation plan development; and
    d) sewer system remediation plan implementation.

Management Response

Management agrees with this recommendation. This initiative will be led by the Infrastructure Services Branch in close collaboration with the Wastewater and Drainage Services Division of the Utility Services Branch. These elements will be included in the Wet Weather Flow Management Strategy that will be initiated in 2008. Costs will be identified once the scope has been defined

Recommendation 6

That WDSD identify a specific group to lead and be responsible for all inflow and infiltration reduction programs.

Management Response

Management disagrees with this recommendation. Responsibility for these programs rests with the Infrastructure Services Branch. Collaboration with the appropriate operating group is a well-established protocol.

Recommendation 7

That WDSD proceed with the Real Time Control Program to bring the City into compliance with key components of Ministry of the Environment (MOE) Procedure F-5-5.

Management Response

Management agrees with the recommendation. This initiative will be led by the Infrastructure Services Branch in close collaboration with the Wastewater and Drainage Services Division of the Utility Services Branch. Detailed design work is underway with construction planned for 2007 and 2008. It is estimated it will cost $18M for implementation of this program with $13M identified in the 2007 budget and $5M in 2008.

Recommendation 8

That WDSD provide yearly combined Ssewer overflow monitoring reports to City Council and the MOE.

Management Response

Management agrees with this recommendation. Wastewater and Drainage Services will comply with all mandatory reporting requirements, which have not yet been established. Commencement of this report is anticipated for 2008 and annually thereafter.

Recommendation 9

That WDSD develop a Pollution Prevention and Control Plan that meets the needs of the City and the requirements of MOE Procedure F-5-5.

Management Response

Management agrees with this recommendation. Preparation of the plan and required infrastructure is actively in development with ISB as the lead and support from the operating branches. This initiative is anticipated to be completed in 2008.

Recommendation 10

That Wastewater Collection Unit fill vacant positions as soon as possible.

Management Response

Management agrees with this recommendation. All vacancies within the Wastewater Collection Unit have been filled.

Recommendation 11

That WDSD complete a condition assessment of all access holes and catch basins to allow maintenance, rehabilitation or replacement prioritization.

Management Response

Management agrees with this recommendation. However, it is noted that the assessment is completed by the Infrastructure Management Division of the Infrastructure Services Branch, as part of their overall asset management mandate.

The condition of manholes is assessed as part of the ongoing closed circuit television surveys of the wastewater and storm water systems. The system inspection is undertaken as part of the development of annual infrastructure rehabilitation projects and the frequency is targeted for a 10 to 15 year inspection cycle.

Recommendation 12

That Public Works and Services conduct periodic audits on newly commissioned sewer and drinking water infrastructure to provide appropriate feedback to the Construction Services – Development Division for their role in commissioning of infrastructure.

Management Response

Management agrees with this recommendation. A periodic inspection of some newly commissioned systems will provide constructive support to Construction Services starting in 2007.

Recommendation 13

That staff training within the Wastewater Collection Unit continue to be a priority to satisfy regulatory requirement and the WDSD goals for appropriate cross-training.

Management Response

Management agrees with this recommendation. Currently, the Training Coordinator is collaboratively developing a strategic training plan within the USB divisions.

Recommendation 14

That WDSD provide the minimum amount of yearly training to all provincially certified operators within the Division.

Management Response

Management agrees with this recommendation. The Training Coordinator now meets with the Divisional management team on a monthly basis to review the training plan and monitor progress to ensure that all certified operators receive the required training.

Recommendation 15

That Corporate Occupational Health and Safety monitor changes to the Occupational Health and Safety Act, and provide all operating groups with possible impacts on their facilities and operations.

Management Response

Management agrees with this recommendation. Roles will be defined with the Corporate Occupational Health and Safety and USB to develop Service Level Agreements to facilitate USB needs, which will be lead by the Training Coordinator in 2007.

Recommendation 16

That the Utility Services Branch consider a full Quality Management System (QMS) for all environmental programs (Water, Wastewater, Biosolids, and Solid Waste).

Management Response

Management agrees with this recommendation. A Quality Management System (QMS) was implemented for Biosolids management in 2005. Drinking Water Services is implementing a QMS starting in 2007 for completion by Q4 2008. Wastewater and Drainage Services and, Solid Waste be will considered for a Quality Management System in 2009 once the QMS for Drinking Water Services has been completed including identifying the required resources to implement and maintain.

Recommendation 17

That the Utility Services Branch keep City Council informed on the status of regulatory QMS requirements, and on internal QMS programs that are not required through regulations.

Management Response

Management agrees with this recommendation. The Branch management team will review requirements on the regulatory QMS programs and will report as required including non-regulated programs.

Recommendation 18

That the overall operations and maintenance of the wastewater system be reviewed to ensure accountability of an individual below the level of Deputy City Manager.

Management Response

Management disagrees with this recommendation. USB and ISB understand their respective responsibilities and accountability. USB through the Wastewater and Drainage Services Division is accountable for the operation and maintenance of the sewer system. The Infrastructure Management Division of ISB is responsible for the asset management of the linear pipe network. Both groups work cooperatively to ensure that overall services are delivered effectively under the general direction of the Deputy City Manager of PWS.

Recommendation 19

That the City ensure the allocation of costs to the sewer are consistent with current costs and are in compliance with provincial requirements.

Management Response

Management agrees with this recommendation. Through the budget and long range financial planning processes the department advises City Council on the cost allocations associated with the sewer systems and compliance for provincial requirements. The substantiation of proposed cost allocations will be tabled with City Council as part of the 2007 budget process.

Conclusion

The audit revealed that all regulations are being met with the exception of the operator training requirements. Regulatory training requirements must be addressed immediately. Due to the nature of the operations and the lack of staff resources, the amalgamation of the sewer operations and maintenance activities has proceeded slowly.

The City's combined sewer system requires upgrades to meet the provincial Ministry of the Environments Procedure F-5-5. The Real Time Control Program budgeted for in 2007 along with a Pollution Prevention and Control Plan is required to bring the City into compliance with key components of this procedure. Finally, the City requires a wet weather flow management strategy, a component of which should deal with inflow and infiltration reductions into the sanitary sewer system.

Acknowledgement

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

3.11 Audit of the Munster Hamlet Sewer Rehabilitation Project

EXECUTIVE SUMMARY

Introduction

The Audit of the Munster Hamlet Sewer Rehabilitation Project was carried out at the request of Council to the Auditor General in February 2006.

Background

Munster Hamlet is a residential community established in the former Township of Goulbourn between 1970 and 1975. The population of the community in 1996 was 1,265 people. When it was developed, Munster Hamlet was served by sanitary sewers discharging to a pumping station and a sewage lagoon.

Investigations carried out in the early 1990s indicated that the lagoon was too small for its design population. Flow measurements showed that the sanitary sewers were receiving significant extraneous flow. Additional evidence of problems with the lagoons was the seepage of liquid waste from the side slopes of the lagoons, and from the spray irrigation fields.

Several studies were completed since 1990 addressing the problems that were experienced in the Munster Hamlet municipal sewage system. Engineering studies addressed the sewage lagoons, extraneous flows and water conservation. As a result of the studies, a Class Environmental Assessment was carried out and completed in 1996. The 1996 Class EA report recommended the upgrade and expansion of the lagoons and expansion of the spray irrigation area. Following a 'bump-up'[1] request that was dismissed by the Ministry of the Environment, the Regional Municipality of Ottawa-Carleton authorized the detailed design and tender documents.

As a result of objections from the Township of Goulbourn and a proposal by a manufacturer of a treatment system using snow as the effluent disposal system, the RMOC retained a different consultant to re-evaluate the 1996 Class Environmental Assessment study and to make recommendations, including a Class EA Addendum if warranted.

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[1] 'Bump-up' was defined in the 1993 Class Environmental Assessment (EA) as "the decision by the proponent or by the Minister [of the Environment] that the environmental significance of a project is of such importance that the procedures for environmental assessment under the Class EA process are not sufficient and that an individual environmental assessment is required; the procedure which allows the proponent for the Minister to make such a decision." At present, 'bump-up' is referred to as "Part II Order" in the Environmental Assessment Act. The terms are used interchangeably in this report, depending on the chronology of the audited reports.

Based on these subsequent analyses, the consultant recommended as the preferred solution construction of a pumping station at Munster and a forcemain to transport sewage to the Richmond pumping station and from there to the regional treatment system. An Addendum to the 1996 Environmental Study Report (ESR) was prepared and submitted. The 1999 ESR Addendum was subject of 'bump-up' requests, which were also dismissed by the Ministry of the Environment.

To implement the pumping station and pipeline to Richmond solution, the Regional Municipality of Ottawa-Carleton required an amendment to its Official Plan. The required Official Plan Amendment was passed by the Region's council. A number of individuals and the manufacturers of two of the communal wastewater treatment systems evaluated during the preparation of the ESR. Addendum presented objections, and the matter was referred to the Ontario Municipal Board.

As a result of the decision of the Ontario Municipal Board, the City of Ottawa retained a third consultant to examine the environmental assessment process carried out to that date, including three alternatives, namely the pipeline to Richmond, a mechanical tertiary treatment with discharge to the Jock River, and snowmaking treatment with spray irrigation.

Following further studies, the forcemain alternative solution was reaffirmed as the preferred solution for implementation.

In June 2003, City Council approved the implementation of the forcemain from Munster Hamlet to the pumping station at Richmond. Detailed design was carried out in 2003 and 2004, and construction commenced in the winter of 2004; the pumping station at Munster, the forcemain, and modifications to the Richmond pumping station were commissioned in April 2005. By the summer of 2005, odours emanating from the forcemain and the Richmond pumping station became an issue.

Audit Objectives

The overall objective of the audit was to examine and evaluate the processes and methodologies used to manage and control the project from its inception, and based on examination and evaluation, determine whether the processes and methodologies were consistent and compliant with all relevant policies, procedures, legislation and regulations. To achieve the project objective, the study was required to assess whether:

- Project budgets and cost estimates were timely, accurate and reliable.

- The alternative assessment and evaluation methodologies for the three alternatives followed industry-accepted criteria and practices.

- The forcemain route selection study conducted to select the forcemain option was done properly and thoroughly.

- Design and construction of the forcemain provides effective and safe long-term operation.

- The various studies and designs and other tasks provided value for money.

Audit Scope

The Audit of the Munster Hamlet Sewer Rehabilitation Project comprised a review of the various reports, drawings, and other documentation available for the project from the City and from interested private citizens. In addition, the audit included interviews with various individuals who participated in the project since its inception. A field investigation was completed to review the construction of the forcemain.

The audit scope was based on the existing reports and documentation and selected field work, as required to address the audit objectives. It should be noted that the audit was not required to assess the design criteria or the detailed design calculations used to size the various components of the alternatives. The audit was not required to attempt to reproduce every detail of the studies and designs. The audit was focussed more on the overall picture of the solution.

Findings

The following summarizes the findings of the audit:

Environmental Study Report, 1996

1. The 1996 ESR met the requirements of the Class EA and the solution selected based on the study was supported by the engineering analysis, public and agency input, and the evaluation of the various alternatives.

2. The public participation component of the 1996 ESR exceeded the requirements of the Class EA. In addition, Totten Sims Hubicki Associates (TSH) met with individual property owners to review their concerns.

3. The 1996 ESR included Snowfluent as part of the alternative solutions. The Snowfluent system was subsequently evaluated as part of the alternative designs, but was not selected based on the evaluation method.

4. TSH adjusted the Snowfluent cost data to ensure that the interests of the Region would be protected if the Snowfluent system was the highest ranking design.

5. The pipeline solution had many serious constraints at the time that the ESR was done (1995, 1996), which made it unfeasible. The main constraint was the result of the policy used to determine the committed hydraulic capacity at the Richmond Pumping Station. Based on the policy at the time, the hydraulic capacity of the Richmond Pumping Station was fully committed. The committed hydraulic capacity allocation policy resulted in other constraints, including the negative effect of receiving Munster flows at Richmond, which would remove development potential in Richmond; and the very high cost of improving the Richmond Pumping Station

and the forcemain to accommodate the additional flows from Munster and from future development in Richmond.

6. The 'bump-up' requests received in 1996 delayed the start of the implementation of the preferred solution by about one year.

Unsolicited Proposals

1. It appears that Delta's intention, when it made the unsolicited proposal, was to be allowed as an alternative to the upgrade to the lagoons and spray irrigation system (in other words, that the Region would consider an alternative bid when the tenders were solicited).

2. Once Delta made its unsolicited proposal, CMS became involved and opened the door for the re-evaluation and eventual ESR Addendum study.

3. The design of the upgrades to the sewage lagoons and the spray irrigation system was practically complete when the implementation process was halted by Council in March 1998.

4. Staff was committed to implementing the upgrades to the sewage lagoons and the spray irrigation system, and correctly recommended to Council to stay the course.

5. Re-opening the evaluation of alternatives, as directed by Council, at such a late stage did not take into account the increase in cost due to the required additional studies and extension of the voluntary abatement process.

6. Staff indicated to Council that such course of action would require a re-evaluation of alternatives, and that the project implementation could be delayed 12 to 18 months.

ESR Addendum, 1999

1. The Conestoga Rovers and Associates (CRA) re-evaluation of alternatives correctly started at Phase 2 of the Class EA process.

2. The use of a design/build proposal call as part of the CRA re-evaluation process in the form of a formal request for proposals is unusual during a Class EA study.

3. The request for proposals (RFP) had the appearance and wording to lead the proponents to conclude that a contract would be negotiated if their proposal was considered acceptable. The RFP document contained legal clauses to permit the Region to not enter into negotiations; however, the overall document format and the circumstances of the competition supported the perception by the proponents that the Region would enter into negotiations with the successful proponent.

4. The RFP document accepted technologies and implementation programs, thus opening the door to pipeline alternatives.

5. The RFP document was not clear that the proposals were intended to provide firm cost estimates for use in the ESR Addendum and not for the selection of a particular proponent.

6. Based on the RFP document, the proponents were correct in expecting that the result would be negotiation of a contract with them.

7. It appears that up until the pipeline alternatives were received as a result of the RFP, the Region staff had not considered a pipeline as a viable alternative (possibly as a result of the previous estimates and constraints).

8. For completeness and to comply with the Class EA, the CRA ESR Addendum study had to examine the pipeline option and other options.

9. The CRA studies were carried out in accordance with the Class EA process requirements.

10. The CRA public participation scope and methods went far beyond the requirements of the Class EA, and were similar to those that would have been used in an individual Environmental Assessment.

11. The weights used in the evaluation methods took into account the input from the public and the professional experience of the project team. The weights were similar to those applied by TSH.

12. The cost estimates for the various alternatives were adjusted by CRA to normalize them. CRA had a duty to ensure that the costs used in the evaluations reflected all the costs of the projects.

13. The pipeline alternative became feasible when the policy of the Region changed and permitted the "just-in-time" provision of sewer capacity, rather than the use of capacity allocations for events long into the future. This change in policy allowed the excess capacity at the Richmond Pumping Station to be used for Munster Hamlet.

14. CRA evaluated five alternative pipeline routes using standard evaluation procedures that took into account the input received from the Region and the public. The evaluation of the alternative pipeline routes included a comprehensive public participation process.

15. The Richmond Pumping Station improvements were part of the overall wastewater system master plan, and would have proceeded regardless of the events at Munster.

16. The 'bump-up' requests in 1999 delayed the project by up to one year.

17. CRA included in their report the time that may have been required for a 'bump-up' request and noted the need for an Official Plan Amendment and possible OMB hearing.

Ontario Municipal Board Hearing

1. The Ontario Municipal Board decision took an excessive amount of time.

2. The OMB disregarded the fact that a Class EA process, correctly conducted as confirmed by the MOE decision to reject the 'bump-up' requests, had already been conducted.

3. The OMB decision should have been limited to whether the Official Plan Amendment No. 5 should be upheld. Instead, the OMB provided a decision that delved into the method of selection of alternatives, without a clear understanding of the process.

4. Aside from the long time that it took to render a decision, the OMB decision was incomplete, as it should have either approved or rejected the OPA. If it considered that the evidence for a communal system was more credible than that for a pipeline solution, the decision should have been for rejection of the OPA; on the other hand, if the pipeline solution was acceptable, then the OPA should have been approved.

5. The OMB hearing was not a hearing under the Environmental Assessment Act and hence had no jurisdiction on the selection of the preferred solution.

Design/Build Contract

1. The award of the design and construction management contract to Doran Contractors was endorsed by the Ottawa Construction Association to maintain the integrity of the request for proposals process.

2. Award of the contract was done to expedite implementation of the project, at the City's risk. However, staff apprised Council of the risks, including the possibility of having to throw out the design if the OMB denied the OPA.

Re-Evaluation of Alternatives

1. In our interpretation of the OMB decision, the City could have indicated that they were satisfied with the Class EA report and proceeded with implementation of the recommended solution, i.e. the Munster Pumping Station and the forcemain to Richmond.

2. The RVA Re-evaluation of Alternatives presented at the meeting in December 2002 was incomplete; the report should have taken into account the factors that were later included in the Technical Memorandum. For example, the impact of having to re-open the ESR process if a solution other than the pipeline was selected, the regulatory risk to the City in case of further delays in implementing a solution to the Munster sewage treatment problem, and the impact of the additional property acquisition required if the Snowfluent design assumptions were not accepted by the MOE.

3. Staff committed to release the RVA Re-evaluation of Alternatives to the public without first reviewing the results of the study. This was a well-intentioned error in judgment caused by the desire to demonstrate that the study was conducted independently of the City. However, it is unusual for a consultant to present results of a study to the public without allowing the client an opportunity to review the

report. Review by City staff would have disclosed before the December presentation that the report work was not complete.

4. The additional analyses required by City staff were necessary to complete the Re-evaluation of Alternatives. Without the additional analysis, the report would not be complete.

5. Once the City was satisfied with the results of the re-evaluation of alternatives, it was correct in proceeding to completion as recommended by staff. Further delays in implementing a solution to the Munster Hamlet sewage problem substantially increased the risk to the City of being found non-compliant by the Ministry of the Environment.

Detailed Design and Construction

1. The design of the pumping station and the forcemain were completed in accordance with the accepted standards for design.

2. The construction methodology used reduced the impact of the forcemain during construction and the cost of implementation.

3. The design made provisions for protection of the wells in Richmond by selecting the route that had the least number of wells; used high-density polyethylene pipe with a thick wall and thermally-fused joints; and provided a control valve west of Richmond to reduce the operating pressures through Richmond to provide a 5.0 factor of safety against failure of the pipe.

4. The design and construction has implemented an acceptable, state-of-the-art system for monitoring of forcemain pressures for leak detection.

5. The construction of the forcemain generally conforms to the plans and specifications. Two excavations were done on May 31, 2006 to inspect the forcemain, and it was possible to confirm that construction was done per the design.

6. The design of the pumping station made provisions for odour control due to hydrogen sulfide emissions by installation of a bio-scrubber at the Richmond Pumping Station.

7. The malodour problem in the summer of 2005 was the result of an operational mistake that was corrected immediately. Subsequent malodour problems were due to the release of gases other than hydrogen sulfide, which could not be controlled using a bio-scrubber; the City installed a temporary biofilter and the malodours have been controlled. The City is currently constructing a permanent biofilter at the Richmond Pumping Station.

General

1. In general terms, if Council had followed staff recommendations in 1998 it would have saved the City about $7.9 million dollars, although the solution would have been on-site treatment rather than a forcemain. In all instances in which Council

superseded the recommendations of staff, the cost of the project went up and the project was delayed substantially.

2. Much of the delays have been caused by the multiple objections and roadblocks placed by individuals and interest groups. Some of the objections and roadblocks do not appear to be based on factual information.

3. All pertinent costs have been included in the project budget.

4. All pertinent costs have been reported to Council in various forms.

Recommendation 1

That staff provide an assessment of time and subsequent costs to Council when presenting alternative courses of action.

Management Response

Agree in principle. This would have been particularly difficult in earlier stages (prior to amalgamation) of the project due to the unusual and occasionally unpredictable nature of the Council direction and decision making. The final report to Committee/Council in May/June 2003 addressed timelines and associated costs extremely well.

Recommendation 2

That the Public Works and Services Department develop a policy for Council approval that once an Environmental Study Report has been in the public record for the statutory 30-day review period and any Part II Order requests have been resolved or the Ministry of the Environment has rejected them, the Class EA process not be re-opened unless the factors provided for in the Municipal Class Environmental Assessment take effect (Section A.4.2.2 of the Municipal Class EA).

Management Response

Disagree. The Municipal Engineers Association Class Environmental Assessment process is itself an undertaking approved under the Environmental Assessment Act. Both processes recognize and include provisions for changing circumstances including for completed Class EAs a mandatory requirement to review and reconfirm or modify both the assumptions and conclusions of a completed EA study every 5 years. The recommendation would seem to contradict this legislated requirement. The provisions for mandatory review contained in the Class EA process anticipate a wide range of circumstances including changes in legislation, new technologies, changes in original assumptions, etc.

Although this resulted in long delays and created controversies in the community in the case of Munster, there are often instances where revisiting EA decisions due to new information is warranted. Restricting the reconsideration of decisions previously made would not be in keeping with intent of the overall Class EA process.

Recommendation 3

That the RFP process not be used during an EA study to obtain firm prices for alternative solutions. Instead, if alternative technologies are desired, that the City solicit Expressions of Interest or other non-binding solicitations with clear objectives and explanation to the invitees. To confirm cost estimates during a study or preliminary design, that the City consider retaining a contracting firm to provide cost estimates.

Management Response

Agree**.** Although Supply Management had no involvement in the RFP process described in this audit report, we agree with this recommendation, and would not issue an RFP that was not intended to result in a contract award. We also agree that if cost estimates are sought for solutions, the RFP is not an appropriate mechanism, and as suggested by the AG, a consulting firm could have been retained to provide those estimates.

Recommendation 4

If the maker of proprietary product submits a proposal for its use by the City, that the City accept it only with a clear understanding by the proponent that any evaluation or consideration of the proposal does not bind the City to its use.

Management Response

Agree.

Recommendation 5

That City staff do not release results of consultant's studies without previous review.

Management Response

Agree in general. Staff generally work closely with consultants to carry out studies and develop appropriate recommendations. However, in the case of Munster, the City intentionally had RVA undertake an independent re-evaluation and make recommendations based upon their re-evaluation of the three treatment alternatives. To do otherwise in this situation, recognizing the long history of this project even at that time would have been problematic.

Recommendation 6

That all major changes in policies regarding the use of infrastructure capacity be brought forward for Council approval.

Management Response

Agree in principle. For the particular issue that seems to have resulted in this recommendation – capacity allocation – the Region's 1997 Wastewater Master Plan included policies regarding capacity allocation and system efficiencies. The report

does not make further references, however if there is other evidence that policies are not being brought forward to Council this recommendation may have value. If the recommendation is related only to the specific issue of capacity allocation, related policies were presented to and approved by Regional Council.

Conclusion

The studies carried out as part of the Class Environmental Assessment process were completed in accordance with the required process, and the public participation program exceeded in both cases the minimum requirements. The evaluation methods used in the Class Environmental Assessments used generally accepted methodologies.

The alternative development, initial evaluation, detailed ranking and the evaluation methodologies were completed in accordance with the Class EA requirements and normal engineering practice.

The forcemain selection was done without bias in its favour. In fact, the original recommendation (in the Environmental Study Report) was for on-site treatment. From the documentation reviewed as part of this audit, it appears that the pipeline option became attractive during the ESR Addendum process when the unsolicited pipeline proposals were submitted containing the option of using actual flows to the pumping station instead of the methodology used up to that time; the result of the change in policy was to make the pipeline option economical.

Design and construction of the Munster Hamlet pumping station and forcemain to Richmond provides effective and safe long term operation.

The following provided value for money:

- The 1996 Environmental Study Report

- The subsequent detailed design and preparation of plans

- The 1998 Addendum Study

- The 2003-2004 detailed design and services during construction of the pumping station and forcemain.

- Construction of the Munster Pumping Station and forcemain project

The following work and activities provided relatively low or no value for the money spent:

- The 'bump-up' requests

- The Ontario Municipal Board hearing and decision, which went much further than warranted and that delayed the process

- The decision in response to the OMB hearing decision to undertake a re-evaluation of alternatives. City Council had the option to respond to the OMB that it was satisfied with the previous studies and reports, and to proceed to implementation.

Acknowledgement

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

3.12 Follow-up Audit of Contracts Awarded to Members of the Board of Hydro Ottawa

1   BACKGROUND

At the May 18, 2004 Corporate Services and Economic Development Committee of Council, the City of Ottawa formally became aware that Hydro Ottawa had awarded a number of service contracts to various members of the Board of Directors, Advisory Board or persons or companies affiliated with these Board members.

At its meeting on October 27, 2004, Council passed a motion requesting that the Auditor General investigate service contracts that were awarded to members of the Board of Directors of Hydro Ottawa.   The objective of the audit was to examine, for specific contracts, payments made to any member of the Board, Committee of the Board, Advisory Board, and any affiliated person or company, to determine:

- if the contracts were awarded in compliance with Hydro Ottawa's procurement policies and procedures;

- if the payments under the contracts were made in compliance with Hydro Ottawa's payment policies and procedures;

- if the level of any payments made under these contracts was reasonable in relation to the services received by Hydro Ottawa;

- if the awarding of the contracts to Board members was consistent with best governance practices.

On July 13, 2005, Council received the Auditor General's final report on Contracts Awarded to Members of the Board of Hydro Ottawa.

2   2006 FOLLOW-UP AUDIT OBJECTIVES AND SCOPE

The Office of the Auditor General has now completed a follow-up on the 2005 audit. The objective of the follow-up audit was to assess the adequacy of the actions taken to implement the audit recommendations and Council Directives.

The scope of the follow-up audit included a review of:

- Follow-up actions taken by Hydro Ottawa to implement the Audit Report recommendations

- Follow-up action taken by Hydro Ottawa to comply with Council Directions

- Payments to Board Members for 2005.

3   GENERAL OBSERVATIONS

The report is organized into three sections described below. The general observations for each of the areas reviewed are as follows:

Section 1: Follow-up action taken by Hydro Ottawa to implement the Audit Report recommendations

- We are very pleased with Hydro Ottawa's response to the Audit Report. The follow-up audit identified that appropriate action was taken to implement all recommendations in the Audit Report.

Section 2: Follow-up action taken by Hydro Ottawa to comply with Council Directions

- It was identified that Hydro Ottawa has not taken action to comply with one of the two Council Directions. On August 12th, 2004, the Shareholder requested that Hydro Ottawa present status reports to Corporate Services and Economic Development Committee on a quarterly basis. No quarterly status reports have been presented.

Section 3: Payments to Board Members for 2005

- No issues were identified with the review of 2005 payment data to Board Members and companies affiliated with Board Members.

The following provides more detail on each of the original audit recommendations, Hydro Ottawa management responses to those recommendations, and follow-up action taken.

SECTION 1: Follow-up Action Taken by Hydro Ottawa to Implement the Audit Report Recommendations

Audit Recommendation No. 1

That Hydro Ottawa, in collaboration with its shareholder, City of Ottawa, specify and clearly define expected Board member duties and responsibilities and that where Hydro Ottawa requires additional compensation for Board-related duties that approval is obtained from the Shareholder.

Hydro Ottawa Management Response in Audit Report

Hydro Ottawa has developed, and the Board of Directors has approved, a document describing the role of the Chair. This will be presented to City Council for approval on July 13, 2005. Once approved, City Council will be asked to amend the Shareholder Declaration to incorporate the description of the role of the Chair. The Governance Committee will be considering, as part of its work plan for 2005, a Board mandate describing the role of the Board and directors and recommending a Board mandate for the approval of the Board. Hydro Ottawa recognizes that all Board compensation must comply with the Shareholder Declaration and that any changes to such compensation must be approved by the Shareholder.

Hydro Ottawa Follow-up Actions

In August 2004, City Council approved an amendment to the Shareholder Declaration directing that no amounts be paid to directors or members of their immediate families,

or to entities in which they have substantive ownership interest other than annual stipends, board and committee meeting attendance fees and reimbursement of out-of-pocket expenses. City Council also directed that compensation of directors should be reviewed every other year by the Governance Committee, with any recommendations to be brought forward to the Shareholder for consideration. Hydro Ottawa intends to conduct a review and bring forward any recommendation for adjustment to City Council as required.

In January 2005, the Board of Directors considered and approved an employee Code of Conduct that is also applicable to directors.

In April 2005, the Board approved more specific Directors Conflict of Interest and Conduct Guidelines.

In July 2005, City Council approved an amendment to the Shareholder Declaration setting out a description of the role and responsibilities of the Chair of the Board.

In November 2005, the Board considered and approved a series of documents to more clearly define the roles and responsibilities of the directors. The Board approved a detailed description of the Mandate of the Board of Directors and Responsibilities of Individual Directors as well as a recommendation for an amendment to the Shareholder Declaration to include a description of these roles and responsibilities. The Board also approved a detailed description of the Roles of the President and Chief Executive Officer as well as a recommendation for an amendment to the Shareholder Declaration to describe this role. The description of the role of the President and Chief Executive Officer assists in clarifying the distinction between the role of the Board and the President and CEO. City Council will be asked to approve the required amendment to the Shareholder Declaration to include the mandate of the Board of Directors, the roles and responsibilities of the Directors and the role of the President and Chief Executive Officer.

Documents Provided for Follow-up Audit

- All Council approved versions of the Shareholder Declaration for the last 24 months;

- Employee Code of Conduct, January 2005;

- Directors Conflict of Interest and Conduct Guidelines, April 2005;

- Mandate of the Board of Directors and Responsibilities of Individual Directors, November 2005;

- The Role of the President and Chief Executive Officer, November 2005.

Auditor General's Comment on Follow-up

The Auditor General is satisfied with the follow-up actions taken to implement this recommendation.

Audit Recommendation No. 2

That Hydro Ottawa review its contracting policies and practices to ensure that:
- **contracts are required to include an upset limit and a detailed statement of work,**
- **written justification for the use of sole sourcing is provided, and**
- **the use of lump sum retainers is not permitted.**

Hydro Ottawa Management Response in Audit Report

First, it is important to reiterate that members of the Board and their spouses are now prevented from entering into contractual arrangements with the corporation for the provision of services. In addition, Hydro Ottawa has identified the need to review its procurement policies as part of its 2005 internal audit plan approved by the Board of Directors earlier this year. The intent is to undertake a comprehensive review of corporate procurement and contracting for all professional and other services. The audit coverage will include issues such as the appropriateness of related policies and procedures, and compliance to them; and an assessment of the relevant business processes from value added and best practice standpoints. The scope of the audit will include Hydro Ottawa Holding Inc. and its subsidiary companies.

Appropriate interim measures have been implemented to ensure that the scope of work and total estimated cost are systematically identified in contracting documents, and that the use of sole source provisions is documented with contract awards.

Hydro Ottawa Follow-up Actions

The President and CEO, the same day as the Auditor General's report was released, instituted interim contracting measures for professional and other services. The procedures addressed each of the above points and directed that all sole source contracts in excess of $10,000 be forwarded to her office for approval, until the existing Procurement Policy and practices were reviewed.

A revised Procurement Policy, was subsequently approved by senior management, effective August 5, 2005 that formally communicated the necessity for upset limits, detailed statements of work and disallowed the use of lump sum retainers. A sole source justification form was instituted to capture both the written justification for non-competitive contract award and the necessary approval signatures to proceed with the procurement. The policy also strengthened the role of Supply Chain Management in controlling corporate procurement activities.

In addition to the above, the Audit Committee approved as part of its Internal Audit Plan, a comprehensive review of the corporate procurement and contracting for professional and other services. This broader scope review incorporates the recommendations by the Auditor General and includes an assessment of the design and effectiveness of the control framework for procuring professional and other services.

Hydro Ottawa has also engaged the services of an external consultant to evaluate its procurement policy and practices to ensure that corporate procurement meets the test of transparency, accountability, and good governance and that all of its companies receive best value from their procurement of goods and services.

Documents Provided for Follow-up Audit

- Interim Contracting Directive from President and CEO, June 27, 2005

- Procurement Policy, August 5, 2005

- Approved Internal Audit Plan for comprehensive review of the corporate procurement and contracting for professional and other services

- RFP (or scope document) for external consultant to evaluate procurement policy and practices.

Auditor General's Comment on Follow-up

The Auditor General is satisfied with the follow-up actions taken to implement this recommendation.

Audit Recommendation No. 3

That Hydro Ottawa review its payment practices and establish and document a policy to confirm checking of invoices to ensure errors are captured prior to cheque issuance.

Hydro Ottawa Management Response in Audit Report

While the Corporation does have procedures for checking the accuracy of invoices, they are not formally documented. Hydro Ottawa will establish and document a formal Invoice Payment Policy by July 31, 2005. The policy will be communicated to all staff to ensure they understand their individual and corporate responsibilities in this regard. In the interim, Accounts Payable staff will be instructed to scrutinize all payments thoroughly for payment accuracy. A follow-up by Hydro Ottawa's internal audit in 2006 will assess compliance with the new policy.

Hydro Ottawa Follow-up Actions

Hydro Ottawa has reviewed its payment practices that were in place and formalized them in a policy titled, "Invoice Payment". The policy became effective July 26, 2005, for all companies adherence.

The onus of verifying that invoices are correct and properly authorized is clearly delineated in the policy between the purchaser of the goods and/or services and the accounts payable function.

A key control feature of the new policy is that all payments, unless specifically excluded must be referenced to an authorized purchase order. This request identifies any request for payment that is not tied to a purchase order approved by Supply Chain Management, who are the gatekeepers for corporate procurement.

In addition, the Audit Committee approved as part of its internal audit plan a review of the invoice payment policy and its implementation.

Documents Provided for Follow-up Audit

- Invoice Payment Policy, July 26, 2005

- Approved Internal Audit Plan for review of the Invoice Payment Policy and its implementation.

Auditor General's Comment on Follow-up

The Auditor General is satisfied with the follow-up actions taken to implement this recommendation.

Audit Recommendation No. 4

That Hydro Ottawa review its records and project management policies and practices to ensure that source documents with an appropriate level of detail to evidence transactions are appropriately retained.

Hydro Ottawa Management Response in Audit Report

Hydro Ottawa will, by August 31, 2005, incorporate appropriate records and project management requirements into its existing procurement and contracting policies as well as into a payment policy that will be developed. These requirements will be communicated to all staff within the corporation. Records classification structure and records retention schedules have been developed and are in the process of validation leading to their implementation.

Hydro Ottawa Follow-up Actions

Hydro Ottawa with the assistance of external consultants has completed two major information management initiatives. This work commenced in 2004 and was completed in 2005.

The first was a Records Classification Structure that reflects the functions and activities of the Hydro Ottawa group of companies within a classification structure of the five collections. These include Corporate Management, Support Services, Infrastructure

Development, Operations (which would include project management documentation) and Customer Service, Sales and Support.

The second undertaking was to create a Records Retention Schedule that mirrors the Records Classification Structure. Retention periods were developed based on an examination of federal and provincial legislation, regulatory codes and other pertinent requirements.

Adherence to these policies have been referenced in both the revised Procurement Policy and the Payment Policy to ensure that an appropriate level of detail is maintained and retained for the retention period.

In addition, the Audit Committee has approved an internal audit of capital projects, which will include an assessment of project documentation in relation to the records and project management policies.

Documents Provided for Follow-up Audit

- Records Classification Structure

- Records Retention Schedule

- Approved Internal Audit Plan for review of capital projects.

Auditor General's Comment on Follow-up

The Auditor General is satisfied with the follow-up actions taken to implement this recommendation.

Audit Recommendation No. 5

That Hydro Ottawa ensure that minutes and financial statements appropriately disclose related party transactions including the dollar value and appropriate detail. Hydro Ottawa should confirm with its shareholder, the City of Ottawa, the requirement to disclose all financial relationships with members of its Board.

Hydro Ottawa Management Response in Audit Report

Hydro Ottawa, in conjunction with its external auditors, has determined its annual financial statement disclosure of related party transactions based on generally accepted accounting principles (CICA 3840 "Related Party Transactions") and industry practice. Irrespective of disclosure requirements, consulting contracts with Board members are no longer permitted. Any transactions with entities affiliated with members of the Board of Directors will be in the normal course of Hydro Ottawa business and at fair market value, and where significant influence does not exist with respect to the Board member on both sides of the transaction, it is the determination of Hydro Ottawa and its auditors that no financial statement disclosure will be required. However, Hydro Ottawa will consult with its Shareholder to determine appropriate Hydro Ottawa

related party disclosure in the context of a private company with commercial sensitivities that is owned by a public shareholder.

Hydro Ottawa will reflect in the minutes of the Board the disclosure by directors of the nature and extent of their interest in any contract awarded to entities with which they are affiliated. This disclosure in the minutes will include the nature of the products or services to be provided and the value of the contract or the basis for the consideration payable.

Hydro Ottawa Follow-up Actions

The agendas and minutes for meetings of the Board of Directors and its committees includes a Declaration of Interest section in which directors are requested to disclose any interests in matters involving the Hydro Ottawa group of companies. The Board of Directors also approved the Directors Conflict of Interest and Conflict Guidelines requiring that any directors report any contract or potential conflict for consideration by the Governance Committee. The Governance Committee's consideration also includes a review of the terms and conditions of the contract. Board members are canvassed annually to obtain a listing of entities to which they and their immediate family members (including spouses and dependent children) are related.

Hydro Ottawa, in conjunction with its external auditors, has determined and discloses in its annual financial statements, related party transactions based on generally accepted accounting principles and industry practice.

Further information regarding Shareholder requirements for related party disclosures is presented in Section 2 of this report.

Documents Provided for Follow-up Audit

- Directors Conflict of Interest and Conflict Guidelines

- Documentation to support annual canvassing of Board members.

Auditor General's Comment on Follow-up

The Auditor General is satisfied with the follow-up actions taken to implement this recommendation.

Audit Recommendation No. 6

That Hydro Ottawa ensure that all minutes of Board and Committee meetings are prepared and signed on a timely basis.

Hydro Ottawa Management Response in Audit Report

Minutes are prepared following all meetings of the Board and its committees and are presented for confirmation at the next meeting of the Board or committee. This practice

has been followed consistently by Hydro Ottawa since its inception. Hydro Ottawa will ensure that all minutes are signed by the Chair of the Board or relevant committee at the meeting confirming the minutes.

Hydro Ottawa Follow-up Actions

Hydro Ottawa, since receiving the OAG's recommendation, has ensured that all minutes are signed by the Chair of the Board or relevant committee at the meeting confirming the minutes. Each Chair has signed off on all confirmed minutes for 2005 meetings.

Documents Provided for Follow-up Audit

- 2005 and 2006 (to date) Board Meeting Minutes

Auditor General's Comment on Follow-up

The Auditor General is satisfied with the follow-up actions taken to implement this recommendation.

SECTION 2: Follow-up Action Taken by Hydro Ottawa to Comply with Council Directives

Council Directive No. 1

That the Shareholder request that Hydro Ottawa present status reports to Corporate Services and Economic Development Committee on a quarterly basis. (12 August 2004)

Hydro Ottawa Follow-up Actions

No quarterly status reports have been provided to the Corporate Services and Economic Development Committee.

Documents Provided for Follow-up Audit

None.

Auditor General's Comment on Follow-up

The Auditor General has found no action has been taken by Hydro Ottawa on this Council Directive, and it was not addressed in the recent presentation to the Shareholder on the new governance structure.

Council Directive No. 2

That Hydro Ottawa in conjunction with the City Manager, bring forward a recommendation to City Council on amendments to the Shareholder Declaration which would improve disclosure to City Council on related party transactions by Hydro, that would clearly define the roles, responsibilities and authorities of Board members and the President and Chief Executive Officer; and that the report be submitted by 30 September 2005. (13 July 2005)

Hydro Ottawa Follow-up Actions

As indicated earlier, Hydro Ottawa, in conjunction with its external auditors, has determined and discloses in its annual financial statement, related party transactions based on generally accepted accounting principles and industry practice.

The Board of Directors has approved detailed descriptions of the roles and responsibilities of the Board, individual directors and the President and Chief Executive Officer as well as recommended additions to the Shareholder Declaration to reflect these roles and responsibilities.

Over and above the financial statement disclosure, Hydro Ottawa has been in discussions with the City Manager since September 2005 on improved disclosure of related party transactions to City Council. Hydro Ottawa engaged a consultant mutually acceptable to the City Manager to review the issue of related party disclosures to the Shareholder. The review has recently been completed and recommendations were presented and approved by the Shareholder at the 2005 Annual General Meeting on June 29, 2006.

Documents Provided for Follow-up Audit

- Hydro Ottawa Holding Inc. – Role of the Board of Directors

- Hydro Ottawa Holding Inc. – Role of the President and Chief Executive Officer

- Hydro Ottawa Holding Inc. – Related Party Transaction Disclosure Policy and Process

Auditor General's Comment on Follow-up

The Auditor General is satisfied with the follow-up actions taken to implement this Shareholder Directive.

SECTION 3: Payments to Board Members for 2005

Payment data for 2005 was reviewed to identify any payments made to Hydro Ottawa Board Members or companies with which they are affiliated.

The review identified payments of $46,674 to *NexInnovations Inc.*, a company with which one of the Board Members is affiliated. However, a review of Board meeting

minutes identified that the Board Member had appropriately disclosed the affiliation prior to the transactions.

Hydro Ottawa Management Response

Hydro Ottawa concurs with the findings of the Auditor General's Follow-up Report. The follow-up audit observations on the six recommendations from the Auditor General's 2005 audit report and an earlier directive received from City Council in 2004 confirm that a sound governance structure with appropriate policies and procedures has been implemented to better serve Hydro Ottawa and its Shareholder.

Although not included in the Auditor General's 2005 Audit, the follow-up report also references a directive provided by City Council in August 2004 requesting that Hydro Ottawa report more frequently to its shareholder. Hydro Ottawa currently reports formally on its operations through its Annual General Meeting with City Council.

Hydro Ottawa has also taken significant steps over the last year to ensure that its Shareholder, the City of Ottawa is regularly informed of issues of interest to the City. Over the last year, Members of Council have received advance information packages with appropriate background regarding significant issues, such as Hydro Ottawa's 2006 rate application and associated OEB decisions, Hydro Ottawa's credit rating assessment, and departures and appointments of executives within the Hydro Ottawa group of companies.

In addition, Hydro Ottawa has provided Members of Council with regular updates on significant operational issues and programs, such as our energy conservation initiatives and programs, the proper disposal of CFL bulbs, system reliability issues in specific wards, and the status of discussions with respect to Hydro One customers.

Also, in keeping with Council's request for more frequent reporting, the Chair and the President and Chief Executive Officer of Hydro Ottawa have met regularly with the Mayor and City Manager to keep them informed of Hydro Ottawa's operations.

Since the approval of the City Council directive in 2004, the composition of Hydro Ottawa's Board of Directors has changed significantly, with two Members of Council in addition to the Mayor, now sitting on the Hydro Ottawa Holding Board. This enhanced membership has also contributed significantly to ensuring a regular and ongoing dialogue with the City.

Hydro Ottawa acknowledges the importance of regular and ongoing dialogue with its shareholder, and we continue to work on improving our formal communications with the City of Ottawa. We have discussed with the City Manager the most appropriate method of regular reporting to City Council that is consistent with other City owned

agencies. An appropriate reporting process in addition to our Annual General Meeting with City Council, is expected to be implemented by the first quarter of 2007.

4 2006 ANNUAL REPORT ON THE FRAUD AND WASTE HOTLINE

4.1 Summary of Hotline Reports

The City's Fraud and Waste Hotline was launched on November 1, 2005 in order to facilitate the reporting of suspected fraud or waste by employees. The Hotline is a confidential and anonymous service that allows any employee to report incidents 24 hours a day, 7 days a week. The Hotline is operated independently by a third party, Clearview, and is accessible either by phone or the Internet. Clearview has indicated that the City of Ottawa's usage is within the top 10% of their client organizations.

The table below summarizes the reports received by the Hotline for 2006 by report category.

Fraud and Waste Hotline Reports as at December 31, 2006		
Report Category[1]	**2005[2]**	**2006**
Health and Safety, Environment	0	3
Alcohol or Drug Use or Other Substance Abuse	2	3
Theft, Embezzlement, Fraud	3	39
Unauthorized Use or Misuse of City Property, Information, or Time	3	33
Manipulation of Falsification of Any Data	2	2
Unethical Conduct or Conflict of Interest	0	5
Violation of Laws, Regulations, Policies, Procedures	2	11
Financial Reporting and Accounting	0	1
Management/Supervisor	0	2
Suggestions for Improvement	31	26
Suggested Areas for Audit	2	4
Other	3	6
Total	**48**	**135**

In some cases, Hotline reports are transferred directly to management to be addressed, while in other instances the OAG has undertaken its own review, conducted a separate formal audit, or considered the matter as part of an ongoing planned audit. We have noted a marked difference between City departments in how management is responding to the issues raised by the Hotline. It is acknowledged that 2006 is the first full year in which the Hotline has been operating. It is our opinion that Community and Protective Services has recognized the need to take swift and effective action. In

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[1]   Appendix B provides the definitions of each category.
[2]   For the period of November – December 2005.

2007, it is hoped that more consistent attention to these matters will be taken in order to increase the effectiveness of the Hotline.

At present, the Fraud and Waste Hotline is set to run for a period of three years. As was indicated upon the launch of the Hotline, an evaluation will be undertaken during 2008 to measure its value to the City and determine if continued investment in the Hotline is warranted. It is anticipated that an employee survey will be used, as well as consultations with Council and senior management to gauge the level of awareness, acceptance and usefulness of this program. The results of the evaluation will be presented to Council as part of the 2009 budget submission in order for Council to determine if funding for the Hotline should continue.

4.2 Audits Arising from Fraud and Waste Hotline Calls – Reports Provided to Council

This section of the Annual Report presents a summary of two audits completed in 2006 in response to a Hotline call and where audit reports have been provided to Council.

4.2.1 Ontario Works Child Care Subsidies

It was revealed that the requirement to obtain caregiver receipts was not enforced in many cases. Based on the eligibility requirements established by the City, the lack of caregiver receipts should have resulted in the suspension of the subsidy. Management did implement a more rigorous approach to this during the course of our review. The audit also revealed that better coordination is needed between the Children's Services Division and the Employment and Financial Assistance Branch to improve the transfer of client information

4.2.2 Contract Award of the Operating and Maintenance Agreement for the Village Walk Wastewater Treatment Facility

Our audit indicated that the contract for $1.8 million was inappropriately awarded using an FSU Purchase Order and that no Council authority was obtained to award this contract. The contract was not awarded in compliance with the Purchasing By-law. There is a competitive market for the services and, in addition to the issue of equitable and transparent procurement, there may have been financial savings had this award gone through a competitive process. The contract should have included a standard termination for convenience clause. Reports to Council did not provide consideration of options and an analysis of alternate solutions such as connecting the Village Walk Facility project to the potential overall Manotick Servicing System. In our view, Planning and Infrastructure Approvals, Financial Services and Legal Services failed to adequately exercise their management responsibilities in this instance.

4.3 Audits Arising from Fraud and Waste Hotline Calls – No Reports Provided to Council

This section of the annual report presents a summary of two additional audits completed in 2006 in response to a Hotline call. While a summary has been included here, in these cases, the detailed audit reports have not been provided to Council in order to protect the privacy and security of identifiable individuals. Based upon the opinion of Legal Services and the wishes of the Council Audit Working Group, the full reports on these audits will not be provided to Council. Each of these Hotline audit reports has been provided to the City Manager and will be provided to the Chair of the Corporate Services and Economic Development Committee for action.

4.3.1 Parking Meter Cash Revenue Processes

This audit revealed that some parking revenue processing is done under inadequate conditions and that cash counting should be moved to the OC Transpo Cash Office for greater economy, efficiency and effectiveness. Issues identified included:

- Insufficient internal controls in many processes (e.g. no rotation of staff);
- Improper safeguarding of funds;
- GPS technology not functioning properly;
- Inadequate segregation of duties; and
- Requirement for criminal record checks for all staff in sensitive positions.

4.3.2 OC Transpo and Para Transpo, Cash, Ticket and Pass Revenue Processes

This audit indicated that OC Transpo's fare instruments do not have basic security controls to help prevent counterfeiting (e.g. watermarks). Basic security features on fare instruments may have prevented or reduced the impact of the $150,000 fraud that occurred in this area in 2006. There are insufficient internal controls in many current processes. Non-refundable fares in the amount of $470,000 were refunded in 2005 and approximately $1 million in receipts from vendors was not deposited for about one month due to vacations, resulting in the potential for cheques to be lost as well as the foregone interest revenue.

4.4 Audits Arising from Fraud and Waste Hotline Calls – No Summaries or Reports Provided to Council

In addition to the audits described above, six other audits were conducted during 2006 based upon reports to the Fraud and Waste Hotline. These reports deal with situations where specific staff members of the City can be identified or where the security of employees could be jeopardized. Based upon the opinion of Legal Services and the wishes of the Council Audit Working Group, the full reports on these audits will not be provided to Council. Each of these Hotline audit reports has been provided to the City Manager and will be provided to the Chair of the Corporate Services and Economic Development Committee for action.

By way of a summary, these Hotline audits dealt with issues such as:

1. Weak cash handling controls and safeguarding of funds;
2. Conflicts of interest;
3. Inappropriate staff conduct;
4. Inappropriate use of corporate resources;
5. Staffing processes not followed;
6. City/Provincial policies not followed;
7. Staff incompetence;
8. Nepotism;
9. Illegal activities referred to Police Services; and,
10. Misuse of Corporate Internet and e-mail.

For all audits arising from the Hotline, a total of 120 recommendations have been presented to management, of which management has disagreed with 13.

4.5   Other Hotline Issues

As a general comment on the activity arising from the Hotline, we would like to highlight the continuing issues related to usage of the corporate e-mail and Internet services by some City staff. The 2005 audit in this area revealed significant issues regarding excessive and inappropriate usage. Numerous Hotline reports in 2006 confirmed that this remains an issue for the City. Of all Hotline reports reviewed by the Office, 17% related to potentially inappropriate use of email or Internet, involving 49 separate employees. The amount of time some staff are spending on personal e-mail and Internet use indicates to us that these positions may not be not required for City business and therefore represent opportunities to review the need for these specific FTEs. These incidents also indicate to us that supervisory oversight is inadequate in many areas.

We feel there is a clear need for a corporate-wide program/response to address this issue. Community and Protective Services has indicated its intention to take a more proactive approach to monitoring usage. We strongly support this initiative. Since this issue was presented in the 2005 Annual Report for management action, the OAG cannot and will not continue to devote resources to investigating individual incidents in 2007. Therefore, whenever such reports are received, they will be referred to management for action and the OAG will follow up to determine if appropriate action has been taken.

Finally, cases occurred during 2006 where management attempted to identify the individual making the Hotline report. Management should be reminded of the need to ensure the Hotline remains an anonymous and confidential vehicle for staff to report their concerns.

5 2007-2009 AUDIT PLAN

In accordance with the By-law governing the Office of the Auditor General, the following presents an update to the three-year audit plan that was presented in 2004, beginning with the 2007 list of projects. While specific audit projects have been presented for 2008 and 2009, the actual projects to be conducted are subject to revision and will be confirmed in subsequent annual reports by the Auditor General to Council.

The methodology used to develop our audit plans includes the following key steps:

- Meetings with Councillors and Senior Managers;
- Review of budget documentation;
- Review of former audits conducted at the City;
- Review of audit plans from other municipalities;
- Input from Auditor General's staff;
- Meetings with external auditors and review of management letters; and
- Assessment of programs and services against selection criteria and risk analysis.

Several specific selection criteria were used to identify potential projects and select the audits outlined in the plan, including:

- Program/Service has direct impact on citizens;
- Risk/Impact of service disruption on public safety, convenience, financial exposure;
- Discussions with Council, Senior Management;
- Budget size (including number of staff);
- Last time audited; and
- Fraud and Waste Hotline reports received.

5.1 2007 Audit Plan

1. Ottawa 20/20 Growth Management Strategy - Environmental Commitments:

    - Preserve greenspace
    - Strengthen ecosystem planning and design
    - Protect surface and groundwater
    - Improve air quality and reduce greenhouse gas emissions
    - Protect and conserve our resources

2. Food Safety and Inspection Control

3. Parks and Recreation

4. Population Growth Projections

5. Call Centres

6. Council Request Tracking Mechanisms

7. Ottawa Community Housing Corporation – Governance

8. Human Resources:

    - Labour Relations
    - Classifications
    - Staffing
    - Severance pay

9. Development Approvals

10. Inventory Management

11. Light Rail – Presentation of Financial Information to Council

12. IT Prioritization Processes

13. Audits arising from the Fraud and Waste Hotline

5.2 2008 Audit Plan

1. Surface Operations - Winter Maintenance – to begin in the fall of 2007

2. Paramedic Service

3. Grants and Contributions

4. Child Care

5. Traffic Signals, Signs and Pavement Markings

6. Payroll

7. Corporate Communications

8. Absenteeism and Attendance Management

9. Long-Term Care

10. Ottawa Public Library – Governance

11. Audits arising from the Fraud and Waste Hotline

12. Evaluation of the Fraud and Waste Hotline

5.3 2009 Audit Plan

Council's creation of the Office of the Auditor General was intended to provide a vehicle for independent assessments of management practices with the goal of enhancing internal control and operational efficiency and effectiveness of City programs and services. The audit is only the first step in this process. The City's capacity to respond to recommendations arising from any audits and make improvements to its management practices is where the real benefit to the taxpayers will come. Following up on previous audits is the key mechanism to gauge if the City has successfully responded to audit recommendations and if improvements have been realized as a result.

As discussed earlier, the creation of the CAWG is a progressive step in ensuring that ongoing attention is paid to the implementation of audit recommendations, and to gauge whether the City's management practices are growing stronger as a result. Typically, it is the Auditor General who will conduct follow-up audits. With the creation of the CAWG, Council has decided on another approach to follow-ups which we feel can be equally effective. Involvement with the Group will allow the Auditor General to monitor impetration more closely and assist in determining areas where more direct follow-up action by the Office may be required.

As was discussed and supported by the CAWG, it is proposed that the focus of the entire audit plan in 2009 be to follow up on all previously completed audits. By that time, it is estimated that 1,000 separate recommendations will have been made to

management. As 2009 will be the mid-point of the current Auditor General's mandate, it seems appropriate that a focused effort on follow-up be undertaken. Key recommendations from all previous audits will be selected and a formal follow-up will be conducted by OAG staff.

APPENDIX A: RECOMMENDATIONS WHERE MANAGEMENT DISAGREES

2006 Annual Report Audits	Recs. (1)	Do Not Agree	% of Do Not Agree
1 Surface Operations	39	5	13%
2 Employment and Financial Assistance Branch	22	2	9%
3 Ottawa Fire Services Branch	20	3	15%
4 Building Services Branch	10	0	0%
5 Public/Private Partnership (P3) Processes	11	0	0%
6 IT Processes of the Computerized Financial System	14	1	7%
7 Fleet Services	36	8	22%
8 Property Management	12	0	0%
9 Financial Control Environment	40	13	33%
10 Wastewater and Drainage Services Division	19	2	11%
11 Munster Hamlet Sewer Rehabilitation Project	6	1	17%
Total 2006 Recommendations - Annual Report	**229**	**35**	**15%**

2006 Audit from Reports to the Fraud and Waste Hotline	Recs. (1)	Do Not Agree	% of Do Not Agree
1 Client Services	10	0	0%
2 Parking meter Revenue Processes	29	1	3%
3 OC Transpo and Para-Transpo: Cash, Ticket & Pass Revenue Processes	43	4	9%
4 Report of Personal Use of Corporate Resources	5	0	0%
5 Staffing Process	13	0	0%
6 Potential Conflict of Interest due to a City Staff Member's Contracting Service	5	2	40%
7 Report of Inappropriate Email Being Circulated by City Staff	2	1	50%
8 Ontario Works Child Care (OWCC) Subsidies	4	0	0%
9 Contract Award for the Village Walk Wastewater Treatment Facility	4	1	25%
10 Illegal Activities	5	2	40%
Total 2006 Recommendations - Fraud and Waste Hotline	**120**	**11**	**9%**
TOTAL 2006 RECOMMENDATIONS	**349**	**46**	**13%**

2006 Follow-up	Recs. (1)	Do Not Agree	% of Do Not Agree
1 Contracts Awarded to Members of the Board of Hydro Ottawa	6	0	0%
TOTAL 2006 FOLLOW-UP RECOMMENDATIONS	**6**	**0**	**0%**

(1) **Recommendations with more than one part (e.g. a), b), c), etc.) counted as 1**

RECOMMENDATIONS WHERE MANAGEMENT DISAGREES

Audit of Surface Operations

Recommendation 4

That the Branch create a Quality Assurance function for Roads, through the reallocation of existing resources, to provide checks and balances to the quality of road maintenance including appropriate preventive maintenance.

Management Response

Management disagrees with this recommendation.

Industry best practices clearly identify operational quality, effectiveness and efficiency as core management accountabilities. The Branch's approach is to put in place management skills as well as financial and operational planning, and management tools to ensure that staff is knowledgeable, capable, and empowered to manage these items.

Performance Measurement and Business Services Unit has been established with the responsibility to conduct internal Competitive Service Delivery Reviews (CSDR) analysis and support the performance management requirements.

Audit mechanisms are already in place through the Office of the Auditor General. Comparative tools such as OMBI and MPMP are also in place to benchmark performance against other municipalities.

Recommendation 6

That the Branch re-engineer the planning and allocation of work so that all work is initiated by work orders issued by supervisors or other City staff (not the 3-1-1 Call Centre). Note that this will also facilitate the simplification of the accounting system.

Management Response

Management disagrees with this recommendation.

Work will be proactively planned and managed, and operational planning and accomplishment tracking is a major focus of current efforts. The Branch's work is activity-based not work-order driven. Work orders are created where individual cost tracking is required. Individual work orders for all of the Branch's work is not necessary and would create significant administrative inefficiencies. Individual work orders are created as required for specific work tracking.

Recommendation 12

That the Surface Operations Branch's budget not be increased until the Branch has a good understanding of their financial situation.

Management Response

Management disagrees with this recommendation.

The budget, and Branch operations and services will be reviewed in a manner prescribed by Council to be established through the Budget Directions.

Recommendation 13

That the Surface Operations Branch's budget not be increased while the Branch refines the manner in which it formulates its budget requests and redirects existing funds to programs, which do have a strategic plan and related specific budget, specifically the Forestry program.

Management Response

Management disagrees with this recommendation.

The budget, and Branch operations and services will be reviewed in a manner prescribed by Council to be established through the Budget Directions.

Recommendation 37

That the truck bodies be placed on a rehabilitation program that would see them inspected, sandblasted and re-painted as the rusting begins to appear.

Management Response

Management disagrees with this recommendation.

Fleet Services does not perform any cosmetic repairs for rusting, as it does not affect the operation of the vehicle. The condition of vehicle bodies is monitored as part of the annual inspection program. Structural repair is done when the vehicle does not meet the Ministry of Transportation requirements. Rusting is normally repaired if it is assessed that the rust will shorten the life of the vehicle. Cosmetic repairs are not done as a matter of course due to the additional cost.

Audit of the Employment and Financial Assistance Branch

Recommendation 4

Re-instate the supervisors Committee as a mechanism for supervisors to meet on a regular basis to share information.

Management Response

Management disagrees with the recommendation. There are already opportunities in place that support supervisor information sharing such as: weekly management team meetings; topical management committees; management specific training and development sessions; and bi annual management forums and working sessions.

Recommendation 22

Develop an assessment tool to determine financial eligibility for Home Management Services.

Management Response

Management disagrees with the recommendation. An assessment tool for the Home Management program already exists. The vast majority of residents receiving home management services are ODSP and OW clients. The assessment tool used for those who are not in receipt of social assistance (low income) is the same as the one used to assess low-income applicants for the Home Help Program.

Audit of the Ottawa Fire Services Branch

Recommendation 12

That the Ottawa Fire Service implement a formal management-led incident debriefing process, including a standard format for discussion and documentation of all findings and recommendations and report the results on all major incidents to senior management.

Management Response

Management does not agree with the recommendation.

The current debriefing sessions for incidents are currently conducted at the appropriate operational level of the organization based on severity of the incident. The organizational structure within the Fire Services is as follows: Fire Chief, Deputy Fire Chiefs, Platoon Chiefs, District Chiefs, Captain, Lieutenants and Firefighters. The Incident Commander at a call could be a Captain, District Chief or a Platoon Chief depending on the severity of the incident. This is the senior person at the call and is therefore, the best-positioned staff to manage a debriefing session, as they were present and participated in the call. Feedback from the debriefing sessions is then provided to the Fire Chief and Deputy Fire Chief(s) – Management - through a variety of formal processes. The management team then provides direction on changes at a strategic level such as changes to coordination of other City services, tactics and policy and procedures necessary to address weaknesses identified through the debriefing session in an effort to ensure staff are better prepared in the future. Fire management can and do request and receive additional information that they may require on any incident in order to make necessary recommendations on improving services.

Ottawa Fire Service's debriefing process is the following:

The incident commander submits a form, which included time of incident, damage, name of injured and the apparatus that responded, to the Platoon Office which in turn signs the form and submits it to all Deputy Chiefs and the Fire Chief

Fires of 3rd alarm (fire requiring eight pump trucks, three ladder trucks, a heavy rescue truck and additional support vehicles in a hydrant area) or greater have a Deputy Fire Chief in attendance

For all 3rd alarm fires or greater, the Platoon Chief meets with the Deputy for incident management critique

A formal incident debriefing is held the next shift with most first response stations in attendance along with the Dispatcher that handled the call and the Investigator if available

Recommendations from Incident Commanders on major fires are discussed at the monthly Platoon Chief/Deputy Chief meetings

Incident report filed on major fires by Incident Commander with recommendations on equipment, response and tactics

All Safety Officers complete a report on all "Working Fires". Any reports identifying problems or issues are submitted to the Deputy Chief of Operations for follow up and disposition.

Issues from Incident Reports are brought forward to Health and Safety Committee, which is co-chaired by the Deputy Chief of Prevention and Training, for discussion and action. These actions are then submitted to Management Team through the Committee Co-chair for implementation.

Recommendation 15
That the Ottawa Fire Service explore other potential opportunities to revise its management structure including:
(a) Assigning Platoon Chiefs to non-shift regular hours;

Management Response
(a): Management disagrees with the recommendation.

The Collective Agreement between the City of Ottawa and the Ottawa Professional Firefighters' Association and the Fire Protection and Prevention Act prescribe the hours of work and shift rotation to be utilized in the Fire Service Suppression and Operations' Divisions. Accordingly, it would not be possible to assign these individuals to non-shift hours. To remove the position from the Platoon would require the consent of the Firefighters' Association, as it would be a collective bargaining issue. Secondly, it is important to note that the Platoon Chiefs are the sole persons in charge of each of four platoons in the 24/7 operations. They are the most senior person on duty citywide – including the rural areas, in the absence of Fire management, to provide oversight on behalf of the City. While management advocate that additional management positions are required overall per Auditor recommendation #14, the operations require oversight at the Platoon Chief level 24/7.

(b) Exchanging the existing non-unionized Rural Sector Chief positions with the existing Platoon Chief positions.

(b): Management disagrees with the recommendation.

Currently Ottawa Fire Service enjoys the service of a successful Volunteer Complement of approximately 400 Firefighters. At amalgamation, after careful consideration, a decision was made to create the rural management positions as excluded from any bargaining unit. The Rural Sector Chief is a unique position that manages the recruitment, training, retention, oversight and termination of volunteer (non-unionized) firefighters. Their job is non-traditional in nature where they manage operations as well as act as a community liaison between the community they serve and the Ottawa Fire Service. Their hours are irregular by definition with training and other work required in the evenings and weekends when the volunteers are available after traditional work hours. This particular job type does not fit within the Collective Agreement between the City of Ottawa and the Ottawa Professional Firefighters' Association and it is appropriate that the Rural Sector Chief positions remain Management and Professional Exempt (MPE) positions.

Recommendation 19

That the Community and Protective Service Department explore the potential for consolidating its communications centre operations on a Department-wide basis.

Management Response

Management does not agree with the recommendation.

A consultant's report completed at amalgamation recommended that the Emergency Services consider co-locating their communication centres. However, preliminary costs for a consolidated communication centre were projected to be considerable and far outweighed the benefits the City was likely to realize. A significant benefit of consolidating a communication centre is the capability to share information. This has been achieved by the implementation of the new Fire CAD system, which is the same system that Ottawa Police use and now both services are sharing information and resources where appropriate. The Ministry of Health and Long Term Care (MOHLTC) controls the Paramedic Communication Centre, although managed by the City of Ottawa, under a contract to the Province. Consequently, any changes to the Centre operations require approval by the Province. Some improvements have been made with information sharing by the limited implementation of the corporate radio system to the Paramedic Service. In addition, current technology allows for a seamless delivery of service to the citizens of Ottawa through the 911 system operated under contract by the Ottawa Police Service.

Finally, a recent benchmarking review of seven By-law Services in the Province, revealed that it is not a best practice to co-locate By-law dispatching services with other City services.

Audit of the Building Services Branch: Management agreed with each recommendation.

Audit of Public/Private Partnership (P3) Processes: Management agreed with each recommendation.

Audit of I T Processes of the Computerized Financial System

Recommendation 2

That Information Technology Services Branch, SAP Support Center Unit (SAP security group), in conjunction with senior management, using the information noted herein as well as the existing authorization audit reports:

(b) Remove access to the productions environment for all SAP ABAP developers;

Management Response

2(b): Management disagrees with this recommendation.

SAP ABAP Programmers require production access to investigate and diagnose production- related problems. SAP Production global system settings prevent programmers from altering programs or altering application configuration tables. These changes can only be created in the development environment and must follow the published approval process before being promoted to production.   Adjustment of global system parameters is restricted, monitored and logged.

Audit of Fleet Management Services

Recommendation 8

That Fleet Services, with Supply Management, optimize the supply chain and logistics of spare parts in order to increase the turnover ratio up to the standards.

Management Response

Management does not agree with this recommendation. The Auditor has correctly indicated that turnover rates are a controlling characteristic indicative of the performance of the supply chain process. However, Materials Management is concerned that the Auditor has too narrowly interpreted or misapplied the components of the equation yielding an incorrect turnover rate that would become a standard going forward in evaluating inventory performance. This will have very real effects on service to the public if blindly implemented. Materials Management are of the opinion, that the rate should be evaluated against comparable sized fleets taking care to recognize clearly the fleet composition and characteristics.

Recommendation 11

That Fleet Services join Materials Management in a combined effort to:
(a) Revise store staffing requirements;
(b) Improve training for storekeepers;

(c) Measure waiting times at the counter and set targets acceptable to Fleet Services;

Management Response

11(a): Management does not agree with this recommendation. Management agrees with the recommendation however it disagrees that it can be implemented within existing resources. Approval will be requested for an additional $180K Operating Budget funding in 2008 in order to allow Municipal Materials Management to hire three (3) Purchasing Stores Clerks to support currently unattended technician shifts. Presently, there are not any available resources to transfer staff from a regular day shift to an evening or night assignment.

11(b): Management does not agree with this recommendation. Management agrees with the recommendation, however it disagrees that it can be implemented within existing resources. Training is required in order to maximize the efficiencies of SAP and improve training in other areas of concern to Fleet Services. Approval is required for an additional $100K in the 2008 Operating Budget in order to allow Materials Management to complete this training by January 2009.

11(c): Management does not agree with this recommendation. Management agrees with the recommendation however it disagrees that it can be implemented within existing resources. Materials Management will request approval for one-time Capital Budget funding of $60K in order to purchase an electronic queuing system and an on-going Operating Budget increase of $7K is required to cover the life cycle costs for the continued use of the system. It will be completed six (6) months after the receipt of the 2008 budget approval.

Recommendation 12

That Fleet Services:
(a) Ensure that vehicle log books are used especially for light passenger vehicles and perform random audits to determine how often the vehicle is required. Kilometres may not always represent a good indicator to validate whether a vehicle is justified or not. Unjustifiable vehicles should be reported to Council;
(d) Establish vehicle standards per types of task and discourage deviations from the low cost standards by requiring approval from upper management or Committee of Council.

Management Response

12(a): Management does not agree with this recommendation. Logbooks are a client responsibility. Fleet Services reports usage whereas the client determines the justification.

12(d): Management does not agree this recommendation. Fleet Services uses best practices by developing vehicle specifications based on operational requirements of the client department. The client department is responsible to determine the capability requirement and Fleet Services is responsible to prepare a specification to meet that requirement in a cost-effective manner. The standard specification is for a

base model in each category. Options are added depending on specific application or as a result of departmental request with justification and authorization. Options not supported by Fleet Services are escalated to the Executive Management Team, and if necessary, Council for approval.

Recommendation 17

That Materials Management consolidate and repatriate all parts, new, used and remanufactured, within the official inventory.

Management Response

Management does not agree with this recommendation. Management agrees with the recommendation, however it disagrees that it can be implemented within existing resources. Materials Management believes that the used and remanufactured material currently residing outside their span of control should be moved from Fleet Services control into a secure environment and recorded in the SAP system. The opportunity to create a secure and effective storage area will present itself with the opening of the Swansea Rebuild area under the Fleet CapaCity Optimization project. Three (3) new staff positions at a cost of $183K were approved in the 2007 Operating Budget. Additional funding requests of $140K are planned for 2008 for racking and equipment to create a clean, safe and controlled storage environment. Materials Management will assume control and movement of the materials in 2007, where appropriate, following a risk assessment and cost-benefit analysis. Full and secure control of the appropriate stock will occur by the end of 2008 following budget approval.

Recommendation 24

That Fleet Services redirect resources to planned repairs and routine maintenance and review its procedures pertaining to circle checks and routine maintenance to ensure that the individuals responsible for performing said operations are properly versed with their responsibilities and make use of the training programs available.

Management Response

Management disagrees with this recommendation. Clear accountabilities already exist for operators for inspection and repair and they are documented and incorporated in training programs.

 No further action needs to be taken on this issue.

Recommendation 25

That the St. Laurent shop be cleaned up.

Management Response

Management does not agree with this recommendation.   Cleanliness in the garage is not the issue, however, the crowded work-space does contribute to the untidiness of the garage.

Daily shop maintenance routines performed by Transit Fleet maintenance staff include cleaning their work areas during and upon completion of each bus repair. Area cleaning is also done by Transit Fleet maintenance staff on an as-needed basis and equipment cleaning and maintenance is done on a scheduled basis by RPAM. The St. Laurent garages are well utilized and although crowding of buses and components is a challenge to work around, cleanliness is a priority.

Crowding of most areas will be significantly reduced by the end of 2007 when the major repair operation moves to another garage thereby providing additional storage space for components and cores presently stored in these bays. There will be an opportunity to improve the "area" cleaning component at that time, and action will be taken following this move.

Recommendation 30
That Fleet Services educate all mechanics and operators regarding their responsibility as it relates to the loss and suspension of category G licenses. Operator education must be strengthened in the following areas:
(a) operating a vehicle without a valid license;
(b) consequences for violating the code of conduct are severe when compared to reporting a temporary loss of license; and
(c) liability of operating a City vehicle without a valid license relating to personal liability.

Management Response

Management does not agree with this recommendation. Fleet Services does not have the authority for providing this type of education. Employee orientation at hire, which is the responsibility of the supervisor, is the appropriate place to both review the code of conduct (which is given to each new hire) and all other related issues (including discipline) specific to the job the employee is being hired into.

Recommendation 33
That the management members of the unions be bargained out of the existing collective bargaining unit and into a separate unit when the contract is renegotiated in the future.

Management Response

Management does not agree with the recommendation. The Transit Fleet garage supervisors belong to a CUPE local and the staff they supervise belong to an ATU local, therefore a conflict does not exist since supervisory staff are in a different Union. The best-case scenario occurs when any level of supervisory staff is either

non-union or from a bargaining unit different than the bargaining unit to which staff belong.

Arbitral jurisprudence allows functional supervisors to be from within the same bargaining unit. Functional supervision can include scheduling and assigning work, as it does in this case. These are not true management responsibilities. The management staff from the MPE group or the garage supervisor's bargaining unit is responsible for the management of disciplinary issues.

Audit of Property Management: Management agreed with each recommendation.

Audit of the Financial Control Environment

Recommendation 3
That Financial Services Branch in conjunction with Employee Services Branch ensure that detailed task and job descriptions are developed as part of process documentation in order to provide a basis for training and reference for finance employees.

Management Response
Management disagrees with this recommendation.

The City's current practise is to develop job descriptions that reflect the skills, knowledge, professional qualifications and experience requirements of the positions, and to list the major duties of the position. This is of value to the City with respect to multi-incumbent positions where only one generic job description is needed. Financial Services will instead improve the detailed process descriptions.

Recommendation 4
(b) That Financial Services Branch identify an appropriate number of positions that require an accounting designation.

Management Response
(b) Management disagrees with this recommendation.

Management believes that Financial Services already has an appropriate number of staff with accounting designations in the Financial Service units and the Accounting and Reporting division. Within these divisions, there are currently 18 professional accountants out of a total of 62 positions, almost a 1:3 ratio. All positions in Financial Services were reviewed with respect to the requirement for a professional designation following amalgamation. The branch will continue to determine the skills and abilities required of its staff, including the requirement for an accounting designation, as new positions are created and job requirements change to meet emerging needs. Management feels that it is more appropriate to look at the number

of professional accountants within CIPP and the management groups within the FSU and Accounting and Reporting divisions of Financial Services.

Recommendation 10

That Financial Services Branch in conjunction with Information Technology Services Branch review systems design to implement controls to disallow overriding prices, processing of duplicates, drawing and taking greater than set sick leave allowance, etc., and that reviews be conducted on a regular basis to confirm that any override capabilities deemed necessary are appropriate and approved.

Management Response

Management disagrees with this recommendation.

There are operational requirements that require overrides of the standard processes. Management understands there are additional risks associated with such overrides, but there are compensating controls to mitigate such risks. For example, in order to release contract holdbacks, the system requires that the authorizing document be amended. There is no way to release holdbacks without this override ability. The compensating controls are that the ability to amend the document is limited to the supervisor of Accounts Payable and that every override has to be documented. The system generates a report for review by management of all overrides so that they can be checked against the list maintained by the A/P supervisor. These types of compensating controls exist for all system overrides. Specific management comments regarding the audit findings are as follows:

a. SAP override - No such functionality exists in SAP. CLASS is a stand-alone program that is linked to SAP via an interface file. Pricing information does not exist within SAP and thus price overrides are not possible.

b. Duplicate invoice payments - See management response in Section 5.3.1

c. Cheque printing – See management responses in Sections 5.3.5

d. Sick days – See management response in Section 5.4.5

e. Annual leave - See management response in Section 5.4.8

f. Pay rates - See management response in Section 5.4.5

Recommendation 16

(b) That Financial Services Branch in conjunction with Parks and Recreation Branch and Information Technology Services Branch review the CLASS system design to disallow refunds past the program end date.

Management Response

(b) Management disagrees with this recommendation.

The technology is not available in the CLASS system to customize the program registration module in this way. There is a system limitation that does not allow the automated prevention of refunds after 50% of the program has elapsed. In the registration module, each registration session (spring, summer, fall, winter) must be marked "completed" before refunds can no longer be processed. With thousands of programs each session with different start and end dates, this is a back-end function completed by the CLASS Support team and is set at 30 days after the end of each session. This window of opportunity is necessary for staff to perform a final clean-up of accounts as a result of cancelled classes, etc.

Recommendation 19

That Financial Services Branch in conjunction with Information Technology Services Branch review the system design to include controls that do not permit entry of duplicates, as well as, reports that identify possible duplicate entry.

That Financial Services Branch establish more stringent review by FSUs, and greater follow-up by Accounts Payable to prevent duplicate payments. In addition, a program of on-going review designed to identify duplicate invoice processing would also reduce the risk of duplicate payments or serve as a mechanism for cash recovery. A comprehensive approach would serve to prevent duplicate entries, reduce duplicate payments, and increase the prospect for cash recovery in the event of a duplicate payment.

Management Response

Management disagrees with this recommendation.

Management is of the opinion that internal controls to prevent the processing of duplicate supplier invoices are already appropriate to manage the risk of such errors in a cost effective manner. The error rate of this review was a small fraction of 1%.

However, as a precautionary measure, Financial Services is assessing the value of using Audit Control Language as a detective tool to identify any duplicated payments and will be completing a review of the accounts payable process by the end of Q4 2007.

Recommendation 21

That Financial Services Branch establish a practice requiring all goods based invoices be signed off by the client department as evidence of receipt of goods. If the invoice is not signed, that the Accounts Payable staff return the invoice to the FSU for approval on a timely basis.

Management Response

Management disagrees with this recommendation.

The current process requires that vendor invoices be routed directly to Central Accounts Payable, where staff relies on the controls embedded in SAP to process the

payments for goods-based invoices. Service-based invoices are re-routed to the FSU for the client's approval and sign-off.

It is also important to distinguish between inventory goods and non-inventory goods receipts. For inventory goods, a goods receipt entry is processed at the inventory location on the basis of a packing slip. The packing slip is retained at the receiving site. Compensating controls include an automated inventory management system and physical inventory counts. For non-inventory goods, the goods receipt is entered by the client or the FSU on the basis of a packing slip, if one is available, otherwise, an invoice is used for that purpose. The packing slip is retained at the receiving site.

The above processes leverage the best practices embedded in SAP, including the three way match between the purchase order, goods receipts, and vendor invoice. Management's preference is to have all goods receipts issued on the basis of packing slips and to continue routing all vendor invoices to Central Accounts Payable. This will minimize the number of lost or misplaced invoices and reduce the likelihood of late payment fees.

Recommendation 22

That Financial Services Branch in conjunction with Information Technology Services Branch review the Corporate Financial Management System (SAP) design and configuration to disallow changes to the status of the transaction by anyone that is capable of processing invoices payments.

Management Response

Management disagrees with this recommendation.

There are a number of valid reasons for allowing or requiring changes to the status of accounts payable documents. These include the release of holdback and changes to the method of payment.

Based upon a review of the findings, management has determined that the incident reported by the Auditor was caused by an error of omission. Financial Services staff at one of the City's locations was improperly removing the system-generated payment blocks. Further investigation revealed that this was a gap in process training. Management has corrected this oversight. There are compensating controls to detect the inappropriate removal of payments blocks and this report will now be reviewed on a regular basis.

Recommendation 26

That Financial Services Branch establish a procedure requiring two signatures on all cheque requisitions and that reconciliations be maintained by someone other than the individuals who orders and receives the cheques.

Management Response

Management disagrees with this recommendation.

Management believes that there are already sufficient manual controls in place. Part of the control processes include that the City's supplier of cheques verify the person and organization placing the order and ensure continuity and completeness with respect to document number sequence.

As well, incoming cheque stock orders are delivered to shipping and receiving where they are verified against the accompanying packing slip. The packing slip is initialled by the receiver and delivered with the cheques to the print shop coordinator who passes them to the senior supervisor for final verification and safe storage. It should also be noted that the cheque stock, as is the case for any type of secure document, are produced under tight controls by the paper manufactures.

As part of the continuous improvement process, management will explore the possibility of assigning the ordering function to an individual other than the supervisor.

Corporate Security also reviewed the procedures when the print shop started to print Employment and Financial Assistance cheques.

Recommendation 30

That Employee Services Branch require that supervisors ensure there is an Incumbent Report for the staff directly reporting to them and review these for any errors, incorrect data entered or unauthorized employees or changes to employees pay grade or level.

Management Response

Management does not agree with this recommendation.

The role of Employee Services is to ensure that human resource reports are available to managers and to provide training on the use of these reports. Employee Services does not control whether managers use these reports. Managers are responsible for managing their staff, which includes reviewing human resource reports on a regular basis.

The Position Incumbent Report is available at all times in SAP to managers, their administrative assistants, and to supervisors of 15 or more direct reports as per the SAP licensing model approved during the IBS Project. Managers can also access their Position Incumbent Report via the City's intranet without using SAP.

Recommendation 31

That Employee Services Branch require that Display Changes to Employee Pay Information Report can be generated and reviewed by:
(a) Payroll Analysts; and
(b) Supervisors.

Management Response

(b) Management does not agree with this recommendation.

Regarding the supervisors, presently there are already many controls in place to ensure changes to employees pay are complete and accurate. These include: written authorization by the manager for pay rate changes, payroll audits, management reports such as the Position Incumbent Report and Cost Center Report that identifies charges against the manager's budget.

Recommendation 32

That Information Technology Services Branch in conjunction with Employee Services Branch identify all significant system overrides and these be eliminated. That in the rare occasion when overrides are deemed necessary, that they are restricted to a limited number of users. At a minimum, create detective controls that would prevent errors from flowing through the financial data.

That Information Technology Services Branch in conjunction with Employee Services Branch review the Corporate Financial Management System (SAP) design and configuration to assess the viability of restricting uncertified sick leave days in excess of allowable limits.

Management Response

(a) Management does not agree with this recommendation.

Management believes that is not necessary to eliminate overrides as the Payroll division already has controls in place to ensure that all pay rate changes including pay overrides are in accordance with management's authorization.

For example, the salary scales in the ATU 1760 contract have only a minimum and maximum salary. In some unions, employees have red-circled rates of pay as allowed under collective agreement provisions. In both these situations it is incumbent for the Payroll division to manually update the system with the appropriate pay rate.

With respect to economic increases, where overrides are required, an independent verification of the override is performed by a second Payroll Analyst to ensure compliance with collective agreement provisions. Payroll currently performs many audits to capture system changes including overrides.

(b) Management does not agree with this recommendation.

Currently, all managers have access to an SAP-generated report that provides accumulative sick leave information. Once staff has reached their sick leave limit, based on their collective agreement requirements, it is the responsibility of all managers to ensure that staff are providing a doctor's certificate within the required timelines.

The Payroll division will work with ITS to determine the viability of building the system to meet this requirement based on the rules of the various collective agreements in the 2008 workplan. The delay in exploring this initiative is because Employee Services is concentrating on the overtime initiatives from the 2006 Deloitte Branch-by-Branch Overtime Review. As in interim measure, Employee Services will immediately send out a communiqué to all management reminding them of the sick leave requirements.

Recommendation 35

That Information Technology Services Branch in conjunction with Employee Services Branch review the Corporate Financial Management System (SAP) design and configuration and restrict annual leave carry-over in excess of employees' yearly entitlement.

That Employee Services Branch address the increasing balance of annual leave in excess of employees' entitlement by requiring employees carrying excess leave to identify the period in which they will take the excess leave (in addition to their yearly entitlement) or have the excess leave balance paid out before the end of the 2007 calendar year.

Management Response

(a) Management does not agree with this recommendation.

The various collective agreements allow for carry forward of more than one year's entitlement, therefore it is not recommended that the SAP system be redesigned to restrict this carry over. Management already has access to SAP-generated reports to monitor excess vacation leave.

(b) Management does not agree with this recommendation.

The issue of financial liability regarding vacation leave balances was already brought to the attention of Council in the 2005 management letter from the City's external financial Auditors and was discussed at Corporate Services Economic Development Committee February 6, of 2007.

The audit identified that City staff are carrying forward a significant amount of unused vacation leave, which results in a considerable financial liability for the City. At any time this liability includes:

- Accumulated vacation credits for employees in the current year as per the terms and conditions of employment and collective agreements
- Carry-forward of vacation credits by employees from prior years in keeping with the terms and conditions of employment and collective agreements
- Additional vacation credits from prior years carried forward in excess of the above

The City policy accommodates the first two components of this liability. The third component is addressed in the collective agreements which allows for excess carry forward of unused vacation leave beyond the regular entitlement under exceptional circumstances provided that appropriate approvals are obtained.

Furthermore, the leave balances of some members of the management group include a large amount of excess carry forward of unused vacation leave that were primarily brought forward to the new City at amalgamation from positions held in the former municipalities.

Since the audit, staff have conducted a detailed analysis of outstanding vacation leave banks for all City staff. Staff will be reporting back to Committee and Council by the end of Q2 2007 on a plan to eliminate the outstanding liability associated with the excess carry over of vacation credits.

Management will also be reminded through a communiqué that they are responsible to monitor staff vacation, encourage staff to take vacation, and ensure that a letter of approval is submitted to the employee's file if vacation leave is in excess of entitlement.

Recommendation 36

That Employee Services Branch require that Supervisors review Payroll Cost Center reports.

Management Response

Management does not agree with this recommendation.

Employee Services has made Payroll Cost Center Reports available to managers, program managers, and supervisors with more than 15 direct reports. Employee Services also provides SAP-HR manager and refresher training sessions to instruct users on the uses of this report, and encourages them to review their reports regularly. The Financial Services branch also works with managers on an ongoing basis to review cost center charges and identify anomalies. The City's accountability framework for managers stipulates that human resource and financial management is the responsibility of the operating manager.

In addition to the Payroll Cost Center Report, managers have access to financial cost center reports that provide a comprehensive picture of the manager's entire budget.

Audit of the Wastewater and Drainage Services Division

Recommendation 6

That WDSD identify a specific group to lead and be responsible for all inflow and infiltration reduction programs.

Management Response

Management disagrees with this recommendation. Responsibility for these programs rests with the Infrastructure Services Branch. Collaboration with the appropriate operating group is a well-established protocol.

Recommendation 18

That the overall operations and maintenance of the wastewater system be reviewed to ensure accountability of an individual below the level of Deputy City Manager.

Management Response

Management disagrees with this recommendation. USB and ISB understand their respective responsibilities and accountability. USB through the Wastewater and Drainage Services Division is accountable for the operation and maintenance of the sewer system. The Infrastructure Management Division of ISB is responsible for the asset management of the linear pipe network. Both groups work cooperatively to ensure that overall services are delivered effectively under the general direction of the Deputy City Manager of PWS.

Audit of the Munster Hamlet Sewage Rehabilitation Project

Recommendation 2

That the Public Works and Services Department develop a policy for Council approval that once an Environmental Study Report has been in the public record for the statutory 30-day review period and any Part II Order requests have been resolved or the Ministry of the Environment has rejected them, the Class EA process not be re-opened unless the factors provided for in the Municipal Class Environmental Assessment take effect (Section A.4.2.2 of the Municipal Class EA).

Management Response

Disagree. The Municipal Engineers Association Class Environmental Assessment process is itself an undertaking approved under the Environmental Assessment Act. Both processes recognize and include provisions for changing circumstances including for completed Class EAs a mandatory requirement to review and reconfirm or modify both the assumptions and conclusions of a completed EA study every 5 years. The recommendation would seem to contradict this legislated requirement. The provisions for mandatory review contained in the Class EA process anticipate a wide range of circumstances including changes in legislation, new technologies, changes in original assumptions, etc.

Although this resulted in long delays and created controversies in the community in the case of Munster, there are often instances where revisiting EA decisions due to new information is warranted. Restricting the reconsideration of decisions previously made would not be in keeping with intent of the overall Class EA process.

APPENDIX B: BY-LAW NO. 2005 - 84

A by-law of the City of Ottawa to establish the position and duties of the Auditor General of the City of Ottawa.

The Council of the City of Ottawa enacts as follows:

DEFINITIONS

1. In this by-law,

"Auditor General" means the Auditor General of the City of Ottawa.

ESTABLISHMENT OF THE POSITION OF AUDITOR GENERAL

2. The position of Auditor General is hereby established with the duties and functions as set out in this by-law or any other by-law or provincial statute that makes reference to the Auditor General.

APPOINTMENT OF AUDITOR GENERAL

3. (1) City Council shall by by-law, appoint a person to the position of Auditor General for a non-renewable term of seven (7) years and specify the terms and conditions of such appointment.

(2) The current Auditor General shall hold office until the expiry of his current term.

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

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

ACCOUNTABILITY

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

5. The Auditor General shall report to Council through the Corporate Services and Economic Development Committee.

RESPONSIBILITIES

6. (1) The Auditor General shall be responsible for carrying out financial (excluding attest), compliance and performance audits of all programs, activities and functions of all City departments, agencies, boards and commissions and corporations and the offices of the Mayor and Members of Council.

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

(3) At the request of Council or a board of directors, the Auditor General may also conduct financial (excluding attest), compliance and performance audits of boards, commissions or corporations where the City holds more than 50% of the shares or appoints more than 50% of the members of the board.

(4) Audits shall be conducted at such time and to the extent that the Auditor General considers appropriate.

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

(6) The Auditor General, in consultation with the City Solicitor, shall have primary responsibility for the investigation of any suspected acts of fraud, misappropriation or other similar irregularity in accordance with the Corporate Policy on Fraud and Other Similar Irregularities as approved by City Council.

ACCESS TO INFORMATION

7. The Office of the Auditor General shall have unrestricted access to all personnel, records, property, functions, policies, procedures, processes and systems necessary to the conduct of audits.

ANNUAL AUDIT PLAN

8. (1) The Auditor General shall submit an annual audit plan for the next following year to Council for information by December 31st of each year.

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

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

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

OFFICE OF THE AUDITOR GENERAL

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

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

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

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

ANNUAL BUDGET

10. (1) The annual budget of the Office of the Auditor General shall be equal to or greater than 0.08% of the annual operating budget of the City.

(2) Requests by Council or a board of directors pursuant to subsection 8(4) shall be subject to the provision of appropriate funding.

REPORTING

11. (1) On or before June 30th of each year, the Auditor General shall submit an annual report that summarizes the audits completed in the previous calendar year to Council for information.

(2) The requirement in subsection (1) for the Auditor General to submit an annual report to Council shall commence on or before June 30, 2006.

(3) The Auditor General may, at his or her discretion, report on a more frequent basis to Council.

IMMUNITY

12. (1) No proceeding for damages or otherwise shall be commenced against the Auditor General or an employee or agent of the Auditor General for any act done in good faith in the performance or intended performance of a duty or authority under this by-law or for any alleged neglect or default in the performance in good faith of the duty or authority.

(2) Notwithstanding any general laws neither the Auditor General nor his or her staff may be compelled, without benefit of a subpoena, to give testimony relating to information obtained in the performance of their duties.

ENACTED AND PASSED this 23rd day of February, 2005.

CITY CLERK MAYOR

BY-LAW NO. 2005 - 84

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A by-law of the City of Ottawa to establish the position and duties of the Auditor General of the City of Ottawa.

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Enacted by City Council at its meeting of February 23, 2005.

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LEGAL SERVICES

AMP:ec -

COUNCIL AUTHORITY:

City Council December 15, 2004

CSEDC Report 21A, Item 1

APPENDIX C: FRAUD AND WASTE HOTLINE REPORTING CATEGORIES

Harm to People or Potential Harm to People	Concerns related to physical or mental harm or potential harm to employees or others relating to violence, threat, discrimination, or harassment.
Health and Safety, Environment	Items related to the safety of people and the protection of the environment in which they work and live.
Alcohol or Drug Use or Other Substance Abuse	Issues related to alcohol or drug use or other substance abuse.
Theft, Embezzlement, Fraud	Any act of stealing from an organization or individual, by whatever means, and attempts to conceal it.
Unauthorized Use or Misuse of City Property, Information, or Time	Items related to the unauthorized use or misuse of City property, equipment, materials, records, internet or harm or threat of harm to City property, equipment, materials, or internet. This would also include abuse of work time or fraudulent use of sick leave.
Manipulation or Falsification of Any Data	Changes (unauthorized or authorized) made to any data, information, records, reports, contracts, or payment documents possibly to cover mistakes or fraud, improve financial / operating / statistical results or to gain financial advantage or unfair advantage in a contract.
Unethical Conduct and Conflict of Interest	Unethical or dishonest conduct by any person at any level of the organization and any situation or action of an employee that puts them in conflict, or could be perceived as putting them in conflict, with the interests of the organization.
Violation of Laws, Regulations, Policies, Procedures	Violation of any law, rule, or policy set down by an organization, regulatory authority including securities commissions, or any level of government.
Financial Reporting and Accounting	Items related to the accuracy and completeness of financial statements and other financial reporting to the Board of Directors, Board of Governors, or other governing body, and to regulatory bodies or the public (e.g. securities regulators, tax authorities, government departments, annual public reports).
Management/Supervisor	Any issues, concerns or comments related to the level of support received through the actions or inactions of your direct managers and/or supervisors.
Suggestions for Improvement	Suggestions to improve any aspect of the organization including ideas, concerns, or comments related to Municipal Services and Products, Customer Service, and any other suggestions, to aid the attainment of its objectives, or to manage its risks.
Suggested Areas for Audit	Any suggestion to audit any area of the organization.