Ottawa

Office of the Auditor General

2005 ANNUAL REPORT

Français au verso

Ottawa

Office of the Auditor General

May 10, 2006

Mayor and Members of Council,

The creation of the Office of the Auditor General at the City of Ottawa represents a progressive step by Council in demonstrating its commitment to transparency and accountability. Although there is no legal requirement to establish this function within Ontario municipalities, Council has recognized that the truly independent nature of the Office is an effective mechanism in providing oversight in such a large and complex organization as the City of Ottawa. The approval in late 2005 of a corporate policy on fraud and the subsequent creation of the Fraud and Waste Hotline is further evidence of this commitment to public accountability at the City.

I am pleased to present the first Annual Report of the Auditor General of the City of Ottawa. The 2005 Audit Plan identified several specific audits to be undertaken during the year. In addition to these projects, two other audits were added to the work plan; one at the request of Council and a second at the request of the Chief Executive Officer of the Ottawa Community Housing Corporation. All of these audits have now been completed. Some of the 2005 audit reports have already been presented. This report represents the results of all audits which have not already been presented to Council.

The annual 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.

In addition to the audit plan, the Office also assumed responsibility for the administration of the Fraud and Waste Hotline during 2005. The first annual report on the Fraud and Waste Hotline is presented here. Finally, the annual report also provides Council with the Audit Plan for 2006 to 2008.

Respectfully,

Alain Lalonde,
Auditor General

City of Ottawa

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1.   OVERVIEW OF ACTIVITIES IN 2004-05

1.1   Establishing the Office of the Auditor General

On September 3, 2003, City Council approved the creation of a new Auditor General position.   On October 22, 2003, the City Manager presented a report on the implementation of this new position which Council also approved.   Council further approved the following staff recommendation:

> **"That the new Auditor General report back to Audit Committee/Council within six months of hire on the following: 1) a framework that contains protocols regarding his/her relationship to Audit Committee, city management, boards and agencies, etc. and requests for additional or special audits; 2) a work plan which is supported by the resources available; and 3) any recommendations to improve the effectiveness of the audit function including any staffing adjustments".**

The Auditor General joined the City of Ottawa on September 6, 2004 and work began to fully implement the new Office. On December 15, 2004, Council approved *The Office of the Auditor General – Statute and Mandate, By-Law and 2005-2007 Audit Plan* (the By-Law is presented in Appendix A) to establish the position and duties of the Auditor General. Also approved at this time was the establishment of a fixed percentage rate for future annual budgets of the Office of the Auditor General (OAG) equal to or greater than 0.07% of the total operating budget of the City of Ottawa. This approach to establishing the OAG's budget as a fixed percentage strongly reinforces the independence of the Office as funding is automatically determined by the amount of the City's entire operating budget. Using this funding formula, the 2005 budget for the OAG was subsequently set at $1.4 million.   The OAG Statute, By-Law and Audit Plan were all completed three months ahead of Council's deadline.

In the 2005-2007 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 Audit Plan targeted risk areas where the OAG could bring value to the City. The focus of this new audit plan was substantially different from previous audit plans at the City and as a result, significant changes were made to the staffing complement and mix of resources of the previous audit function at the City. Although a component of the plan continues to include compliance and financial audits, a much greater emphasis has been placed on conducting performance audits. Starting in 2005, projects centered much more on examining efficiency and effectiveness issues within areas of the City that provide direct services to the public. In order that the work undertaken by the previous audit function is not overlooked, some components of those projects have been or will be incorporated into upcoming audits where deemed appropriate.

The 2005-2007 plan also includes several projects to examine governance practices at key organizations such as Ottawa Police Service, Ottawa Public Library, Ottawa Community Housing Corporation and Hydro Ottawa. These autonomous but affiliated organizations represent an important service delivery model for the City. In these cases, Council has no direct authority and relies on a Board to provide oversight on its behalf. Given the substantial level of resources devoted to these organizations and the important services they provide to the citizens of Ottawa, it is essential for the OAG to provide Council with assurances as to the effectiveness of their governance structures. Auditing the governance practices and structures in affiliated organizations is unique among municipal audit groups in Canada and will continue to be an important component of the OAG work plan in the coming years.

1.2   Audits Undertaken in 2005

Council received the 2005-2007 Audit Plan in December 2004. Although specific projects were identified for 2006 and 2007, it was noted that the audit plan for these years was subject to revision based upon issues arising from work conducted during 2005 and based on an annual risk assessment. Section 5 of this report confirms the audit plan for 2006 and presents the tentative plan for 2007 and 2008.

The audit plan for 2005 included eleven separate audits, each of which was completed during the year. In addition to the projects identified in the audit plan, audits were also conducted at Hydro Ottawa (at the request of Council) and at the Ottawa Community Housing Corporation (at the request of the Housing Corporation's Chief Executive Officer). All of these projects were completed within the Office's 2005 budget.

The following list identifies all projects undertaken during 2005.

1. Overtime
2. Drinking Water Services
3. Management Control Framework
4. Procurement Process
5. Real Estate Management
6. Emergency Management Program
7. By-Law Enforcement and Inspections
8. Internet Usage and Controls
9. Public Health
10. Ottawa Police Service – Budget Development Process
11. Ottawa Police Services Board – Governance Practices

12. Ottawa Community Housing Corporation - Recording and Monitoring of Rental Revenues

13. Contracts Awarded to Members of the Board of Hydro Ottawa

The audit of Public Health was halted at the conclusion of the audit's planning phase. During the planning phase, it was revealed that the Ontario government was considering significant changes to the role of both the Province and the City in the delivery of public health programs. Work was conducted by the OAG to determine the likelihood, timing and extent of these changes. It was determined that while the final organizational model to be implemented is not yet known, the implications for the City's future role in the delivery of these programs appears to be significant. As such, we did not see value in the OAG continuing work in this area in the short term. Based upon the ultimate decision by the Province, the OAG's future audit plans would include public health programs if applicable.

The audit reports for each of the final four items listed above (i.e. Ottawa Police Service, Ottawa Police Services Board, Ottawa Community Housing and Hydro Ottawa) have already been presented. As such, the results of these audits are not included in this report.

Section 2 of this report discusses the main messages arising from the audit projects conducted throughout 2005. This section is intended to provide commentary on the overall trends and common themes from a corporate-wide perspective. Section 3 presents executive summaries from each of the audit reports that have not already been presented. Included are key findings and observations as well as all of the recommendations arising from each audit and all management responses.

1.3   Corporate Fraud Policy and Reporting Framework

In addition to the projects identified in the 2005 Audit Plan and those subsequently added, the implementation of a corporate policy and procedures related to fraud was a significant undertaking by the OAG in 2005. On July 13, 2005, in recognition of the need for greater accountability and transparency, Council approved a new Corporate Policy on Fraud and Other Similar Irregularities. The Corporate Services policy establishes the OAG as having primary responsibility for the investigation of any suspected acts of fraud, misappropriation or other similar irregularities. The policy addresses all types of fraud from minor theft to misappropriation of assets and fraudulent financial reporting. The new policy provides oversight and reporting processes and addresses confidentiality, personnel actions, whistle blower protection, media relations, senior staff and branch and employee responsibilities, monitoring and contraventions (non-compliance).

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 first Annual Report on the Hotline. It includes details on the implementation of the Fraud and Waste Hotline and on activity arising from the Hotline to December 31, 2005.

1.4   Follow-up Audits

Part of the ongoing work plan will include a follow-up on audits conducted in the previous year. Follow-up is a key component of an effective audit process in that it informs Council as to whether recommendations have been implemented. Follow-ups will be conducted in all areas where management has indicated its intention to implement recommended changes. In areas where management is in disagreement with the recommendations, the OAG will follow up only on those areas where Council has directed management to implement recommended changes.

The major focus of the OAG will continue to be on conducting new audits each year. As such, given the resources available and the number of recommendations produced annually, the OAG will follow up on each completed audit once only, after which it appropriately becomes the responsibility of management to monitor progress, to ensure recommendations are addressed and to inform Council on the implementation process.

Follow-up audits will be included in the audit plan for each year. Follow-up on 2005 audits will be conducted after the first year of implementation of recommendations. It is intended that a separate report on these follow-ups will be provided to Council in 2007.

2. ITEMS FOR SPECIAL CONSIDERATION

With the first year of the Office of the Auditor General now complete, we are pleased to report the successful achievement of the 2005 Audit Plan. When the 2005 plan was presented to Council in December 2004, it was described by many as ambitious. Clearly, the 2005 Audit Plan was ambitious, and the plan for 2006 is equally so. We remain confident, however, that it will also be successfully achieved.

The audits conducted in 2005 led to over 100 separate recommendations to management, designed to improve management practices, enhance operational efficiency and address a number of specific issues. The number of audit recommendations presented to management in the past year is unprecedented, either at the City of Ottawa or at any of the legacy municipalities in existence prior to amalgamation. It should be acknowledged that this level of audit activity presents a new and 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 been positive, and we fully expect to build on the strong relationships that have been forged with senior managers in 2005.

A summary of all 2005 audits and recommendations is presented in the following section of this report. Before discussing these audits in detail, we would like to take the opportunity to offer some more general thoughts and observations of a corporate-wide nature that have arisen from our audits.

2.1 City of Ottawa faces some of the most unique management challenges in the municipal sector.

Municipalities in Canada, more than any other level of government, have the most direct impact on the daily lives of citizens. No other level of government delivers the wide range of programs and services or faces the amount of direct interaction with the public as do municipalities. Of course, this level of direct impact and interaction rightfully leads to a much higher degree of day-to-day public scrutiny of our City's performance. The efficiency and effectiveness with which we deliver our programs and services is constantly under examination, either from the public itself or from their elected representatives. Accountability to our taxpayers must therefore remain in the forefront of management's thinking for our City to be successful.

The amalgamated City of Ottawa in particular is a complex and challenging municipality to manage effectively. The range of services provided by our City is as varied as any. Beyond this however, the geographic size (2,760 km^2, spanning more than 110 km from east to west) and diversity (including significant rural, suburban and urban components) creates municipal challenges that are unique in all of Canada. Add to this the presence of the federal government and the significant role and influence of the National Capital

Commission, and the municipal environment in Ottawa clearly can be described as one of the more complex in the nation.

2.2 The City is subject to a wide array of legislative and regulatory requirements and our 2005 audits found consistent compliance.

In addition to the direction given to management by Council, the provincial, and to some extent the federal governments, place a great deal of legislative and regulatory requirements on the City. Compliance against these legal requirements forms a standard component of the audits conducted by the OAG.

This operational characteristic was particularly apparent in the 2005 audits undertaken for Drinking Water Services, the Emergency Management Program and the Ottawa Police Service. Assuring legislative compliance within the Police Service is beyond the scope and mandate of the OAG, however, this did form a key objective in the other audits mentioned. In both these cases, where the focus of legislative requirements was on ensuring public safety, it was evident that the City has done an effective job of responding to both existing and emerging regulations.

Based on all of the audits undertaken in 2005, it should be acknowledged that there are a number of things the City is doing well and we have attempted to identify these strengths in each of the audits. With over 100 recommendations made to management in 2005, there are still opportunities for improvement at the City. Nevertheless, this should not be interpreted as saying that there are serious risks to providing services to the public in accordance with legislation and regulations. Despite areas where improvements are possible and needed, none of these audits uncovered serious unmitigated risks of non-compliance to legislation.

2.3 Positive developments are occurring in corporate planning initiatives.

The City Manager has placed a renewed importance on a coordinated approach to corporate planning. Such an approach, incorporating the City's Official Plan more directly with departmental operating plans, is a positive step in developing the ability to rationalize City services on the basis of strategic objectives. This in turn will enable the development of a new and more meaningful system of performance measures, a topic that is discussed further below. Opportunities remain, however, to pursue a more integrated approach to risk management as part of corporate planning at the City.

The Emergency Management Program represents an example of an effective effort by the City to develop a comprehensive corporate plan to guide operations. There are concerns with respect to sustainability and on-going funding, however it is clear that the City has set a solid foundation in this area on which to build its future capacity.

Police services in Ontario are required by legislation to develop a three-year Business Plan. The Ottawa Police Services (OPS) is currently operating under its second of these plans and will be developing a new plan in 2006. Although issues were raised regarding regularly reporting back to the Board on this plan, an effective job has been done by the OPS in developing its Business Plan and designing operational plans which are tied directly to the three-year strategic objectives. Work is also underway within the OPS to develop a comprehensive system of performance measures which will also be tied to the Business Plan.

2.4   Clarity of roles and accountabilities remain an issue.

Upon amalgamation, the City of Ottawa implemented a Centres of Expertise (COE) organizational model by which support services, including areas such as property management, fleet management, financial monitoring and support and many other internal services were designed to provide support to operating areas via centralized functions based upon service level agreements (SLAs).

Conceptually, centralization of support services makes sense in terms of efficiency and optimizing resources, and progress has been made in streamlining support functions at the City. The City has struggled, however, to make this model work in practice across all functions. Under this model, SLAs are key to clarifying service levels and expectations. Whether by flaws in initial design or as a result of budgetary decisions over the past years, most of these agreements are no longer valid. At present, service levels vary not only across but also between client groups within a service area. A particular example of this is the range of services currently provided by the various Financial Support Units to their respective clients. Some operating areas expressed increasing frustration with a perceived lack of responsiveness in many of these areas over which they have had no input or control.

The decision to pursue a COE model for all support services requires that extremely effective communications channels be developed across all departments, branches and divisions. Organizations in general struggle to implement a COE model and the result is often that accountability for decisions and responsibility for specific duties becomes unclear. This has been evident during the course of many of the audits conducted in 2005, particularly with regard to internal control and policy compliance where the lines of accountability have become blurred. As an example, the audit of Drinking Water Services revealed issues of role clarity between operations and finance regarding water meter control, repair and maintenance. The audit of Internet Usage revealed issues regarding management's role in overseeing staff activity and Information Technology's roles in providing support tools and data to facilitate this oversight.

Further clarification of service levels, budgetary decision-making, roles and accountabilities between operating areas and support functions is required if this model is to be more effective in the future. A specific area, financial control and compliance, is discussed more fully in section 2.7.

2.5 Acceptance and use of the City's enterprise-wide information system is inconsistent.

At the outset of municipal amalgamation, the City of Ottawa implemented a common financial information system platform using SAP. Shortly thereafter, the City pursued an enterprise-wide systems strategy whereby the SAP suite of modules were implemented to support human resources and payroll activities across the City as well as maintenance and plant management activities in Public Works and Real Property.

A significant investment has been made by the City to bring these technology tools into use with the expectation that significant efficiencies would be realized. In fact, the City developed an extensive business case supporting the pursuit of this technology by quantifying the anticipated benefits of this investment.

The key to realizing these benefits is the acceptance and use, especially by managers, of this technology. Unfortunately, in some areas of the City there is still a reluctance to embrace the new ways of doing business that the technology requires. This was particularly evident during the audit of Overtime. In these cases, managers continue to have more comfort with other stand-alone systems which essentially duplicate information in a different and more familiar format.

The decision to implement an enterprise-wide information system was based upon a detailed business case which justified the investment on the basis of several million dollars in realizable, re-deployable savings. On January 12, 2005, the Integrated Business Solutions (IBS) closeout report to Council presented the most recent figures for expected savings as well as several conditions for success, including the requirement for a benefits realization process. Without more widespread use and acceptance of this technology, the anticipated benefits of this investment will be difficult to realize.

2.6 Performance measurement and monitoring requires a greater focus.

Performance measurement, particularly in the public sector where typical measures such as profit margin, market share and share price are not applicable, is a challenge. Often the objective in providing municipal services cannot be measured in normal business terms. Nevertheless, it is an important discipline for municipal managers to identify strategic measurable objectives for all programs and services and then develop measures that provide indicators as to whether these objectives are being achieved.

Planning and performance management is discussed more fully in the Management Control Framework audit report while the By-Law Enforcement and Inspections and Real Estate Management audit reports present performance measurement recommendations for these specific areas. As mentioned above, the City is working toward a more coordinated approach to corporate planning and performance measurement. This should remain a key focus for senior managers. Not only does an effective system of measuring performance yield valuable information to managers about operational efficiency, it is an important

tool to communicate with Council on performance and provide indicators to use in making decisions on where to best allocate taxpayer dollars.

2.7   Greater attention to cost control and budget development techniques would be beneficial.

Over the past few years, progress has been made to be more efficient and to reduce indirect costs at the City of Ottawa. There are concerns, however, that the focus on cost and managing City budgets tightly has not yet been fully embraced across all areas.

An example of where increased cost consciousness would offer opportunities for savings is in the process for evaluating proposals and awarding contracts. The Procurement Process audit identified substantial opportunities to reduce costs by increasing the weight given to the price component for engineering contract awards, establishing greater control over contract amendments and imposing tighter guidelines on the creation and use of standing offers. In our opinion, this can be accomplished without sacrificing quality. There has, however, been some reluctance to pursue these opportunities.

In addition, during the audit of overtime expenses for 2004-2005, it was noted that in some instances, incurring expenditures well past budgeted amounts for overtime did not appear to be of concern for some managers. Such expenses were often justified as necessary to maintaining existing service levels to the public. More creative approaches - questioning existing practices and investigating alternative operating procedures - are needed to mitigate service delivery risks without simply incurring additional costs.

A good budget process is far more than allocating funds to a series of line items. Effective budgeting:

- Incorporates a long-term perspective,
- Establishes linkages to broad organizational goals,
- Focuses on operational results and outcomes, and
- Involves effective communication with stakeholders.

It was noted during the audits conducted in 2005 that a common approach to annual budgeting is still to simply carry over the previous year's budget with little consideration of alternative operating techniques. Although the level of effort required can be significant, especially in direct service areas, utilizing strategies such as a zero-based approach in selected areas ccould serve to reconfirm the validity of existing budgets and may yield opportunities for operational efficiencies and cost reductions.

Good budgeting is strategic in nature, encompassing a multi-year financial and operating plan that determines resource allocations on the basis of clearly identified goals. In July 2004, Council approved a revised budget process incorporating an Integrated Planning Framework that envisions the Long-Range Financial Plan being refreshed in the last six months of each term of Council. This Plan will enable full public discussion of the

longer-term financial issues prior to the election of a new Council, and will provide Council with detailed information it will need to set its Term of Council priorities within the first four months of the new term. Such an initiative is a crucial component to better integrating operational planning with budget development and will reinforce more rigorous attention to budget development and cost monitoring and control.

2.8   Post-amalgamation issues are still having an impact on staff attitudes and perceptions.

Managerially, the approach taken by the Ottawa Transition Board at amalgamation was to 'wipe the slate clean' or in other words, to start from scratch and recreate all City structures and processes. There is no doubt that this approach was the most equitable in terms of assigning existing resources to the new organization. The price for this equity, however, was the need to redevelop virtually all management practices and relationships across the City. The City of Ottawa has made a great deal of progress in developing these new organizational linkages, however, there are still issues to be resolved.

Some staff still refer to the way things were done before amalgamation. Regardless of the legacy municipality, many still express support for the practices of their former employer. A perception still exists that whatever might have been working well in these organizations was abandoned for something less effective. Perhaps a key reason for this perception are the difficulties arising from having to rebuild all support services (e.g. staffing, labour relations, finance, information technology, property, etc.) at the same time as operating areas were attempting to reorganize, re-staff and re-design business processes.

We are hopeful that these perceptions can continue to become less prevalent. The reality is that regardless of whether there had been a municipal amalgamation or not, past practices would no longer be sufficient to manage in the reality of today's environment. The need for strong financial management, cost effectiveness and accountability has never been more apparent and all staff, regardless of their legacy organization, have an obligation to focus on being effective stewards of the public's tax dollars while providing the high quality of service the citizens of Ottawa deserve.

3.   2005 AUDIT REPORTS – EXECUTIVE SUMMARIES

The following presents all of the key issues and observations arising from each of the audits completed in 2005 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.

Chapter 1: Audit of Overtime (page 13)

Chapter 2: Audit of Drinking Water Services (page 31)

Chapter 3: Audit of the Management Control Framework (page 45)

Chapter 4: Audit of the Procurement Process (page 53)

Chapter 5: Audit of Real Estate Management (page 69)

Chapter 6: Audit of the Emergency Management Program (page 79)

Chapter 7: Audit of By-Law Enforcement and Inspections (page 91)

Chapter 8: Audit of Internet Usage and Controls (page 99)

Chapter 1: Audit of Overtime

Executive Summary

As in many other organizations, it is essential that overtime be managed in the most economically possible way. Overtime in many cases is a discretionary cost that must be properly authorized, recorded, approved and controlled. Employees are compensated for their overtime by payment, usually at a premium rate, or by authorized time off in lieu. Total overtime expenditures incurred citywide were approximately $36.9 million in 2004 and $36.8 million in 2005.

Objective

The audit objective is to assess the processes and practices in place at the City to authorize, approve, track, manage and control overtime.

Scope

The audit examined 2004 overtime incurred by the Fire Services Branch, the Utility Services Branch, and the Real Property Asset Management (RPAM) Branch.   The analysis of overtime was based on areas that had a high volume of overtime during 2004, and which had not been examined during a previous 2002 audit conducted by the former Audit and Consulting Services Branch.

The three areas reviewed by the current audit account for $5.5 million, or approximately 15% of the total citywide overtime for 2004.

- Utility Services... $2.0 million
- Fire Services.. 2.2 million
- Real Property Asset Management............... 1.3 million
    Total .... $5.5 million

We also asked management to report on their progress in implementing the recommendations from the 2002 Audit of Overtime Costs, conducted by the former Audit and Consulting Services Branch, and we reviewed the actual overtime expenditures in these areas.

Initially the scope of this review did not include any examination of processing of overtime by Payroll Division. However, as part of our work in Utility Services Branch, a small judgmental sample of Exception Leave Request/Time Reporting forms (ELR/TR), which are used to record overtime, on-call, leave, etc., was reviewed.

During the course of the audit, management informed us that they were not required to manage overtime as a line item, but rather that they were to manage to the total

compensation envelope. Therefore, although we did not review the compensation envelope financial data, we have included this information for each branch and division.

Key Findings

We found that Fire Services Branch were over their overtime budget 1% in 2004 and under budget 5% in 2005. Real Property Asset Management (RPAM) Branch, actual expenditures were under their total planned 2004 and 2005 overtime budgets by 15% and 14% respectively. However, within both of the branches, we did find divisions that were exceeding their budget limits. For Utility Services, the Branch overspent their overtime budgets by 38% in 2004 and 35% in 2005.

A well-prepared budget can determine what is expected within an organization and help prepare its future. An effective budget is essential for setting standards for performance and for providing a tool to measure results against. Good management practices entail that budgets are properly forecasted and that performance is monitored and controlled against budgets. In some areas, we found that the controlling and monitoring of overtime expenditures against budgets needs to be improved.

Establishing a budget review process would be considered best practice. Checks and balances should be performed yearly to ensure that the operating budget remains valid and reflects the City's operations as much as possible. The budget is in reality management authority for expenditures and as such, management should be held accountable. A budget review process would provide an opportunity to reassess future plans and adjust the budget, if and as required.

Managers play a key role in managing overtime. In some of the areas we reviewed, we found that a greater commitment to mitigating the use of overtime should be made. We found that management practices were not adequate to ensure efficient and effective use of overtime. Management was found to use overtime to react to circumstances where proactive planning could have been more cost effective. At the time of our review, no formal policies or guidelines, to address overtime usage, had been established in the three branches reviewed.

The audit also identified instances where improvement to overtime authorization and approval was needed. In several areas, there was no formal delegation of authority for the authorization and approval of overtime. Consequently, we observed cases where overtime was approved by staff not authorized to do so. We found one case where an employee authorized, approved and submitted their own ELR/TR forms. This employee's practice of self-authorization of ELR/TR forms occurred for 20 months from March 2004 to the October 2005 and resulted in overtime and on-call compensation of approximately $41,800.

We also found areas where overtime could be better managed by changing shifts to better address operational requirements. In other cases, absenteeism was found to be a major source of overtime. Better management of absenteeism would reduce overtime. The Office of the Auditor General will be conducting a detailed review of absenteeism in 2007.

Overall, we found management were not using the corporate financial system's full functionality to plan, monitor and manage overtime. Practices differed greatly across the corporation as to which reports were used, the consistency of receiving reports, and in some cases the source of the reports. In certain areas, management use an off-line system, such as Excel, to track overtime information. This represents a duplication of efforts as the appropriate information can be obtained from the corporate financial system.

The primary responsibility for properly completing and submitting ELR/TR forms is with the employee and the supervisor authorizing the form. However, it is also the responsibility of the Payroll Division to ensure controls are in place to ensure that forms that do not comply with the corporate guidelines and good management practices are not processed.

Based on our review of a limited judgmental sample of ELR/TR forms, we found issues relating to: employee self authorizing; submitting forms on behalf of subordinates; signing approval of forms by staff not authorized to do so; incomplete forms and "work-arounds" for information entered in the financial system. These examples are considered significant and warrant the attention of management to ensure all processing of ELR/TR forms comply with the established corporate guidelines and good management practices.

In the four areas covered by the 2002 Audit of Overtime Costs, conducted by the former Audit and Consulting Services Branch, management generally reported that they had implemented the recommendations of the audit. However, we found that in all the areas covered by the previous audit, overtime expenditures continue to be well over budget. Total expenditures in these areas in 2004 were $18.9 million, which was $7.8 million or 70% over the established budget. In 2005, total overtime expenditures were $19.6 million, which was $7.1 million or 57% over the established budget. Therefore the implementation made by management did not foster the changes anticipated by Council. Management in these areas should monitor and manage overtime within the limits of their established budget.

Overall Management Response – Corporate-wide

Management agrees with the overall spirit of the Auditor General's recommendations, although a number of the specific recommendations do not recognize the constraints of the City environment, particularly given the 24/7 nature of the front-line services examined in the audit and the requirements to manage with existing collective

agreements. As the Auditor General Report states: *" in any organization, it is essential that overtime be managed in the most economical way. As such, the utilization of overtime is a fine balance between meeting service delivery needs, addressing appropriate staffing levels and using staff on overtime. Therefore, for every service line, there is an optimization point between the above three components."*

Finding this optimal level must be done on a service-by-service basis given the significant differences among the services and the differing requirements of each service. While Management has specific issues with some of the individual findings and recommendations, Management agrees that there has not been a focused, corporate effort to manage overtime as effectively as possible. There is currently no consistent definition of the difference between discretionary and non-discretionary overtime in many services. Management agrees that clarity needs to be established in each service without delay keeping in mind our obligations under all of our collective agreements. In the first few years following amalgamation, when many services were understaffed and overtime was absolutely necessary to be able to fulfill our service obligations, management's focus was on stabilizing the organization and putting the basic human resources and financial systems in place. The City Manager will now undertake a comprehensive review of the management and control of overtime across the City. This review will include conducting a systematic analysis by service of alternative approaches to minimize overtime, including adjusting current hours of work, using part-time or temporary staff and improving scheduling, reviewing existing policies and procedures for overtime and evaluating the need for better management reports on overtime.

Management does not agree that overtime should be dealt with in isolation of the overall compensation budget. Overtime budgets should more accurately reflect actual spending, but continue to be managed as part of the total compensation envelope given both the 24/7 nature of many City services, the unpredictability of some significant service drivers (i.e. weather conditions, infrastructure failure like water mains or traffic lights, etc) and the hiring freezes that have been put in place over the past three years. All of these factors need to be managed within the total compensation envelope to continue to provide front-line services where and when they are needed.

Council has set a target for reduced overtime expenditures of $3.5 million in the 2006 Budget. Management will identify savings towards that target through the review described above.

Key Recommendations

<u>RECOMMENDATION 1</u>

In order to better monitor and manage overtime, Fire Services Branch (Fire Suppression – Urban Fire Fighting Division) should:

- **Review their staffing practice of requiring a captain for each platoon of each station in order to reduce overtime.**

  <u>**Management Response**</u>

  Management disagrees with this recommendation. This recommendation cannot be implemented at this time since it is a requirement under the collective agreement. Section 5:10 of the Collective Agreement dictates that a Captain shall be in charge at each Station on every shift. Should a Captain not be available an eligible acting Captain may be put in place.

  In 2004, Captains in the Ottawa Fire Service incurred an average of 14.75 days of sick leave, in 2005 the number is 18.42. However, the dollars spent on overtime to address this were reduced from $452,000 to $187,000 because management took action to promote Captains and Lieutenants ahead of time as retirements became known and improved scheduling of vacation and sick leave management.

  Management has challenged the union on its interpretation of the collective agreement (currently at arbitration) which if successful will result in further reduction of overtime costs. (Also reference below the efforts made under the AIP that are addressing this audit concern.)

- **Adopt a more aggressive attendance initiative and aim to decrease its usage of sick leave days in particular at the captain's level and higher.**

  <u>**Management Response**</u>

  Management agrees with the intent of this recommendation. However, Management has already implemented a very aggressive approach with its Attendance Management Program.

  An Attendance Improvement Program Managers' position has recently been finalized and will be going to Job Evaluation mid-December for final rating and will subsequently be posted. The position has been filled in an acting capacity since September 2003. Over the past two years the program has been developed in conjunction with the Corporate Program. Subsequently absenteeism has been reduced from 15.88 days per year to 10.68 days per year since the Attendance Improvement Program was implemented 2 years ago.

- **Addresses the time-lapse by members in submitting the required leave/overtime form in order to insure the corporate financial system information is timely and accuracy.**

  Management Response

  Management agrees with this recommendation. This will be addressed before Q3 2006.

- **Stop maintaining an Excel sub-system and, monitor, control and report on total Branch absences and overtime using the corporate financial system.**

  Management Response

  Management is deferring its response to this recommendation. The comprehensive review will examine the best reporting methods in each service. The Excel sub-system for overtime is used for analytical purposes to determine why overtime is being used. It tracks the reasons for overtime and the SAP system only tracks the use of overtime by cost center for budget and accounting purposes.

- **Provide additional training, as required, on the corporate financial system to facilitate the monitoring and controlling of staff overtime and absences.**

  Management Response

  Management agrees with this recommendation. This will be implemented during Q2 2006.

RECOMMENDATION 2

That Fire Services Branch (Prevention, Training, Special Operations and Communications) monitor and manage overtime within the limits of established budget including the following:

- **Start using the corporate financial system's full functionalities to monitor, control and report on total Branch overtime and leave as well as overtime and leave by employee.**

  Management Response

  Management agrees with this recommendation.

- **Address the time-lapse of members to submit the required leave/overtime form in order to insure the corporate financial system information accuracy.**

Management Response

Management agrees with this recommendation. The comprehensive review will need to establish reasonable timelines given the large contingent of staff operating from a large number of decentralized stations there are time lapses experienced with respect to the time for the form to make its way from the station back to Administration and collect all the necessary signatures.

- **Explore the possibility of modifying the collective agreement to alter Fire Prevention staff work/shift schedule to reflect job requirements, as is the practice in other areas within the Fire Services Branch.**

  Management Response

  Management agrees with this recommendation. The comprehensive review will assist in determining the optimal levels of overtime for this service.

- **Review its work assignment, and if required train additional resources, to ensure that there is a sufficient pool of resources with the necessary skills to do repairs during regular working hours to the extent possible.**

  Management Response

  Management agrees with the intent of this recommendation. However, Management has been addressing the situation by getting as much of this work done on shift as possible.

Fire Services Branch - General Management Comment:

As a technicality, OFS is of the position that the shift premium (budgeted at $753,408 in 2004 with actual expenditures of $700,051) should be backed out of the overtime cost centre. Shift premium is set out in the collective agreement and applies to firefighters who are regularly scheduled (one must actually be at work to qualify) and who work on a statutory holiday as part of the normal shift rotation. The shift premium has long since been negotiated into the collective agreement and is a standard form of payment to fire fighters across the Province. It is not a discretionary item or one that can be mitigated or reduced unless negotiated out of the collective agreement. The shift premium element is clearly not overtime.

If the shift premium is backed out of the overtime cost centre, the OFS will have actually under spent its 2004 overtime budget by one (1%) percent.

RECOMMENDATION 3

That the Customer Services and Operational Support Division of the Utility Services Branch:

▪ **Monitor and manage overtime within the limits of the established overtime budget, independently from the compensation envelope.**

Management Response

Management agrees with this recommendation. The Financial Support Unit will adjust the line items in the overall compensation budget to better reflect actual spending, as was indicated during the 2006 Budget process. However, it should be noted that, given the 24/7 nature of this City services and the unpredictability of some significant service drivers, Management will continue to work within the total compensation envelope to continue to provide front-line services where and when they are needed. The overtime review will help determine where efficiencies can be found within this line item.

▪ **Conduct a more detailed review of the overtime budget annually, in conjunction with FTE levels and service levels, to reflect anticipated/optimum overtime expenditures.**

Management Response

Management agrees with this recommendation. Efforts will be made in documenting and analyzing the relationship between FTEs, overtime and service levels.

▪ **For employees using the MMS-ITX system, ensure a 3-way match at time of approval for overtime – work order, time sheet, and ELR/TR form.**

Management Response

Management agrees with this recommendation. The recommendation mirrors the procedure already in place to approve and sign off overtime.

▪ **For employees not using the MMS-ITX system, ensure sufficient detail is included on the ELR/TR form as to the overtime worked.**

Management Response

Management agrees with this recommendation.

▪ **Review shifts on a regular and ongoing basis to ensure most effective use of overtime.**

Management Response

Management agrees with this recommendation.

- **Formalize the delegation of authority to the appropriate operational level that may authorize and approve overtime.**

  Management Response

  The delegation of authority is already delegated to the appropriate operational level. Management will formalize and document the current procedure.

- **Formalize Service Level Agreements between Divisions as to what activities can be performed on overtime.**

  Management Response

  Management agrees with the recommendation. Service level agreements exist but are not formalized. The division has been formalizing these agreements since early 2005 and will continue this process.

- **Review and update First Response Manual on a regular and ongoing basis. Include specific guidelines as to which situations need immediate response and which can be deferred.**

  Management Response

  Management agrees with the recommendation. The First Response Manual, developed 3 years ago, already includes specific guidelines to that effect. These guidelines will be reviewed and updated in 2006.

- **Review corporate financial system data on overtime hours monthly as a mechanism to track high overtime users and reconcile the data to MMS-ITX to ensure high levels or data integrity.**

  Management Response

  Management agrees with this recommendation. Since early 2005, a data quality assurance plan is being developed. Data reconciliation between SAP and ITX-MMS is included on this project work plan.

- **Explore the opportunity to have one point of data entry with next MMS system to reduce data entry workload and data entry errors.**

Management Response

Management agrees with this recommendation.

RECOMMENDATION 4

That the Wastewater & Drainage Services Division of the Utility Services Branch:

- **Monitor and manage overtime within the limits of the established overtime budget, independently from the compensation envelope.**

  Management Response

  Management agrees with this recommendation. Overtime will be specifically monitored and managed as part of the overall budget review process.

- **Conduct a more detailed review of the overtime budget annually, in conjunction with FTE levels and service levels, to reflect anticipated/optimum overtime expenditures.**

  Management Response

  Management agrees with this recommendation. Overtime budget will be analysed as part of the comprehensive overtime review, then reviewed and adjusted as part of the annual budgeting process.

- **For employees using the MMS-ITX and MMS-SAP systems, ensure work orders and ELR/TR forms are matched at time of approval.**

  Management Response

  Management agrees with this recommendation. This will be incorporated into documented procedures.

- **For employees not using the MMS systems, ensure sufficient detail is included on the ELR/TR form as to the overtime worked.**

  Management Response

  Management agrees with this recommendation. This has already been directed to staff and will be incorporated into documented procedures.

- **Formalize the delegation of authority to the appropriate operational level that may authorize and approve overtime.**

Management Response

Management agrees with this recommendation. This will be incorporated into new procedures.

- **Complete and formalize the "Guidelines for Overtime Call-Outs". Include specific guidelines as to which situations need immediate response and which can be deferred.**

    Management Response

    Management agrees with this recommendation. This will be incorporated into documented procedures.

- **Review corporate financial system data on overtime hours monthly as a mechanism to track high overtime users and reconcile the data to MMS-ITX and MMS-SAP to ensure high levels of data integrity.**

    Management Response

    Management agrees with this recommendation. Reconciliation of SAP Financial with MMS will form part of the monthly budget review.

- **Explore the opportunity to have one point of data entry with next MMS system to reduce data entry workload and data entry errors.**

    Management Response

    Management agrees with this recommendation. The ability to link the replacement for ITX MMS to the SAP payroll system will be requested in the new system requirements. It should be noted that the responsibility for this project is with the Corporate IT group in effecting this system linkage.

RECOMMENDATION 5

That the Solid Waste Services Division of the Utility Services Branch:

- **Monitor and manage overtime within the limits of the established overtime budget, independently from the compensation envelope.**

    Management Response

    Management agrees with this recommendation. The Branch has requested an adjustment to the overtime line item and regular reporting of both compensation and overtime line items for management review.

- **Conduct a more detailed review of the overtime budget annually, in conjunction with FTE levels and service levels, to reflect anticipated/optimum overtime expenditures.**

  Management Response

  Management agrees with this recommendation. The work schedule review was undertaken in 2005 and a new rotating start time has been implemented as of August 2005 to attempt to optimize resources to operational demands from incoming waste. This process will be reviewed when the staff compliment is filled.

- **Review resource levels at Landfill Operations and identify more optimal work schedules to reduce levels of overtime.**

  Management Response

  Works schedules were revised in 2005 with rotating start times to ensure optimal use of staff. Solid Waste Disposal has yet to be fully staffed which affects the full effectiveness of the work schedule.

- **For Landfill Operations, implement more rigorous processes and controls for authorizing and approving overtime.**

  Management Response

  Management have already implemented written instruction to Supervisors and Program Managers regarding authorization for sign off of overtime. The Manager is signing off on all overtime for the Solid Waste Disposal Section until the Program Manager position is filled.

- **Ensure corporate standards are met with regard to completing and submitting ELR/TR forms.**

  Management Response

  Management agrees with this recommendation. Solid Waste Disposal staff have already received a training refresher session on the completion of ELR/TR forms.

- **Ensure sufficient detail is included on the ELR/TR form as to the overtime worked.**

  Management Response

  Management agrees with this recommendation. ELR/TR forms are now being completed with the rationale for overtime.

- **Formalize the delegation of authority to the appropriate operational level that may authorize and approve overtime.**

  Management Response

  Management agrees with this recommendation. A formal documented process will be developed detailing delegated authority including staff in an "acting" role.

- **Review corporate financial system data on overtime hours monthly as a mechanism to track high overtime users. For Waste Collection Operations, reconcile the data to the Excel database ensure high levels of data integrity.**

  Management Response

  Management agrees with this recommendation. A process will be put into effect in 2006.

- **Consider revising practice of letting Waste Collectors leave early.**

  Management Response

  The In-house Waste Collection Group was created to prepare a competitive bid for solid waste collection with an In-house Bid Team in a Public/Private Competitive Service Bid in 1998. The financial success of the Public Sector In-house Waste Collection Group in a competitive waste management industry is attributed to management's ability to retain good employees and provide efficient and effective services. The Solid Waste Administrative Services Collection Division has delivered over $1.7 million dollars of accumulated additional savings over the past 7 years of service provision. Waste Collection staff have provided a tendered bid on the basis of a staff wage rate that is linked to the waste industry standards, rather than the higher CUPE 503 Heavy Equipment Operator wage rates. Our working conditions, effectiveness, and reduced costs in delivery service have provided efficiency and value to the residents of Ottawa throughout this service delivery timeframe.

  Waste Collection Services operates consistent with the private sector and industry practices of ensuring that the team completes the entire pick-up zone each day. If a crew completes their route early, they are reassigned to other locations until the entire daily route of solid waste and recycling pick-up is complete.

  The existing procedures have not generated any additional overtime to complete the daily solid waste pick-up.

RECOMMENDATION 6

In order to better monitor and manage overtime, Real Property Asset Management, Program Properties Division, should:

- **Continue its efforts to monitor and manage overtime within the limits of their established overtime budget.**

- **Require that staff provide a rationale and justification on the daily Maintenance Activity Sheets as to the reason for any overtime claimed.**

  Management Response

  The comprehensive review will examine the best reporting methods in each service. The input of the Maintenance Activity Sheets is driven numerically with fixed codes assigned to the leave types. Incidence reporting parallels the time sheet process whereby a "reason" is documented, approved, and reported with respect to overtime and on call usage. Continued emphasis will be placed on this information source for the purposes of overtime management.

RECOMMENDATION 7

In order to better monitor and manage overtime, Real Property Asset Management Branch, Venture Property, should:

- **Require that staff provide a rationale and justification on the daily Maintenance Activity Sheets as to the reason for any overtime claimed.**

- **Require that staff (OC Transpo Facility) sign the daily Maintenance Activity Sheets and that any use of signature stamp be stopped.**

  Management Response

  Management agrees with this recommendation. The two operational supervisors will be directed to process and approve overtime paperwork using their signature versus a signature stamp. Follow up by the data input personnel to monitor compliance will commence immediately.

  Management Comment -- Real Property Asset Management - with respect to Corporate Security overtime

  Transit Operations as part of the 2004 budget, identified under the Opportunity Log Business Process Review (item TW5.2) a savings of $260,000 and a reduction of 4.5 FTE's under the heading "Initiate alternative security services of City facilities used by Transit Services". This required that Corporate Security take over this function. This initiative was approved by City Council. The reduction in FTE's came into effect in June of 2004. Corporate Security received Bridge Financing to cover the 6 months of cost for the 4.5 staff being let go. The costs included regular compensation and any overtime that they incurred. This is where the $12,000 comes from. The bottom line is that Corporate Security would not have incurred this expense (which was covered by bridge financing) except for this transfer. Since this change, there has not been any

overtime charges in Corporate Security (and there will not be as all the staff are MPE).

RECOMMENDATION 8

That Payroll Division ensure appropriate controls are in place for processing of all ELR/TR forms including:

▪ **Ensure appropriate authorization is present.**

Management Response

Although there was a limited audit sample, Payroll has and will be taking action to expand its control procedures. The time/leave forms have been revised to incorporate a designated area where authorizing supervisors or managers will print their name and title. This will aid in the identification of signatures. In addition, Payroll will prepare a current list of managers and supervisors who are authorized to sign time/leave forms as a further control measure.

▪ **Ensure incomplete, or ELR/TR forms with errors, are not accepted and returned to the Client Group for complete information before processing.**

Management Response

In the past, an informal process was used to return timesheets that were not complete. Although the audit found few forms with missing information and some of that information was not significant (eg. missing the date of signature of the employee), adjustments will be made in payroll procedures. In the future, a more formal approach will be implemented. Forms that are not completed properly will be returned to the relevant area for correction with an explanation of why the form is being returned. Due to the volume of forms (Payroll processes approximately 400,000 lines of data entry per year), minor changes will continue to be made further to telephone conversations with the authorized supervisor / manager.

▪ **In cases where the system will not accept the data being entered (e.g., on-call time being claimed on the same dates as annual leave, IPP, or time off in lieu), Data Entry Clerks should not create "work-arounds" by entering the time on different dates.**

Management Response

There are situations where on-call pay may be claimed while an employee is on leave. This would include situations where an employee has a specific skill set or emergency situations. As the system does not currently allow the entry of this time, it is

necessary to do "work-arounds". In the future, the City will investigate the feasibility of adjusting the pay system to allow the entry of this legitimate time.

Payroll Division – General Management Comment

Management agrees that the sample of ELR/TR forms used in this audit was not statistically representative and therefore no reliable conclusions can be drawn based on this sample regarding Payroll's data entry processes.

RECOMMENDATION 9

For the areas covered in the 2002 Audit of Overtime Costs (Transit Services, Fleet Maintenance, Paramedic Services and Surface Operations), Management should monitor and manage overtime expenditures within the limits of their established budgets.

Management Response

Management agrees with this recommendation. Management acknowledges that the budgeting for overtime has been flawed, and that overtime budgets should have been revised to more closely reflect actual requirements.

Management has taken aggressive attendance management measures in each of these service areas, as indicated by the Auditor General, and will continue to monitor and manage attendance to help keep overtime as low as possible. It should be noted, however, that these are 24/7 on the street services and overtime will continue to be a necessary part of operations for a number of reasons: overtime must be paid to those who provide service on statutory holidays and to those who respond to emergency/weather-related situations. These are services that must be provided so, when the City has hiring freezes in effect the service is provided by existing staff working overtime. In some cases, as in Paramedic Services and Transit Services, overtime is accrued for contracted services that the City receives revenues for. In Transit Services, the 2004 KPMG Transit Operator Establishment Review stated that within limits (total work hours), overtime is more cost effective than straight time for the City, because benefits are not paid on overtime wages.

The comprehensive review will help identify the optimal levels of overtime in these areas and budgets will reflect those levels.

CORPORATE-WIDE RECOMMENDATIONS

As a result of findings in this audit, we are able to make some general recommendations that would apply on a corporate-wide basis. These recommendations are as follows:

RECOMMENDATION 10

Departments should better monitor and manage overtime within the limits of their established overtime budget. This would include modification of shifts to address expected workload, better management of absenteeism, and an active budget review process.

Management Response

Management agrees with this recommendation.

Management will establish clear protocols around the specific criteria for overtime on a service-by-service basis, and this will be part of the comprehensive review. Overtime budgets will continue to be managed as part of the overall compensation budget, rather than as a single line item. Overtime is generally not viewed in isolation of the overall compensation budget and it is management's view that it should not be viewed in isolation given both the 24/7 nature of many City services, the unpredictability of some significant service drivers (i.e. weather conditions, infrastructure failure like water mains or traffic lights, etc) and the hiring freezes that have been put in place over the past three years. All of these factors are managed within the total compensation envelope to continue to provide front-line services where and when they are needed.

RECOMMENDATION 11

Departments should utilize the corporate financial system's full functionalities to monitor, control, and reduce total overtime as well as individual employee overtime and that where required, staff be provided with additional training. In addition, that any use or maintenance of sub-systems other than the corporate financial system should be discontinued. In order to ensure the corporate financial system's information accuracy, Departments should address the time lapse of employees submitting the required leave/overtime forms.

Management Response

Management agrees with the intent of this recommendation.

This will be part of the comprehensive review. Given the number of different facilities, however, management expects that there will always be some time lapse in many services. The review will address methods of minimizing that lapse.

RECOMMENDATION 12

That Employee Services develop clear policies and guidelines regarding the management of overtime.

Management Response

Management agrees with the intent of this recommendation.

However, management believes most policies and guidelines will be developed on a service-by-service basis rather than a corporate basis given the number of operational variables between branches eg. service commitments, staffing and budget levels and applicable collective agreements.

Acknowledgements

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

Chapter 2: Audit of Drinking Water Services

Executive Summary

The City of Ottawa (the City) provides drinking water services to almost 750,000 residents and businesses served by one central system and four communal wells. The Drinking Water Services (DWS) Division of the Utility Services Branch is responsible for the production and distribution of water and compliance with the federal and provincial regulations designed to ensure the safety and security of the water supply system and process. The Customer Services and Operational Support Division (CSOS) provides support to DWS, in particular, maintaining water meters and responding to customer complaints. The Revenue Division of Financial Services is responsible for meter reading, billing and collection.

Drinking water was a regional responsibility before amalgamation, so no integration of lower tier units was required. However, the structure of the new City is different than that of the Region, resulting in some changes in how the service is delivered. In particular, the billing and collection function was integrated with tax billing, and planning for growth requirements and related capital programs were moved to the Planning and Growth Management Department. The centres of expertise concept was also expanded.

DWS was selected for audit because it involves substantial expenditures and is an area of significant risks, particularly risks to public health. The recent Walkerton experience demonstrated the seriousness of those risks and has drawn attention to the importance of safe and secure operations of the water system. It has also resulted in substantial new legislative and regulatory requirements for water system operators. While the regulatory environment continues to evolve, the audit provides an opportunity to determine whether DWS is keeping pace with the regulatory changes.

In this context, the audit objectives were to determine:

1. Compliance with federal and provincial drinking water guidelines, standards, and regulations.

2. The extent to which the financial planning processes (rate setting and budgeting) contribute to efficient and effective operations of DWS.

3. Whether the key risks within the revenue billing and collection process have been mitigated by Financial Services to support DWS objectives and activities and are consistent with water volume accountability requirements.

4. The assessment of the DWS water distribution system water quality sampling program.

5. The assessment of the DWS programs to reduce water loss in the distribution system.

6. The City's status on meeting upcoming provincial regulatory requirements (Quality Management System & Sustainable Water and Sewage Systems Act).

The audit focused on DWS, but also included an examination of the billing and collection functions carried out by Financial Services, and the involvement of CSOS in the water system, particularly as it relates to water meter maintenance, billing and collection for flusher hydrant use and customer relationship management. The audit examined the water fund, but not the other groups that are charged to the water fund, either directly or indirectly.

Key Findings

- **DWS complies with the relevant federal and provincial regulations governing the safe supply of drinking water to Ottawa residents.**

  - The water sampling and testing program meets and in most cases exceeds established regulations. Although this program meets regulatory requirements, industry best practices are evolving, and other specific water quality programs should be implemented to further minimize water quality risks.

  - There remain risks associated with private water systems that are connected to the central system. The water sampling and testing program includes measures to reduce these risks, however, all private water systems with more than one connection to the City's distribution system should be required to have written maintenance procedures and to notify the City of any activities that may impact water quality.

  - A Quality Assurance/Quality Control program on positions that conduct the water sampling collection program is needed to regularly verify the completeness and accuracy of their tasks.

  - Anticipated regulations from the Sustainable Water and Sewage System Act and the Quality Management System requirements will necessitate some additional steps throughout departments within the City.

  - Although not required by legislation, the City should implement a proactive lead service replacement program.

- **The City has a program to reduce water loss in the distribution system, but it could be better coordinated.**

  - The tracking and control of water loss is an evolving field. The City has given significant attention to this field and recent results are consistent with industry expectations, however, these results are still preliminary and ongoing refinement must continue.

- There is no clear centralized accountability for the program, and there are new initiatives the City should pursue in this area.

- The City has been monitoring the international approach to reducing water loss, and is currently adopting many of the water loss principles of the International Water Association best practice.

- The recommendations include identifying a lead for the program and preparing a comprehensive report for Council identifying the initiatives to be pursued.

o **Accountability for the City water system is dispersed, with only the City Manager having overall responsibility.**

- The dispersion of responsibilities for the water system between organizational units in three different departments leaves no one below the City Manager with overall responsibility for the water system or the water fund.

- The centres of expertise model is inconsistently and incompletely applied. This has resulted in sub-optimal coordination and difficulty in resolving differences of priority or direction.

- It is recommended that overall responsibility for the water system be established below the level of the City Manager, that units not directly reporting to the lead organization be accountable to it via a Service Level Agreement, and that existing centre of expertise Service Level Agreements be updated to reflect current expectations.

o **Meter and remote sensor repair has been a problem, resulting in too many billings based on estimated readings.**

- Meter and sensor connection repair sometimes requires access to customer premises (sensors are the boxes outside buildings from which meters can be read). The current approach appears to be customer friendly to a fault, resulting in inefficiency and ineffectiveness in order to avoid inconveniencing or challenging customers. The result has been inadequate attention to meter and sensor repair and too many billings provided on the basis of estimated readings, primarily for residential customers.

- The recommendations include use of by-law provisions to gain access to customer premises when required to ensure repairs can be conducted in a timely and efficient manner, clear allocation of responsibilities and

consistent efforts to ensure meter readings can be conducted on a timely basis.

o **The computerized systems used to support billing and collection, and meter inventory and maintenance activities require improvement or replacement.**

▪ The deficiencies impact the ability of the City to ensure all users are being billed (no specific unbilled customers were identified), and allow inadequately documented entries, including the closure of work orders which have not been completed. As such, the complete accuracy of current information cannot be assured.

▪ It is recommended that the systems be analyzed to determine whether they should be upgraded or replaced; water accounts be reconciled with property tax records and the meter inventory; and improved procedures be put in place to ensure accounts are established for new connections on a timely basis.

Conclusion

The audit did not reveal any concerns related to the safety of the drinking water supply system in Ottawa, although there are steps that could be taken to further reduce risks. The water system is generally managed and operated in a manner consistent with best practices. No significant theft of water was identified, although some steps were identified that would reduce the risk that this is happening, or could happen. Better coordination could be achieved with some changes in the accountability structure, leading to improvements in efficiency and effectiveness. A complete list of the detailed recommendations follows.

Acknowledgement

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

List of Detailed Recommendations

The following is a list of all recommendations arising from the audit of Drinking Water Services. For complete details regarding the observations and findings which led to these recommendations, please refer to the full audit report.

Recommendation 1

DWS should evaluate options to modify the Carp Communal Well System in the event that regulations change with respect to the parameter Dibromochloromethane.

Management Response

Management agrees with the intent of this recommendation. Staff are continuing to follow the development of this water quality guideline. The actual imposition, level and compliance timeline are unknown at this time. Drinking Water Services will complete a Treatment Feasibility and Functional Design Report by Q4 2006. This information will be used to develop 2007 capital budget requirements for any required upgrades or improvements.

Recommendation 2

That representatives from DWS, the Financial Support Units (FSU) and Accounts Payable develop a mutually acceptable solution to address DWS' information requirements with respect to utility invoices such as Hydro Ottawa.

Management Response

Management agrees with this recommendation. The first priority for Hydro Ottawa invoices is that they be paid within the time limits established. Staff will work together to find a mechanism to provide the consumption information and other data required by DWS by Q3 2006.

Recommendation 3

That the service level agreements between DWS and centres of expertise be reviewed jointly by both parties on an annual basis as part of the budgeting cycle and adjusted to document actual or expected service levels.

Management Response

Management agrees with this recommendation. This review will be initiated in conjunction with the work related to Recommendation 24.

Recommendation 4

Responsibility and accountability for the maintenance program for water meters and remote receivers should be clearly defined and acceptable service levels established, with priority given to areas where the potential for lost revenue is greatest.

Management Response

Management agrees with this recommendation. Service standards need to be established for repair times and better communication introduced between the two work groups. Both groups need to understand the priority setting mechanism and look at the revenue loss and customer service when establishing work plans. A review will be undertaken in 2006.

Recommendation 5

The approach for gaining access to customer premises should be improved by placing more reliance on By-Law enforcement and/or service termination to ensure access to the premises on a timely and efficient basis.

Management Response

Management agrees with this recommendation. A review will be completed by Q3 2006.

Recommendation 6

The rationale for meter reading frequency should be reviewed as part of the study of meter reading technology, taking into account the benefits to customers and water volume accountability of frequent, accurate readings.

Management Response

Management agrees with this recommendation. A study of meter reading frequency will be undertaken to determine the most cost-effective frequency. The frequency issue could be improved dramatically through the introduction of Automatic Meter Reading technology. Consolidated management of all aspects of meter maintenance and meter reading may provide improved productivity, water accountability and information reports.

This initiative is not included in the 2006 work plan or budget and will be included in the 2007 Corporate Services Departmental work plan.

Recommendation 7

A formal assessment of the Aquacis system should be conducted to determine if the system can cost effectively meet user needs and ensure the achievement of divisional and strategic objectives.

Management Response

Management agrees with this recommendation. Once the new meters and reading technology are selected, a review of the Aquacis will be undertaken. This will form part of the 2007 Corporate Services Departmental work plan.

Recommendation 8

A formal assessment of the ITX/IIMS system should be conducted to assess the existence and appropriate design of controls and whether they are operating effectively and result in reliable reporting.

Management Response

Management agrees with this recommendation. The recommended assessment will be completed by Q2 2007 as part of the ITX/IIMS replacement project initiated by the Public Works & Services Department.

Recommendation 9

Communication regarding customer service requests and work orders between the Customer Accounts, Collections and Customer Services and Operational Support groups should be improved including agreement on narrative descriptions within a service request and the criteria for prioritization or cancellation of requests.

Management Response

Management agrees with this recommendation. All the tools to enable coordination and communication of work order and service request information are currently available in ITX. Improved training and process implementation will improve results. The review of consolidating management of the groups will also address the issue. This will be addressed in 2006.

Recommendation 10

A formal communication process for by-passes observed by meter readers, or Customer Services and Operational Support maintenance staff, should be developed

by the Customer Services and Operational Support group along with the associated action measures, including notification of By-Law Enforcement.

Management Response

Management agrees with this recommendation. A reporting process is already in place, and used by both Meter Maintenance staff and Meter Readers. Open bypasses are not in compliance with the Water By-law, and each reported offence is followed by issuance of a fine to the building owner. Although the process works and is used by both groups, formal and written documentation of the procedures is lacking. This will be resolved in Q1 2006.

Recommendation 11

Procedures to reconcile water accounts with property tax accounts (VTAX), meters installed (ITX/IIMS) and building permits issued should be developed to help mitigate the risk of incomplete billings.

Management Response

Management agrees with this recommendation. This initiative will assist in ensuring that all customers are being billed. Currently, this cannot be accommodated within existing resources. Additional resources will need to be identified as part of the 2007 Corporate Services Departmental work plan and budget.

Recommendation 12

Processes related to activating accounts for new development should be reviewed to facilitate identification of developers/contractors that may use water that should be billed or that turn on water without notifying the City.

Management Response

Management agrees with the intent of this recommendation. The Water By-law is very clear on that subject: only City staff are allowed to turn on or off water on the system. The By-law is enforced with fines on every reported infraction. Some water that is used in new developments is unauthorized and unbilled. A review, to be completed by Q1 2007, is currently underway to improve compliance on building construction related usage and a process to bill new developments using water.

Recommendation 13

Procedures should be developed to address the issues associated with new meter specifications, communication of new meter information, and potential By-Law impacts.

Management Response

Management agrees with the intent of this recommendation. We believe there are no issues with meter specifications. The meter specifications are part of the Water Specifications Guidelines that include all water related parts and materials. They are reviewed regularly following a process managed by the Infrastructure Services Branch. The communication of new meter information issue relates to the transfer of information between Customer Accounts and Meter Maintenance. The issue was addressed in Q4 2005.

Recommendation 14

That CSOS review options to improve compliance (reporting and payment) by flusher hydrant users including the cost-effectiveness of creating dispensing stations and the use of stronger By-Law enforcement.

Management Response

Management agrees with this recommendation. The Flusher Hydrant Program is an honour-based system, relying on the user to self-report water usage. It is expected that some users will not report some of their usage. Staff attempted to quantify theft, as reported in the Audit. Staff will be assessing the cost / benefit of constructing bulk water dispensing stations through the City to ensure full metering, regulated water withdrawal flow rates, surge protection and backflow safety features. This assessment will be completed by Q4 2006.

Recommendation 15

The internally established collection target should be re-evaluated by Revenue and Collections management.

Management Response

Management agrees with this recommendation. This target will be reviewed in 2006.

Recommendation 16

The data input and trending analysis of all tested parameters from the distribution system water quality sampling program should occur on a regular basis by dedicating staff time or by contracting out this service to the private sector.

> **Management Response**
>
> Management agrees with intent of this recommendation. With the implementation of the new WaterTrax Water Quality monitoring software, this functionality now allows staff to do this.

Recommendation 17

The City should implement a cross-connection control program in accordance with the InfraGuide's Best Practice of Methodologies for Implementing a Cross-Connection Control Program.

> **Management Response**
>
> Management agrees with the intent this recommendation. We do not believe this is a high risk item that would require it be a priority action item at this time. Staff if requested would bring a report forward in Q2 2007 outlining a proposed program and long term cost for Committee's consideration.

Recommendation 18

The City should implement a proactive lead services replacement program.

> **Management Response**
>
> Management agrees with intent of this recommendation. The Branch is fully aware of the recommendations contained in the Walkerton Report. The City currently treats drinking water so that it will remain in compliance with all federal and provincial guidelines for lead content in drinking water. Monitoring programs have confirmed the effectiveness of this approach. A report will be presented in Q3 2006 outlining a proposed strategy to Council for addressing lead services.

Recommendation 19

The City should develop a by-law that requires all private water systems with more than one connection to the City's distribution system to have written maintenance procedures and requires prior notification to the City of any activities on the private water system that may impact water quality.

> **Management Response**
>
> Management agrees with the intent of this recommendation. This initiative should be developed in conjunction with the Cross Connection Control Program referred to in Recommendation 17. A proposed by-law will be presented to Council in Q3 2007 addressing perimeter metering and back-flow prevention for private systems.

Recommendation 20

DWS should implement a Quality Assurance/Quality Control program on organizational positions that conduct the water sampling collection program to regularly verify the completeness of their tasks, including the sampling of all sites identified, and on the processes and procedures they must follow.

> **Management Response**
>
> Management agrees with the intent of this recommendation. While staff are confident of the information gathered by our current monitoring program and procedures, we will review our procedures to provide this additional level of security and confidence in our results. This review will be completed by Q4 2006.

Recommendation 21

The City should identify a specific group to lead and be responsible for all water loss reduction programs.

> **Management Response**
>
> Management agrees with this recommendation. A report came forward in Q1 2006, to outline the Water Loss Control program to reduce water losses. The Branch will coordinate a steering committee to improve overall water accountability. The DWS division will be responsible for water leakage reduction.

Recommendation 22

Utility Services should bring forward a report to Council addressing all elements of their water loss strategy.

Management Response

Management agrees with this recommendation. A report covering this program has been prepared and was tabled with Committee in Q1 2006.

Recommendation 23

Utility Services should implement a full Quality Management System for all environmental programs (Biosolids, Solid Waste, Water and Wastewater).

Management Response

Management agrees with the intent of this recommendation. This initiative is already well underway with the development of the Utility Services Quality Management System and is in place for the Bio-solids Program. Its implementation will be phased in the remaining programs. The Province has recently released the new Drinking Water Quality Management Standard. Staff are currently reviewing this new Standard and expect to report to Committee in Q1 2006 on this issue. Funds were approved in the 2006 Budget to address this likely regulatory requirement.

Recommendation 24

The governance structure of the delivery of water services should be reviewed and restructured to ensure accountability of an individual below the level of the City Manager for the water fund and services funded by the water fund.

Management Response

Management agrees with the intent of this recommendation. The first step should be to identify a specific individual to oversee the entire system. Whether to move to one distinct separate organization should be fully studied to determine the costs and benefits of doing so. This review will be initiated in Q3 2006.

Recommendation 25

That Financial Services re-examine the allocation of costs to the water fund and identify current costs for all elements.

Management Response

Management agrees with this recommendation. This review will be completed by Q4 2006 consistent with the rules of the report "Watertight: The case for change in Ontario's water and wastewater sector" (if adopted) and allocation methodology adopted through OMBI.

Chapter 3: Audit of the Management Control Framework

Executive Summary

Introduction

The City of Ottawa is a large and complex organization:

- Responsible for a multitude of diverse activities

- Large annual budget of approximately $2 billion

- Approximately 12,000 full-time equivalent staff

The audit was undertaken for the purpose of identifying and assessing the key steps that City management uses to manage its operations. The objective of the audit was to conduct a high level assessment of the effectiveness of the management control framework in place at the City, to assess what is working well and what needs to be improved, identify recommended actions for improvement and identify key areas for further audit work.

The management control framework includes the City's resources, systems, processes, culture, structure, and tasks and how they support the achievement of the City's objectives. The scope of the audit addressed the management control framework in place in 2005, and was conducted on an organization-wide basis (excluding Ottawa Police Service).

Key Findings

Key findings for the audit are organized in the following categories:

- Planning and Performance Management

- Centres of Expertise

- Financial Management Control Framework

- Integrated Risk Management

- Policy Framework

- Information Management/Information Technology Strategy

Planning and Performance Management: The City has recently introduced substantial and positive changes to modernize its planning and performance management framework. To be fully effective, the framework will need to continue to evolve to address the remaining deficiencies.

Recommendation 1

That the Chief Corporate Planning and Performance Reporting Officer assess the City Corporate Plan and process, and budgeting process for 2006, once completed, to identify

lessons learned, and develop an action plan to address issues or outstanding items, including:

- **the planned introduction of performance measures against the key objectives within the City Corporate Plan**

- **the planned linking of the budget to the City Corporate Plan**

- **incorporating capacity planning in the planning process and the plan**

- **explicitly identifying key assumptions used in the development of the plan**

That the Chief Corporate Planning and Performance Reporting (CCPPR) Officer investigate the opportunity to integrate the Corporate Services priority setting tool more broadly within the corporate planning process.

That the Director of Employee Services monitor and report on the timely and appropriate completion of Individual Contribution Agreements (ICA) across the City.

<u>**Management Response**</u>

Management agrees with these recommendations in principle. Plans for a post mortem of the City Corporate Plan (CCP) and related activities were established earlier in 2005, with post mortem workshops scheduled for early in Q1 2006. One of the specific questions addressed will be the link between the corporate planning process, the long-range financial plan and the budgeting process. Recommendations for changes to be considered in the next version of the CCP arising from the post mortem will be reviewed and signed off by the Executive Management Committee (EMC) in Q1 2006 and taken into account in the next refresh of the CCP, which will take place in late 2006.

In addition, in parallel with the CCP post mortem, the Office of the Chief Corporate Services Officer will conduct as assessment of the budget process, as it does each year, and bring forward any suggested changes to Council.

Management agrees with the recommendation regarding the planned introduction of performance measures against the key objectives within the City Corporate Plan. Work on these measures has already begun and a report on the proposed performance measurement and reporting framework was submitted to Council in Q1 2006.

Management will be linking the budget to the Corporate Plan as part of its Integrated Planning Framework. Following the next election, a "Term of Council" Plan will be developed and approved along with the next iteration of the City's Long-Range Financial Plan. These will be the basis for multi-year budgeting and for the next version of the Human Resources Plan.

Management notes that capacity planning was included in the planning process and the plan. The planning process followed by Management specifically took capacity

constraints into account. The feasibility of implementing each action item included in the CCP and Departmental Business Plans within the existing resource base was evaluated by the City department(s) involved. Where this was not possible, the additional resources required were highlighted and included in the costing of the plans that were submitted to Council. This is a simple, cost-effective approach to capacity assessment. If in future years Management sees that plans have been over committed, Management will re-assess the approach.

Management agrees with explicitly identifying key assumptions used in the development of the plan. This will be addressed through post mortem – see response above. This will be implemented as part of the CCP refresh that will take place in late 2006.

Regarding the recommendation that the CCPPR Officer investigate the opportunity to integrate the Corporate Services Priority setting tool, see response regarding capacity assessment above. As noted by the Auditor General, the Corporate Planning process was implemented recently and will evolve over time. Through mechanisms such as the post mortem we are taking a continuous improvement approach and will identify areas where the process can be improved.

Management agrees with the recommendation regarding monitoring and reporting on the timely completion of Individual Contribution Agreements across the City by the Director of Employee Services. As noted in the Auditor General's report, the City just established its Corporate Planning Framework in 2005. In the first year, we developed the City Corporate Plan and Departmental Business Plans. In subsequent years these will cascade down throughout the organization and branch and unit workplans aligned with the CCP and DBPs will be prepared. At that point the link between ICA's and business plans will be clearly demonstrated. For the time being the requirement to establish ICA's for all Management staff remains, but these are based on management accountabilities and negotiated objectives. Management will continue to remind all Branch Management of their responsibility to complete ICA's for their management staff. At the end of the performance cycle Management will report on the number of ICA's completed as compared to the number of employees eligible for the performance pay program. This information will be presented to the Executive Management Committee in Q2 of 2006

Centres of Expertise: The Centres of Expertise model is not properly supported by clearly defined expectations and performance reporting.

<u>**Recommendation 2**</u>

That the City Manager ensure there is a review to update the Centres of Expertise Service Level Agreements, including definition of performance levels, monitoring requirements and approach for identifying and resolving issues or disputes.

Management Response

Management agrees with this recommendation. A draft proposed process, addressing all of these elements, will be presented to Senior Management Team (SMT) at the January 2006 meeting. This project is a priority identified in the 2006 Corporate Services departmental business plan and will be included in the 2006 workplan of the Office of the Chief Corporate Services Officer.

Financial Management Control Framework: The City's financial management control framework is fragmented. Control procedures, roles, responsibilities and accountabilities are set out in various ways, some formal, some informal. There is no formal framework that explicitly outlines the City's financial management control structure.

Recommendation 3

That the Chief Corporate Services Officer develop a formal financial management control framework that clearly defines financial management accountabilities, control objectives, risks and the related control processes/mechanisms that have been put in place to mitigate the risks. The roles and responsibilities as they relate to shared services (in particular, the Financial Support Units) should link to those set out in the Service Level Agreements (SLA) between Financial Services and client departments.

Management Response

Management agrees with the recommendation to develop an overall framework. If this framework is supposed to be broad and intended to describe general control objectives, levels of responsibility, overall control policies and philosophy, then this exercise is achievable in 2006, likely within existing resources. One specific issue that will be addressed, as part of the SLA updates noted in the response above, will be a clarification of the role of the Financial Support Units, so that services will be provided on a consistent basis and their role will be well understood Management will also establish parameters for review of transactions that will be consistently applied.

Integrated Risk Management: There is no enterprise-wide approach, or ability for the City to consistently assess the level of risk it faces across the organization, to aid in planning and priority setting.

Recommendation 4

That the Chief Corporate Planning and Performance Reporting Officer introduce integrated risk management within the City, as part of the planning and performance management cycle. This would include such activities as:

- **development of an integrated risk management policy**

- **development of tools and approaches for risk management**
- **provision of risk management training**

<u>Management Response</u>

Although Management agrees with the Auditor General's recommendation in principle, Management does not believe it would be practical to implement this recommendation at this point. The cost/benefit of implementing a full blown, organization-wide risk management initiative, as suggested by the Auditor General, is not clear, nor is it clear that this is a widely accepted best practice in municipal governance. Recent implementation of these types of programs in the private sector has been driven to a considerable extent by Sarbanes-Oxley requirements in the U.S. To Management's knowledge, in the few cases where Canadian municipalities have experimented with them, implementation has not been successful.

Management's priority at this point, from a management control framework perspective, is on rolling out the planning framework and developing and implementing the performance measurement and reporting framework, throughout the organization over the next 2-3 years. Nonetheless, certain steps Management is taking to enhance the Corporate planning process, such as the presentation of a comprehensive environmental scan, which will identify risks to be considered in developing the City Corporate Plan and Departmental Business plans, will address this issue.

Regarding the development of an integrated risk management policy management, Management believes that the Auditor General's observations in this area should take into account that the City has a risk management policy, which was approved by Council in 2001, confirms the City's commitment to sound risk management processes. Some of the specific measures that Corporate Services has taken to explicitly address risks in different areas are outlined in this policy. For example, risk management principles are explicitly applied in investment decisions, in decisions regarding insurance coverage and in providing and maintaining safe conditions in the workplace. In addition, risk management processes are also applied in other key areas. The Emergency Measures Unit has identified catastrophic risks that could impact the City and has developed a program/plan to address them. Moreover, on an ongoing basis, Public Works staff perform construction/maintenance project risk assessments and procedures have been adopted by the City to ensure that risks are reasonably transferred through the tender, contract and agreement process. Both Real Property Asset Management and Public Works and Services have adopted Comprehensive Asset Management Strategies that have been approved by City Council and that include inventories, gap analyses and strategies for decommissioning and rehabilitating infrastructure reaching the end of its lifecycle.

Policy Framework: The policy framework within the City is fragmented.

Recommendation 5

That the Chief Corporate Services Officer complete plans for reviewing and updating corporate administrative policies and developing a new corporate policy framework, which should include a single point of access, common look and feel, the consolidation of by-laws, and defining a timetable for when the process will be completed.

Departments should monitor their plans to ensure that the harmonization of operational policies and procedures are completed on a timely basis.

> **Management Response**
>
> Management agrees. Plans are currently being developed within Corporate Administrative Policy and Performance Management (CAPPM) for reviewing and updating Corporate Administrative Policies and developing a new corporate policy framework. This framework will be completed and presented to EMC for approval in Q4 2006.
>
> In defining a timetable for when the overall policy update process will be completed, consideration has to be given to availability of resources. The same resources to complete work outlined in 4.2 COE, will be deployed to complete this work. The Management Advisory Committee chaired by the Chief Corporate Services Officer will prioritize the updating of policies.
>
> By-laws are now consolidated on the City's Intranet, work being completed by these same resources.
>
> With regard to departments monitoring of their plans to ensure timely harmonization of operational policies and procedures, management agrees but no specific changes or initiatives are required in response to this recommendation. As noted by the Auditor General, this responsibility rests with each department. CAPPM will work with each department regarding Corporate Administrative Policy to share experience, tools and approaches, however operational policies and procedures at the sub-corporate level (Departmental or Branch) are the responsibility of those policy owners. The CAPPM will monitor the implementation of the corporate framework and report on an annual basis to the Chief Corporate Services Officer.

Information Management/Information Technology Strategy: The City does not have a defined and approved information management/information technology strategy linked to corporate plans.

Recommendation 6

That the Chief Information Officer, supported by the service departments and administrative branches, follow through on plans to develop a City-wide information management/information technology strategy to support the City Corporate Plan, within a defined timeline.

Management Response

Management agrees with this recommendation. ITS initiated the development of a new IT Strategic Plan in the fall of 2004, replacing the original plan approved in 2000 by the Ottawa Transition Board. However, the new Plan was put on hold in 2005 following announcement of the City Corporate Plan and Departmental Business Planning exercise. ITS will complete the new IT Strategic Plan to support the City Corporate Plan by Q1, 2006.

General management response

We appreciate the positive comments made by the Auditor General regarding recent improvements we have made to key management processes, such as the introduction of the corporate planning framework, preparation and approval by Council of the first City Corporate Plan and the development of a performance measurement and reporting framework. As noted by the Auditor General, the management control framework has evolved considerably and we will continue to make further improvements. More specifically, in 2006 we will enhance certain important parts of the framework where there will be the greatest immediate benefits. These include:

- Enhancement of the City Corporate planning process and related activities based on a post mortem of the 2005 exercise;

- Preparation of a comprehensive environmental scan, which will identify risks to be considered in developing the City Corporate Plan and Departmental Business plans;

- Completion of the performance measurement and reporting framework, presentation of the framework to Council and implementation of the 1st key components;

- Updating of the Centre of Expertise Service Level Agreements;

- Establishment of a corporate policy framework, priorities and a timetable for policy revisions and update of selected, key policies; and

- Completion of the IT Strategic Plan

Conclusion

The City is taking significant strides to modernize its management control framework, to match the size and scope of its operations. The detailed observations section of the report includes many of the areas of strength or planned improvements that were identified during the course of the audit. That being said, the weaknesses in the management control framework summarized above reduce effectiveness and may place the organization at some risk over time. Detailed audit observations, including risks and recommendations for improving controls, are provided in Section 4 of this report.

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

Chapter 4: Audit of the Procurement Process

Executive Summary

Introduction

The Audit of the Procurement Process was part of the 2005 audit plan brought forward by the City's Auditor General and received by Council on December 15, 2004.

Background

At the City of Ottawa, the Supply Management Division is responsible for conducting centralized procurement and contracting activities. Financial Support Units and the different departments are responsible for decentralized procurements and the use of procurement cards.

In 2004, Purchase Orders were issued for a total value of $437 million: $381 million through Corporate Purchase Orders and $56 million as Departmental Purchase Orders. Additionally, aproximately 980 Purchasing Cards, including those used by the Ottawa Police Service, are active, and expenditures were $10.5 million in 2004.

Audit Objectives

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

- Ensure that appropriate processes are in place to track, manage and control procurement and contracting carried out by City employees.

- Provide assurance that procurement and contracting activities comply with established policy and procedures; that they limit the City's exposure to risk, and to identify mitigating strategies when appropriate and to identify best practices.

- Determine whether procurement achieves value for money.

- Determine whether recommendations in the 2003 Audit of the Corporate Card and Purchasing Card Programs have been implemented and are operating as intended.

Audit Scope

The scope of the audit included an examination of the City's contracting policy, management practices, internal controls, and procedures pertaining to contracting and procurement, including Purchasing Cards, and their compliance with established policies and procedures. The audit reviewed procurement and contracting activities carried out in 2004 in all departments, including the Ottawa Police Service.

In addition to contacting and procurement, files relating to purchases made using Payments without Reference to a Purchase Orders were reviewed.

Key Findings

1. For activities under the direct control of Supply Management, the audit determined that the number of material infractions was relatively low.

   Under the By-Law, all contracts greater than $10,000 are to be processed by Supply Management staff. An existing feature of the corporate financial system effectively forces transactions greater than $10,000 to be released through Supply Management.

   A Contract Approval Request (CAR) has been put in place and is operating with a risk-based approach to review procurement requirements. As the dollar value increases, so does the requirement for senior management review and approval. This represents a significant step in accountability and management control. However, the CAR should be integrated within the procurement model of the financial system.

2. The overall process for reporting to Council needs improvement. The exact value of contracting services acquired through Standing Offers and Payments without Reference to a contract could not be readily extracted from the financial system. Information on these transactions is not reported in full to Council.

   Steps have been initiated to improve the quality, completeness and timeliness of information, however additional refinements are required to establish procedures to monitor and report contracting activity for compliance and performance. The format could be improved with a high level summary by transaction type and highlighting any major exceptions to policy and procedure, particularly as they relate to the inappropriate use of Payments without Reference. In order to improve the timeliness of reporting, the process for review and editing needs to be streamlined with fewer edits to the nature of the actual goods or services acquired.

3. The choice of methodology in evaluating proposals does not always reflect price differentials. This means significant premiums can be paid for proposals with minor differences in quality. For example, we found an instance where proposals received the same score for price even though one was $140,000, while the other was $70,000. The methodology for evaluating price should be changed so that marks awarded for the price component of the proposal clearly reflect differentials in price.

4. Value for money could be enhanced through raising the price component in Requests for Proposals, including Requests for Standing Offers, from 15% to 30%, providing there is a change in the evaluation methodology as stated above.

These practices could lead to significant cost savings.   For example, Supply Management estimates that based on the award of twelve engineering assignments valued at $5.2 million during the summer of 2005, cost savings of $580,000 could have been realized if the price component on their proposals had been raised to 30%, and the evaluation methodology changed.   This represents significant potential savings, especially in the area of engineering services, which are currently estimated to cost $40 million annually.

5. Better management of Standing Offers would enhance fairness and transparency and contribute to obtaining better value. Currently, Standing Offers are awarded to relatively large numbers of suppliers, yet work is concentrated with a few firms with little consideration of cost differentials. This means that premiums may be paid for work of similar quality and that work is not awarded in a fashion that is open, fair and transparent.

    We also found some areas where Standing Offers could be implemented. We noted several significant examples where Fleet Services had aggregate expenditures greater than $250,000 with firms that had no Standing Offer in place. A minimum of $2 million dollars worth of purchases for Fleet parts requirements and a further $4 million for service requirements are made without use of Standing Offers, and opportunities may be lost to obtain discounts. Standing Offers should be established for these commonly purchased low dollar value items.

6. Purchasing cards are generally well managed with a well-defined process in place for the procurement and payment of low dollar value goods and services. Almost all recommendations pertaining to Purchasing Cards in the 2003 Audit of the Corporate Card and Purchasing Card Program have been implemented and are operating as intended.   However, some computer purchases continue to be paid for using Purchasing Cards contrary to the 2003 audit recommendations.

7. Payments without Reference are made for goods or services that have been acquired without a Purchase Order, without the involvement of Supply Management. The audit revealed that this type of transaction has significant rates of non-compliance with existing policy and procedure.

    These transactions are not adequately monitored, nor are they included in Supply Management reports to Council. Additionally, an exception report for Payments without Reference is not currently prepared for the City Manager, in order to minimize their occurrence.

8. Standard contractual Terms and Conditions are occasionally waived by Directors and/or Supply Management, without the input of Risk Management, thereby exposing the City to greater risk than necessary.

9. Amendments can create situations where sole source contracts exceed the intended $50,000 limit of the By-Law. In addition, amendments for Follow-on Work can lead to the value of projects being several times greater than the original scope of the initiative.

Recommendations and Management Responses

Recommendation 1

That Supply Management not process any contracts for goods or services which have already been delivered, or for which work has begun.

Management Response

Management agrees with this recommendation.

Management does not endorse processing any contract "after the fact", where Purchasing has not been properly involved in the process.

This recommendation is clearly supportable, however the outcome is that without purchasing involvement, no Purchase Order may be issued.   Within SAP, that limits the payment tool to only "payment without reference", which is unfortunately not always an acceptable option. Some contracts, even those incorrectly initiated outside of purchasing, require that purchasing find a means of supporting them, in order to allow the issuance of a Purchase Order contract. A review of the cost of removing this limitation from SAP will be pursued with the Information Systems Branch in Q2 2006.

Recommendation 2

When a contract has been entered into on a sole source basis, the total value of the contract, including all amendments, should not exceed $50,000 without the approval of the City Manager.

Management Response

Management agrees with the intent of this recommendation.

Sole source contracting at the City, although permitted in the Purchasing By-Law under stipulated conditions, is strongly discouraged by Corporate Purchasing. It is estimated that approximately 10% of all purchases are sole sourced which is representative of best practices industry wide. Amendments occur when there are scope changes and when it would be counter-productive to put the additional work to tender. Management will examine the need to establish any additional thresholds for amendments and, if necessary, proceed with the revisions to the Purchasing By-law.

Management does not support the City Manager approving sole source contracts over $50,000 and believes existing due diligence which includes review by either the Chief

Corporate Services Officer or Deputy City Manager when necessary would continue to suffice.

Recommendation 3

Supply Management should ensure the total value of amendments to the scope of work of any contact should not exceed 50% of the original contracted amount without the approval of the City Manager.

Management Response

Management disagrees with this recommendation.

Amendments to contracts are typically in light of unforeseen changes in scope, and are scrutinized closely, in both the operating department and by Purchasing, with a view to ensuring that fair value is received by the City. The current approval process includes both the Manager of Supply Management and level 2 approval of either the Chief Corporate Services Officer or Deputy City Manager, and continues to be appropriate.

Recommendation 4

That Supply Management adopt evaluation methodologies that better reflect price differences in proposals for professional services, such as standard deviation, low bid or price per point.

Management Response

Management agrees with this recommendation.

The recommended methodology is currently used for most contracts whereas the benchmark average methodology is used for consulting engineering assignments. Management will implement a methodology that better reflects price differences. This will be initiated in Q2 2006 in conjunction with Recommendation 5.

Recommendation 5

That Supply Management ensure that the pricing component in Requests for Proposals of professional services is immediately standardized at a minimum of 30%.

Management Response

Management agrees with the intent of this recommendation.

Currently, the weighting for the price component varies depending upon the type of professional service being contracted. In many cases the pricing component is in fact above 30%. Our experience has been that considerable flexibility is required. This is an area that staff has reviewed frequently and over the years the weighting for the

factor has moved from cost not being a factor (i.e. 0%) to a minimum weighting of 15%. One of the areas where concern regarding the establishment of a 30% minimum exists is in the studies and infrastructure design services.

Management has reviewed the threshold for the pricing component based on the practices used in other Canadian municipalities and government departments. That review indicates that 20% is a common threshold for infrastructure design and engineering, and the City will move up to that threshold immediately. It should be noted that an initiative to benchmark best practices for procuring engineering services is being conducted by InfraGuide (National Guide for Sustainable Municipal Infrastructure) whose guiding principles Council endorsed in 2003. InfraGuide expects to publish its draft report for review and comment in March 2006. At that time, management will review the results with the Auditor General to determine what other changes may be necessary to best provide the City with value for money when procuring engineering services.

Recommendation 6

Supply Management should ensure that a reasonable number of firms are eventually awarded Standing Offers, using price as a significant component (a minimum of 30%) in the evaluation process.

Management Response

Management disagrees with this recommendation.

Management has completed the review and believes that the current process does provide some assurance that firms will receive some work.

The majority of Standing Offers use a price component of 100%, and are awarded based on lowest bid. A list of authorized firms is available on the basis that the lowest cost service provider will be called first. Management attempts to limit the number of firms to a level that would ensure that most or all will receive work; however, Standing Offers are set up in advance of actual assignments being known. The basic premise of a Standing Offer, clearly stipulated in each procurement solicitation, is that no guarantee of work is provided. In addition, in the case of translation, those firms that are listed on the Standing Offer have the quality of their work monitored on a regular basis. If two pieces of work are returned that are substandard, the firm is removed from the Standing Offer listing.

The various firms represented on a Standing Offer can vary significantly in size, resources, and capability. Therefore, it is not unreasonable to suggest that a larger firm with more staff and a wider expertise base may be used more often than a smaller vendor authorized on the same Standing Offer. In areas such as translation this can result in some firms receiving greater volumes of work due to their ability to provide specific skills or quicker turnaround due to their size and expertise. Conversely, some smaller firms offer specialized, technical translation services (for

issues in health, engineering or finance for example). These types of request occur less frequently, but the specialized firms receive that work over the generalist firms.

Additionally, as an outcome of the recent successful Rural Summit, the concept of geographic representation of service providers, in the rural segments of the City, has been recommended as a possible procurement initiative. If adopted, this approach would result in additional firms being added to Standing Offers, with more choice to the various urban and rural sections of the City, in order to ensure that contractors providing service have knowledge of the diverse and often specialized requirements that pertain to those different areas.

Recommendation 7

Supply Management ensure that all new Standing Offers have effective evaluation criteria established in order to rank proponents to ensure the City achieves "best value".

Management Response

Management agrees with this recommendation.

This is reflective of current purchasing practice, and a focus on new Standing Offer opportunities will be implemented by Q3 2006.

Recommendation 8

For existing Standing Offers, Supply Management should develop specific management processes in order to ensure that work is allocated equitably.

Management Response

Management agrees with this recommendation.

This is reflective of current purchasing practice, and a focus on new Standing Offer opportunities will be implemented by Q3 2006.

Recommendation 9

When evaluating proposals for Standing Offers, Supply Management should ensure the various categories of professional are weighted to reflect usage.

Management Response

Management agrees with this recommendation.

This will be implemented by Q3 2006.

Recommendation 10

Supply Management should ensure that all call-ups against Engineering Standing Offers be required to bid resources against the classifications contained in their Standing Offer Agreement or that the bids be deemed non responsive.

Management Response

Management agrees with the intent of this recommendation.

Management generally concurs with the recommendation but believes that certain situations may require flexibility.

Standing Offers by their very nature, are issued in advance of specific assignments being fully scoped, or in some cases known at all. The resources therefore, against which proponents commit firm per diem rates, tend to be typical, generic classifications; however, they do cover the majority of "down stream" needs which follow and become call-ups against the Standing Offer.

It should be recognized that occasionally an authorized firm may have the need to include a specialized resource on a proposal in order to respond to the specific needs of an assignment, and that in-house expertise exists in Supply Management Division to ensure that the City is getting the best cost.

Recommendation 11

When Information Technology Services calls for bids and the individual selected (originally submitted for evaluation by the winning proponent) is unavailable for work, the second qualified bid be selected (rather than the original firm substituting another individual).

Management Response

Management agrees with this recommendation. A review by Information Technology Services indicates that this is a current practice; however, it is acknowledged that a deviation to the practice occurred inadvertently only once (in 2003). The Standing Offer has been in use for five years.

Recommendation 12

When Information Technology Services issues calls for proposals, that all invitees be reminded of the criteria against which they will be assessed.

Management Response

Management agrees with this recommendation.

This will be implemented immediately.

Recommendation 13

Supply Management ensure that all Standing Offer Agreements have an original maximum cap for call-up of $100,000, with the total value of amendments not to exceed a further $50,000, or 50% of the original call-up, without the approval of the City Manager.

> **Management Response**
>
> Management agrees with the intent of this recommendation.
>
> Management agrees that the total value of amendments to call-ups should not exceed 50% of the value of the original call-up. In addition, most standard call-ups have a threshold of $120,000, which we feel is reasonable. Although most existing call-ups are typically limited to the $100-$120,000 range, establishing a specific dollar threshold does not reflect the very real differences in the types of goods and services that the City purchases. For example, a $100,000 cap may be too much for the purchase of office supplies, but would not begin to meet the needs to secure SAP resources or purchase steel.
>
> Information Technology, for example, frequently has instances where contracts for SAP related resources require more than 100 days of commitment, because the resources are difficult to find, the per diem rates are high, and vendors require longer commitments in order to guarantee availability.
>
> While management agrees that there should be a 50% cap on amendments to call ups, it recognizes that, at least in the case of Infrastructure Services and Public Works, there are instances where there may be a need to exceed these limits to deal with follow-on work where changing firms is not in the City's interest financially. These exceptions should have the City Manager's approval.

Recommendation 14

Supply Management should review purchasing activities related to Fleet Services and develop appropriate Standing Offers and/or tenders.

> **Management Response**
>
> Management agrees with this recommendation.
>
> This will be implemented by Q3 2006.

Recommendation 15

Where organizations make call-ups directly, a copy should be forwarded to Supply Management for monitoring purposes

Management Response

Management agrees with this recommendation.

This will be implemented by Q2 2006.

Recommendation 16

That Supply Management regularly reviews the Standing Offer site to ensure that all information is up to date.

Management Response

Management agrees with this recommendation. This process is now in place.

Recommendation 17

Supply Management should ensure that all purchasing activity is included in its report to Council, regardless of the source of the information or the means of acquisition and be presented in a clear and easily understood format.

Management Response

Management agrees with the intent of this recommendation.

Management believes that the current reporting meets the standards established within the City Purchasing By-Law, which requires that Supply Management submit to Council on a quarterly basis the details of contracts in excess of $25k which were awarded under delegated authority.

The recommendation here suggests an expansion beyond those works that are below $25,000 or do not flow through Supply Management. This reporting is possible but not within existing resources as this additional requirement will require the on-going analysis of all other payment types, and may not provide the kind of information Council needs for financial oversight.

A much simpler and more cost effective approach would be for Accounts Payable to produce an annual listing of all vendors to whom payments totalling $25,000 or more in aggregate were made, together with the total payments made for the year. SAP can readily produce such a report, however, the need to remove the numerous non-discretionary payments such as those to other governmental levels, benefit service providers, pension plans, school boards, etc., to name but a few, and to portray the data in a meaningful manner, will require an additional administrative level of effort.

Management agrees that it is time to look at how reporting standards to Council for contracts and purchasing could be improved. Supply Management will investigate best-practice reporting for Council oversight and bring recommendations for improvement forward for the next term of Council.

Recommendation 18

Supply Management should facilitate reporting by including specific fields in the Procurement Module to identify specific transaction types such as: Call-up against Standing Offers, Request for Quotation, Request for Tender, Request for Proposal, and Request for Standing Offer, Payments without Reference, etc.

Management Response

Management agrees with this recommendation.

This upgrade to the Procurement Module in SAP would be a valuable addition to the data reporting capability, and Supply Management will initiate a working committee to include the IT Enterprise Application Management Division and the SAP Support Center to investigate the possibility of implementing the suggested upgrades. This application will, however, undergo the same analysis and business case evaluation as all other Information Technology requests and be prioritized against all other requests.

Recommendation 19

Supply Management should ensure Payments without Reference to a Purchase Order are adequately monitored, in order to identify and include cases of non-compliance in regular reports to Council, and the City Manager, in order to minimize their occurrence.

Management Response

Management agrees with the intent of this recommendation.

Management believes that a reasonable level of monitoring is currently in place. The expansion to 100% review as suggested will have resource implications.

The Finance Branch conducts on-going compliance reviews of all payments made by credit cards, petty cash and payment without reference to a purchase order, which are an essential component of the City's Financial Management Control Framework. The reports are provided to management as an information item. The Financial Services Branch and the involved parties deal with all cases of non-compliance.

To expand the reviews to 100% of all payments without reference in order to report on Standing Offers and non-compliance will require a significant increase in staffing requirements in Accounts Payable, as well as potentially expensive customization to the SAP application.

The implementation of this recommendation will be identified in the 2007 Departmental Business Plan and resources sought as part of the 2007 budget.

Recommendation 20

That Supply Management ensure the quarterly reports to Council reflect the actual nature of the purchase. Program Managers may make corrections to errors only, rather than "editorialize" the description of what was purchased, which must remain as described in the Contract Approval Request.

Management Response

Management agrees with this recommendation.

Corrections will be restricted to providing clarity to the description. This will be implemented immediately.

Recommendation 21

Supply Management should review their standard contract formats and clauses to remove duplication.

Management Response

Management agrees with this recommendation.

This will be implemented by Q3 2006.

Recommendation 22

Supply Management should not amend Terms and Conditions without the explicit approval of Risk Management.

Management Response

Management agrees with this recommendation.

This will be implemented immediately.

Recommendation 23

Supply Management and Financial Support Units should ensure Terms and Conditions are sent out with both Corporate and Departmental Purchase Orders, regardless of value, and their receipt and acknowledgement by suppliers kept on record.

Management Response

Management disagrees with this recommendation.

Management believes that the process currently being followed is preferable to the recommendation.

Currently, all bid solicitation documents, Tender, Standing Offer, Proposal, etc, contain up to 40 standard terms and conditions (6 to 7 pages typically), designed by Purchasing, Risk Management, and Legal Services to protect the City from a number of perspectives. Issues addressed include Conduct of Work, Insurance, Indemnification and Liability, Workplace Safety, Occupational Health, MFIPPA, Conflict of Interest, Need for Confidentiality, Audit and Reporting Requirements, among others. Bidders, in their proposal or tender submission, are obligated (at the bidding stage, where the City clearly has leverage in that regard), to accept the City terms and conditions.

Once a vendor is selected as either the lowest responsive bidder, or best value proponent, a Purchase Order is issued. The Purchase Order includes, by direct reference, an order of precedence, which lists amongst other documents, the initial City bid document (which contains the complete legal terms and conditions), and the bidder response (which has accepted those conditions), within a legally acceptable validity period.

This approach, endorsed by the City's Legal Services Branch, appears to be appropriate and preferable to the collection of signed statements, which would occur after the award was determined, and the leverage of the City to impose sometimes onerous conditions on the vendor, may be reduced. Additionally the smaller Departmental Purchase Orders include a condensed version of the main legal terms and conditions, which print automatically in SAP, and are provided to the vendor.

Recommendation 24

Supply Management should ensure that all Requests for Proposal contain a clause requiring bidders to certify that the rates offered are those offered to their best/most favoured client, and that this be subject to verification.

Management Response

Management agrees with this recommendation and will expand the recommendation to include all bid solicitation proposals.

This will be implemented by Q3 2006.

Recommendation 25

Supply Management should work to integrate the Contract Approval Request within the Procurement Module of the Financial System.

Management Response

Management disagrees with this recommendation.

The Contract Approval Request is an MS Word based template used to approve all contracts under delegated authority. The CAR, as it is known, flows well through the outlook e-mail function, and the timeline associated with contract approval, even at

the highest levels of City management, is an impressively short one. Imbedding the CAR "Word" document in SAP would not be cost-effective.

General Management Response:

In most instances staff are in agreement with the recommendations and where there is a difference of viewpoint further comments have been provided.

Throughout the audit of procurement, Supply Management Division was involved in many discussions, which led to the recommendations contained herein, many of which run parallel to the objectives of Purchasing within the City.

The focus of the recommendations on reporting completeness, and process improvement, is recognition that there was an absence of more high profile errors in contracting which is very positive.

Since amalgamation the involvement of Purchasing in City contracts has risen from the 2001 baseline of $484.5 million, to a 2005 level which exceeded $1 billion. The processes and procedures implemented since 2001 have added value and ensured a consistent purchasing approach with valuable controls for the vast majority of City spending.

A number of the recommendations contained herein would add considerably to the level of effort needed within Purchasing, and will be analyzed in relation to the value added to the current state. In order to implement all recommendations it is anticipated that Purchasing would need an additional four FTE's, one clerical, one buyer, and two purchasing officers, at an estimated total cost of $273k annually, along with a one time set-up cost of about $100k. Additional resources will also be required in the Accounting area if all recommendations regarding reporting were implemented.

Management will be examining where efforts could be refocused, as in the case of reporting, to minimize costs while enhancing the information. The implementation of these efforts will be identified in the 2007 Departmental Business Plan and resources sought as part of the 2007 budget.

Conclusion

Current processes and procedures provide Council a reasonable level of assurance that contracting activities are in compliance with City policy.

Overall there are opportunities to effect operational improvements in reporting and to enhance value for money through increasing the price component in contracting, utilizing more appropriate methodologies in evaluating price submissions and more effective management of Standing Offers.

The Supply Management Division must fully exercise their control responsibilities to ensure all of the recommendations are implemented.

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

Chapter 5: Audit of Real Estate Management

Executive Summary

Background

The Real Estate Services Division (RESD) falls within the Real Property Asset Management (RPAM) Branch of Corporate Services.   The mandate of RESD encompasses:

- acquisition and disposal of all City real property interest,

- all appraisals of real property,

- coordination all real property legal documents, and

- oversight of all environmental remediation on City-owned property including the development and introduction of best practices in environmental management.

RESD has been established in large part to carry out real estate activities in response to the identified requirements of other City departments.   In 2004, RESD conducted approximately 120 acquisitions and 80 disposals. In addition, approximately 150 files are currently active in the environmental remediation area.

Audit Objectives

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

- Whether current principles, policies and procedures for real estate activity at the City are managed in accordance with:

    o City policies and procedures;

    o Industry best practice;

    o Efficient and effective management practices; and

- Whether management practices/accountability framework are adequate to provide integrity and cost effectiveness of real estate management activities.

Organizational Strengths

RESD currently has the depth of skill and experience to fulfill its mandate and functional responsibilities.   The Division consists of a dedicated team with strong and knowledgeable leadership. A positive customer service approach was in evidence during our audit.   Municipal best practices as related to disposals, leasing, appraisals and environmental remediation are typically followed by RESD and the City's current property disposal policy remains one of the more comprehensive when compared to other municipal organizations.

Findings

Property Disposals

Our audit found that overall disposals were in compliance with the existing policy. Although in some instances a lack of complete documentation was noted, in our view, these instances did not impact on the overall integrity of the process used in the disposals we reviewed. Our findings indicate that management should review the policy and related procedures to more clearly provide guidance in the following areas:

- Clarifying the overall objective of property disposals;

- Clear guidelines should be established regarding the selection of the various sales methods in order to ensure that a consistent and effective method of sale is used and that appropriate negotiation protocols are adhered to; and

- A standardized process similar to the City's approach to public tendering should be required for disposals where multiple bids are anticipated.

Acquisitions, Leasing, Appraisals and Remediation

While the Division does tend to adhere to municipal best practices in these areas, the lack of formal policies and procedures places excessive reliance on the knowledge and expertise of existing staff to consistently and appropriately undertake these activities. The absence of documented procedures also creates challenges in maintaining effective staff training and succession.

Inquiries

The Division is currently dealing with a considerable number of inquiries from various sources regarding the status of individual transactions. A standard protocol and monitoring system for addressing these inquiries is needed to manage this work efficiently and consistently and to clearly demonstrate its operational impacts.

Roles and Responsibilities

RESD currently has responsibility for managing a number of City-owned properties. It would be more appropriate to assign the responsibility for managing these properties to either the Program Properties or Venture Properties Division within RPAM.

The current mandate of RESD also includes all leasing activity for the City. RESD should pursue opportunities to align these responsibilities within a single part of its operation.

Management Information

The Real Estate (RE) module of SAP was implemented as part of the City's Integrated Business Solution (IBS) initiative. The module is used in managing the inventory of City-owned properties. However, currently within RESD, a variety of stand-alone tools continue to be used to monitor all activity and a complete database management tool is

not in use. There has been a reluctance to utilize tools available within SAP to assist in this area. Discussions with Information Technology Services should be undertaken to ensure these tools are introduced and utilized.

A system of formal performance indicators and standards is not currently in place. Such measures are an important internal control mechanism that can provide management with early warning on potential issues and required management intervention.

Documentation Standards

Based on our review of a sample of transaction files, no evidence of any inappropriate activity was noted, however we concluded that approximately one-third of the files were incomplete in terms of containing all required documentation. The establishment of a checklist and sign-off procedure should be established within each file for each milestone as a trigger to ensure all steps are completed and properly documented. This would assist management's ability to monitor performance and facilitate the transfer of files between staff when necessary.

Long-Term Planning

By nature of its role, RESD is dependent upon other departments to forecast their requirements in such a way as to allow the Division to take action in a timely and effective manner. Information generally appears to be provided to RESD within a reasonable timeframe. However, no evidence was found that strategic work planning, i.e. setting annual or multi-year targets, was being conducted.

Service Delivery Model

Currently RESD includes six (6) positions identified as "Consultants". Management has indicated that the use of these consultant resources has been necessitated by workload demands and the inability to find qualified replacements for vacancies. The use of on-site consultants and contract staff has continued for long periods of time and raises significant employment issues for the City.

Management has also identified an emerging challenge in succession planning. No clear strategy has yet been developed to respond to this concern, which is an issue that will require a more coordinated corporate-wide effort in the near future. Given RESD's long-term use of external consultants, its continuing struggle to attract acceptable candidates when vacancies occur and the associated succession planning issues this is raising, it is appropriate at this point for management to pursue more formalized outsourcing in the future.

Recommendations

Recommendation 1

That the overall objective of property disposals be clarified, including clarification of the relative priorities regarding sale versus other potential uses for the property.

Management Response

Management agrees with this recommendation.

The Disposal Policy approved in October 2001 by Council, will be reviewed for clarity of wording as part of the annual review of disposal procedures to be completed in 2006.

Ultimately, Management's goal is to present objective information to aid Council in setting priorities specific to surplus property. The review of the Disposal Policy will address the need to develop a more formal approach for land exchanges. The objective would be to ensure that any surplus real estate is viewed as an asset and utilized in a manner that recognizes its financial value and rationalizes its use in relation to the City's overall requirements.

Recommendation 2

That Management establish clear guidelines on the appropriate selection of various methods of sale and associated negotiation protocols.

Management Response

Management agrees with this recommendation.

Management proposes the development of a sale and negotiations handbook to be completed by Q4 2006, that documents disposal options available and outlines the criteria to be considered when selecting a marketing method.

Recommendation 3

That Management establish a requirement for the use of a proposal call or public tender process for all disposals involving high dollar values and/or multiple bidders.

Management Response

Management agrees with this recommendation.

Current practices and procedures with regard to the use of proposal calls and/or public tenders will be reviewed and revised as part of the annual review of the current disposal procedures and incorporated into the sale and negotiations handbook, addressed under **Recommendation 2,** to be completed by Q4 2006.

Recommendation 4

That Management ensure appropriate policies and procedures are put in place for Acquisitions, Leasing, Appraisals and Remediation to ensure a consistent and effective approach that reflects best practices is maintained.

Management Response

Management agrees with the recommendation.

The development of an Acquisition Policy, including leasing, will be completed by Q2 2006.

The need for appraisals and environmental site assessments is currently captured in the Disposal Policy and will be entrenched in other policies and practices as developed.

Recommendation 5

That Management implement a standard protocol for responding to inquiries as well as an improved tracking mechanism to capture all relevant information including the source, the staff assigned and the time committed to resolving each request.

Management Response

Management agrees with the recommendation.

An upgrade to the Corporate Inquiry Tracking application is currently underway and is anticipated to be completed by Q4 2006.

Recommendation 6

That the property management responsibilities currently assigned to the Real Estate Services Division be transferred to either the Program Properties Division or the Venture Properties Division of Real Property Asset Management.

Management Response

Management agrees with the intent of this recommendation.

A review of the alternative service delivery options and the required resourcing will be completed by Q3 2006. Any resourcing issues, additional FTEs or contract dollars, will be addressed in time for the 2007 budget process.

Recommendation 7

That Real Estate Services amalgamate its leasing responsibilities within its internal structure.

Management Response

Management agrees with this recommendation.

The organizational structure in place at the time of this audit aligned leasing-out activities (revenue leases) with disposals, and lease-in activities with acquisitions. The intent of this alignment was to balance workloads within RESD. As an interim

step to an organizational review, revenue and acquisition leasing will be consolidated in Q1 2006, to allow for standardized business processes and increased focus of knowledge and expertise.

Real Estate Services Division will be reviewing the alignment of positions during the Branch Process Review Program which is targeted to be completed in Q3 2006.

Recommendation 8

That Management, in concert with the Information Technology Services Branch, implement the use of available corporate system tools to provide required database management support.

Management Response

Management agrees with this recommendation.

The RPAM Business Case, Version 1.0, indicated that Real Estate Services Division (RES) would be included in the Project System (PS) Module implementation. However, as the Real Estate Services Division had to concurrently develop and implement the Real Estate Module, it was determined that there was not enough capacity within the Division to develop the PS Module as well. At that time, the Comprehensive Asset Management Division (CAM) was substituted for RES in the PS module implementation. A review of the potential application of the PS module to address project management-tracking requirements and costs associated with the application is planned for Q2 2006.

Recommendation 9

That Management develop and implement a system of key performance indicators based on operating standards to facilitate efficient service delivery and validate potential workload issues.

Management Response

Management agrees with this recommendation.

Management agrees that meaningful performance indicators are required to estimate and budget for resource requirements and to track divisional performance.

The development of these indicators and appropriate planning standards will be completed by Q4 2006.

Recommendation 10

That Management establish a checklist and sign-off procedure to ensure that documentation of all activity is complete and accurate.

Management Response

Management agrees with the intent of this recommendation.

A review of similar issues from a previous disposal audit in 2004 indicated that the majority of the issues associated with files did not warrant a significant amendment to practices.

To ensure that files are fully and properly documented, a checklist has been developed and implemented.

Recommendation 11

That Management undertake, in concert with key client departments, an annual or multi-year planning process to identify and plan for future real estate service requirements.

Management Response

Management agrees with this recommendation.

It is currently difficult to pre-plan RESD's client-driven workload within one budget cycle. The capital budget process tends to be completed in a compressed timeframe, often in isolation. This issue occurs mainly with acquisitions for major capital infrastructure projects.

RESD staff will initiate a semi-annual workload review and analysis with clients to review project timing to allow input for resource costs in capital project budget preparation. These reviews, coordinated with the corporate budget cycle, will allow RESD to identify staffing pressures as part of the annual operating budget pressure identification**.**

Recommendation 12

That Management pursue opportunities for more formal outsourcing of services to minimize the ongoing use of consultants and address succession planning limitations.

Management Response

Management agrees with the intent of this recommendation.

To address the balance of the workload currently being provided by internal staff, RESD is currently using individual contractors, acquired through a standing offer, to meet day-to-day workload requirements.

RESD's lines of business and mandate will be reviewed as part of a Branch wide Process Review Program including an organizational assessment and staffing strategy planned for Q3 2006.

General Management Response

The Audit Report dated 11 October 2005, indicates that overall the performance and management of the Real Estate Services Division (RESD) has successfully:

- Created a skilled, experienced and dedicated team with strong and knowledgeable leadership to fulfill its mandate and responsibilities;

- Promoted positive teamwork and customer service delivery;

- Fostered positive working relationships with other areas of the City;

- Followed municipal real estate best practices;

- Created a property disposal policy and bylaw that remains a leader when compared to other municipal organizations;

- Remained on track with original direction and intent for RESD; and

- Responded capably to the disposal of facilities arising from amalgamation.

After reviewing the recommendations contained in the audit report, RESD management has the following observations:

- General agreement with observations and recommendations;

- Findings confirm RESD's strength in filling Centre of Expertise (COE) role;

- Interviews have identified technology weaknesses that need to be addressed;

- The information that was captured recognizes succession, staffing, contracting issues and challenges;

- Certain Recommendations confirm that more in-depth review and development and approval of an appropriate go-forward service delivery strategy is warranted. This will be looked at during the Branch Process Review that is targeted to be complete Q3 2006.

Conclusion

RESD currently has a high level of skills and experience to bring to the Division's mandate and its functional responsibilities. There is positive customer service approach and strong relationships have developed with its key client departments across the City.

Although RESD continues to meet current work demands, there is an undue reliance on its existing knowledge base. There is a need to develop more complete and formalized policies, procedures and performance measurement tools to ensure on-going operational consistency and effectiveness as well as to more clearly identify and validate potential impediments to organizational effectiveness in the future. Opportunities have also been identified during this audit for organizational streamlining, improved management

information and longer-term planning to assist in sustaining and enhancing the Division's long-term efficiency and effectiveness. Given succession planning issues and the ongoing need for consultant resources, pursuing more formal outsourcing of services is an appropriate strategy at this time.

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

Chapter 6: Audit of Emergency Management Program

Executive Summary

Background

The City of Ottawa has been actively conducting emergency management planning since amalgamation in 2001. At that time, the Emergency and Protective Services Department (EPS) of the City undertook a strategic planning exercise (Operation Delta) to integrate emergency services across the former municipalities. This included an examination of the gaps in the City's emergency management capabilities.

In 2002, a new Emergency Response Program capital project worth $7.1 million was approved by Council. The funding was aimed at optimizing the City's emergency response capabilities by addressing multi-departmental emergency response initiatives that could not easily be funded within a single unit's operating budget. A multi-departmental Steering Committee and Working Group was established to develop a five-year action plan to identify and prioritize key projects to significantly improve the City's capability to mitigate, prepare for, respond to and recover from emergencies.

The Working Group used measurable management and operational objectives to identify and prioritize 31 capital projects that would contribute to the reduction of the gap between the current desired level of response and the actual capabilities.

In 2002, the Ontario Provincial Legislature amended the *Emergency Management Act* (formerly the *Emergency Plans Act*) with the requirement for all municipalities in Ontario to develop and implement an emergency management program. Using a multi-departmental approach, the City of Ottawa developed a comprehensive Emergency Management Program (EMP or the Program) that was approved by Council in December 2004. The program is designed to enhance the City's ability to prevent, plan for, and respond to large-scale disasters and emergencies and to ensure the continued delivery of core services to City residents. A two-tiered governance structure has been developed to manage the Emergency Management Program.

1. **Emergency Management Program Steering Committee (the Steering Committee).** This committee is chaired by the Deputy City Manager of Community and Protective Services and is comprised of the members of the City's Executive Management Team. It is responsible for providing overall strategic guidance and direction for the Program.

2. **Emergency Management Program Working Group (the Working Group).** This Working Group is chaired by the Manager of the Emergency Measures Unit (EMU) and is comprised of key managers from across the City and also includes representatives from external organizations (e.g., Red Cross, local hospitals, etc.). The Working Group is responsible for executing the Emergency Management Program across the City of

Ottawa. Although referred to as the EMU in this report, the EMU was renamed the "Office of Emergency Management" as of September 1, 2005.

In 2004 the list of the City's EMP capital projects was revised. Specifically, five new projects were introduced, three projects removed, and several projects merged to produce a revised list of 29 capital projects.

Subsequent to the proclamation of the *Emergency Management Act,* Emergency Management Ontario, a unit of the Ministry of Community Safety and Correctional Services, developed the Community Emergency Management Program framework which outlines standards for municipal Emergency Management Programs. The standards are divided into three levels: essential, enhanced and comprehensive. The *Emergency Management Act* requires that all municipalities in Ontario comply with the standards developed by Emergency Management Ontario. The elements of the essential standard were required to be in place by December 2004. The enhanced and comprehensive elements must be completed by December 2006 and 2007 respectively.

The City is approximately half way through its first Five Year Emergency Response Program Action Plan. This audit was intended to provide Council, the City Manager and the Executive Management Team with information to assess the Program and to take remedial action if required.

The objectives of the audit were to provide Council with an independent and objective assessment of:

1. The City's compliance to the requirements of the province of Ontario's *Emergency Management Act* and related regulations;
2. The adequacy of the management controls framework (e.g., governance, planning, reporting, etc.) used to manage the City's Emergency Management Program; and,
3. The alignment of each of the City's 29 Emergency Management Program projects to the stated goals and objectives of the Emergency Management Program.

The scope of the audit did not include:

- An assessment of the adequacy of the Emergency Management Plans of individual departments and branches;
- An assessment of the economy and efficiency of the Emergency Measures Unit; or,
- A detailed review of each of the 29 EMP capital projects.

The audit included an extensive review and analysis of Program and project related documentation, including: Emergency Operations Control Group Exercise Reports; The Five Year Emergency Response Program Action Plan and the updated 2004 plan; the confidential Emergency Management Plan; EMP capital project status reports; the 2003 Vulnerability Analysis Report; Council briefings; and, assorted Program related planning documents.

In addition, the audit conducted an array of interviews with representatives of staff and management from numerous City departments and branches.

Key Findings and Recommendations

Strengths

Since amalgamation and well before events such as the 9/11 attacks in the United States and the EMO requirements for an Emergency Management Program, the City has been proactively planning for enhancements to its emergency response capabilities. Through this audit, it was observed that emergency management planning at the City has matured from the development of a static, point-in-time emergency management plan to an active multi-departmental emergency management program that includes consultations with external stakeholders, regular training, and demonstrated commitment from the City Manager and Executive Management Team. The Audit Team observed the following key strengths of the Program.

- There is a high level of awareness and commitment to the Program by the City Manager and Executive Management Team. Specifically, at the time of the audit, the Emergency Operations Control Group (EOCG) had met six times, each for half a day, since November 2004 to conduct emergency management simulation exercises. This dedication of a half day per exercise represents a significant commitment of time for the Executive of the City. By making this commitment, the Executive is leading by example and demonstrating the high priority and importance that it places on Program.

- A detailed Emergency Plan has been developed and was incorporated into a City of Ottawa By-law in December 2004. The City of Ottawa Emergency Plan outlines the overall municipal emergency management system, the general emergency functions common to all types of emergencies and disasters as well as specific emergency functions. By Provincial Regulation, municipal Emergency Plans were due to be submitted to the Chief, Emergency Management Ontario by December 31, 2004. The City completed its plan prior to this deadline.

- The Working Group (WG) maintains active representation from across City departments and meets weekly to manage the program. The WG members show a high level of commitment and dedication to the WG and the Program as a whole. The WG meetings are held on a regular basis with formal agendas and minutes distributed for each meeting.

- The Program is one of Community and Protective Services' 12 Strategic Priority Projects, and the 2006-2009 City Corporate Plan commits to developing and implementing an Emergency Management Program that improves the City's ability to cope with a major crisis or disaster. The Program is also a corporate priority project.

Findings

The following outlines the key findings, risks and recommendations for this audit.

Objective 1 – Compliance

The Audit Team observed that the City is compliant with the requirements of the *Emergency Management Act* and associated regulations. Specifically, at December 31, 2004 the City was compliant with the relevant sections of the *Emergency Management Act* (included in Appendix B) and with the Essential standard of the Community Emergency Management Program Framework.

The Audit Team identified one area for improvement with regard to improving the City's process for ensuring compliance to provincial legislation and regulations.

Findings - Compliance Assurance

The City has been recognized by the Province of Ontario as compliant to relevant legislation and regulations; however, a formalized process does not exist to ensure compliance is regularly monitored and consequently sustained over the long term. Additionally, our review of current Program activities indicates that additional processes may be required to be compliant with the Enhanced and Comprehensive standards, as defined by Emergency Management Ontario. There is a risk that by maintaining its current portfolio of Emergency Management Program capital projects the City will possibly be non-compliant to the Enhanced and Comprehensive standards defined by Emergency Management Ontario.

Risk

There is a risk that Council and the Steering Committee will not receive timely compliance information to assist them in their decision-making processes.

Recommendation 1

That the management of the EMU develop a mapping of EMP capital projects and Program activities to the standards defined by Emergency Management Ontario and that the subsequent mapping be:
    a. **annually reported to Council; and,**
    b. **updated and reported to the Steering Committee on a twice yearly basis.**

Management Response

Management agrees with these recommendations.

Although the Audit Team determined that "the City is compliant with the requirements of the Emergency Management Act and associated regulations" as reported to Council at its meeting of December 15, 2004, the Audit Team recommended development of a process to

map Emergency Management Program (EMP) capital projects and activities to the enhanced (year 2) and comprehensive (year 3) standards.

Because the City's five (5) year, $7.1 million EMP actually pre-dates the Emergency Management Act, tracking tailored to its requirements was not built into the original design.

Although the Province does not require it until 2007, the Office of Emergency Management is developing an annual planning cycle process as follows:
- Annual project review including a legislative program mapping process for approval by the Steering Committee;
- Semi-annual reprioritization exercise to ensure legislative compliance will be achieved with an update provided to the Steering Committee for approval ; and
- Bi-monthly formal program status updates to the Steering Committee to ensure financial accountability, mitigate risks associated with projects and ensure that information is shared appropriately.

This process will be tabled at the Steering Committee meeting in Q1 2006.

Objective 2 – Management Control Framework

We observed that the Program has an adequate management control framework. Specifically, formal and informal controls and processes were observed for all of the audit criteria supporting the control areas identified above.

While it was observed that an adequate management control framework exists, three observations were made to reduce the risks facing the Program and to strengthen existing processes. Specifically, the Audit Team identified improvement opportunities in the following areas: governance structure and processes; benefit sustainment; and, the sufficiency of resources assigned to the Program.

Findings - Governance Structure and Processes

Community and Protective Services and EMU management has increasingly developed and implemented processes and controls to effectively manage the Program. Nevertheless, three key additional processes and controls are required to mitigate the risks associated with the current Program governance model and consequently enhance the probability that the Program will achieve its long-term goals and objectives.

Risks

There is a risk that discrepancies will exist between the Emergency Measures Unit capital project summary reporting and individual capital project status reporting.

There is a risk that project teams may not have the necessary resources with the required qualifications to successfully meet project objectives.

Recommendation 2

It is recommended that the EMU develop the following key controls for approval by the Steering Committee.
> **a. A detailed Terms of Reference for the Steering Committee including a description of the Steering Committee's program oversight roles and responsibilities and an approvals matrix for the Working Group, Steering Committee, and EMU.**
> **b. A formal program planning framework, including strategic and annual program planning processes for the Program.**
> **c. A performance measurement framework for regular reporting to the Steering Committee and Council including performance measures in the areas of legislative and regulatory compliance and Program goals and objectives.**

Management Response

Management agrees with these recommendations.

"The Audit Team observed that the Program has an adequate management control framework. Specifically, formal and informal controls and processes were observed for all of the audit criteria supporting the control areas identified above. While it was observed that an adequate management control framework exists, three observations were made to reduce the risks facing the Program and to strengthen existing processes."

As noted under Recommendation 1, the current Terms of Reference for the Emergency Management Program were developed in 2002, prior to passage of the Emergency Management Act, and focused primarily on the project structure. Now that the City is approaching the end of its first 5-year planning cycle, it is appropriate to review the current Terms of Reference and reorient them to support the ongoing governance structure and processes required to support the ongoing Emergency Management Program.

The updated Terms of Reference will identify roles, responsibilities and approval processes. It will include an annual mapping/planning process and semi-annual self-assessment to ensure legislative compliance. It will outline program objectives and develop performance measures to ensure that the program is meeting those objectives and it will outline a strategic planning cycle for the Emergency Management Program.

A Terms of Reference will be tabled for approval by the Steering Committee in Q1 of 2006.

The existing management control framework is being strengthened departmentally and within the Branch, the reporting areas, nature of the reports and frequency have been

documented and will be actively reviewed by individual managers and collectively by the Branch Management Team.

Findings - Benefit Sustainment

The City has approved $7.1 million in Program related capital projects; however, associated operating funding has not yet been identified to sustain the long-term benefits of these projects.

Risks

There is a risk that Emergency Management Program capital project 511-19, Municipal Evacuation Plan, will experience further project delays and consequently that the City will continue to be without a comprehensive plan for the effective and orderly evacuation of all or segments of the City.

There is a risk that the Steering Committee will not have a full understanding of the human resources and operating costs associated with the 29 Emergency Management Program capital projects and consequently that the City will not allocate sufficient future years resources to sustain the benefits of these investments over the long term.

Recommendation 3

That the Steering Committee place a priority upon the timely completion of capital project 511-19, Municipal Evacuation Plan, and regularly monitor the project's progress and adequacy of resources assigned to the Project.

Management Response

Management agrees with this recommendation.

Management recognized the Evacuation Plan as a priority and dedicated resources to support this initiative in October 2005. The project focuses on planning all elements of an evacuation, which requires multi-departmental coordination. The first phase was completed in December 2005, and described the coordination mechanisms and major procedures for all plan elements and detailed internal City of Ottawa responsibilities within the plan. The next phase, anticipated to be complete by June 2006, will address all major job aids, coordination mechanisms and responsibilities involving external partners.

Recommendation 4

That the EMU undertake a process to identify and document the anticipated operating and human resources costs for all EMP capital projects (pending, scoping, active, and completed) and that these costs be discussed and agreed to by the Steering Committee.

Management Response

Management agrees with this recommendation.

In August 2005, a revised project approval process was formally established and approved by the EMP Steering Committee. Included in this process are the identification of human resources and their time allocation, and the potential operational impact of the project. Throughout a project's development, the Steering Committee members will be kept apprised of the project's progress and its integration operationally. Staff recently conducted a historical review of the human resources allocated to the projects as well as projected human resources required to complete the projects in 2006 and 2007. The results of this analysis were used for the annual project review for 2006 and will subsequently be used in 2007.

Findings - Sufficient Resources

Through the establishment of the Emergency Measures Unit, the funding of the Emergency Management Program capital project portfolio and the ongoing operation of the Working Group, the City has dedicated comprehensive multi-year budgetary and human resources for effective emergency management planning. While an extensive array of resources have been dedicated to emergency planning by the City, issues exist regarding the adequacy of resources assigned to the Working Group and the adequacy of the Emergency Operations Centre.

Risks

As a multi-departmental program, the Program is reliant upon other departments and branches to provide staff resources to enable it to successfully deliver upon its mandate. The Program is currently at risk of not having sufficient full-time resources to successfully deliver upon the Program goals and objectives as outlined in the Five Year Emergency Response Program Action Plan.

The current location and design of the Emergency Operations Centre adds avoidable constraints and challenges to the City's capability to effectively and efficiently manage emergencies.

Recommendation 5

That the EMU develop and document a process for the selection and approval of new Working Group members and ensure that the process: documents the anticipated workload requirements of Working Group members; clearly outlines roles and responsibilities; and includes formal senior management approval of the department from which the resource belongs.

Management Response

Management agrees with the intent of this recommendation.

Further to recommendation 2, the new Terms of Reference will include a process to document requirements of Working Group membership, core competencies and a process for gaining formal approval at the Steering Committee level on Working Group membership. This formal approval will assist in ensuring workload balances are made with respect to Working Group members.

A detailed human resources impact analysis was presented to the Steering Committee November 22, 2005. Subsequent to this, an implementation plan for 2006 & 2007 will be presented to the Steering Committee in Q1 of 2006. The implementation plan will identify the implementation of various projects and the financial and human resources required to successfully complete each project with in the identified timeline. Each future project will also follow the project start-up process approved by the Steering Committee in August 2005. The 2006 & 2007 implementation plans, the project start-up process and bi-monthly status reporting to the Steering Committee will ensure effective benefit sustainment.

Recommendation 6

That the Steering Committee place a priority upon the timely completion of EMP capital project 511-07, Emergency Operations Centre Design.

Management Response

The current location and design of the Emergency Operation Centre (EOC) is problematic. The layout is not appropriate for the number and types of activities required by a single tier municipality of Ottawa's size, is located downtown and therefore at higher risk from a vulnerability perspective, has no permanent audio visual equipment and computer workstations and lacks an effective form of controlled access.

Accordingly, a project has been identified for the design of a new Emergency Operations Centre. A Best Practices Review has been completed and an EOC Design Concept document was developed to aid in decision-making processes and the design phase. To date, the project team has also developed detailed operating procedures for the current EOC, which addresses notification procedures for mobilizing staff and procedural processes for the effective management of the EOC. The City of Ottawa is currently seeking partnership opportunities with the Federal Government – Public Safety and Emergency Preparedness Canada to co-locate Federal and Municipal Emergency Operations Centers. Temporary modifications to the existing EOC are also being evaluated to enhance efficiencies of space and personnel.

Objective 3 – Projects

The Audit Team observed that the current Emergency Management Program capital project portfolio of 29 capital projects is aligned to the stated goals and objectives of the Program and that the capital project portfolio contains all the EMP related capital projects currently underway at the City. Additionally, it was observed that monitoring processes exist at the branch and departmental level but not at the Steering Committee level to track capital projects schedules, costs and scope.

The Audit Team identified the following opportunity to strengthen the Program's project management processes and to increase the likelihood that the 29 Emergency Management Program capital projects will be completed prior to the deadline of December 2007.

Finding

The Program does not have a formalized process to allow for the regular review and reprioritization of the EMP capital projects portfolio.

Risk

The City is at risk of not meeting its Emergency Management Program capital projects completion schedule. Without the implementation of additional project monitoring processes at the Steering Committee level, the likelihood of this risk occurring will increase over the next two years as the City approaches the end of its first Five Year Emergency Response Program Action Plan and attempts to gain closure on the remaining Emergency Management Program capital projects.

Recommendation 7

That the management of the EMU document and implement a process to ensure the Steering Committee review and where required reprioritize/re-profile the EMP capital projects portfolio on a twice yearly basis.

Management Response

Management agrees with this recommendation.

The Audit Team "observed that the current EMP capital projects portfolio of 29 capital projects is aligned to the stated goals and objectives of the Program and …that monitoring processes exist at the branch and departmental level but not at the Steering Committee level to track capital projects schedule, costs and scope."

A semi-annual process will ensure that projects are appropriately prioritized on an ongoing basis by the Steering Committee as well as to ensure provincial program compliance.

The Terms of Reference planned for Q1 of 2006 will include this requirement.

Management Response - Impact of 2006 Budget Reduction

Based on the Council direction emanating from the 2006 budget deliberations the request to expand the capital project 901037 (Emergency Management Plan) was not included in the approved 2006 budget. In response to this budget direction the existing $1.34 million in the works-in-progress was reallocated to maximize progress on critical projects while minimizing impact.

A review of all projects deliverables planned for 2006 was conducted and adjustments to the budget and associated staff resourcing have been recommended based on the following considerations:

- Ensuring legislative requirements are achieved in 2007.
- Considering the impact of reducing or omitting budgets for projects currently in progress.
- Initiating projects that would provide corporate benefit to a known area of improvement.
- Delaying the implementation of projects that will benefit from the completion of projects currently in progress or other dependencies

The EMP Steering Committee will be confirming those budget and resource adjustments in Q1 of 2006. Proposed reductions will have the following impact on the audit recommendations:

- Audit Recommendation 3, respecting timely completion of the Municipal Evacuation Plan. The component of the evacuation plan that identifies protocols and decisions aids to effectively re-establish population to evacuated areas, will be delayed until 2007.
- Audit Recommendation 6, respecting the timely completion of the Emergency Operations Centre Design. The 2006 project will be limited to risk assessment of potential EOC locations with the detailed design delayed until 2007.

Conclusion

We trust that these findings and recommendations will enhance the management and control of the Emergency Management Program. Additionally, we wish to express our appreciation for the cooperation and assistance afforded the audit team by Management.

Chapter 7: Audit of By-law Enforcement and Inspections

Executive Summary

Introduction

The Enforcement and Inspections Division (EID) of the By-law Services Branch protects health, safety, and property through the enforcement of a series of regulatory by-laws including, but not limited to: noise; signage on private and public properties; fences; zoning; property standards; pool enclosures; animal care and control; taxi licensing; parking control; and, smoke-free areas. In 2004, approximately 49,000 "Requests for Service" (RFS) were received and responded to. The major RFS categories were parking (16,300); animals (11,300), and noise (8,100).

The objective of this audit was to assess the adequacy of the management and operational practices including: the economy, effectiveness and efficiency of operations; compliance with all laws, regulations and policies; and financial management and controls. The audit was conducted in accordance with the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.

The examination was conducted during the period of April 2005 to August 2005. The scope of the audit included the Enforcement and Inspections Division. The Licensing and Programs Division was included with respect to the administrative support it provides to EID. The scope also included by-law revenue reconciliation procedures conducted by Courthouse & Provincial Offence Services Division of Corporate Services, and discussions with other municipalities (Calgary and Mississauga) regarding best practices. Criteria were discussed with and agreed to by the Director, By-law Services prior to the conduct of the detailed audit procedures. The conclusions were based on a comparison of the situations as they existed at the time of the audit engagement against the audit criteria.

Key Findings and Recommendations

Key changes were underway at the time of the audit through the New Deployment project that would enable EID resources to deliver services in a more efficient and effective manner. Further changes in management practices, systems functionality and technology tools are needed however, for By-law Services Branch to be able to fully establish, monitor or provide assurance that its delivery of EID services meets or exceeds expectations of efficiency and effectiveness.

A strengthening of revenue reconciliations and cash handling procedures were observed during the audit. However, the lack of clear overall responsibility for ensuring appropriate controls over all aspects of the revenue cycle creates vulnerability in the ensuring the completeness, accuracy and timeliness of receipts.

The New Deployment Model and Harmonization projects had generally well prepared, communicated and monitored project plans. However, the pace of change, due diligence expectations and other drivers are creating a need for systematically managing risk in key areas such as major projects and health and safety.

As part of the audit, the management team was asked to conduct a self-assessment of their management, which was assessed overall as "fairly effective". The self-assessment recognized the need to strengthen management practices. It was observed that the approach to development of management and operational practices and controls does not follow a structured approach. A structured approach can help strike the correct balance between informality and formality in the practices used to manage enforcement and inspections.

Recommendations and Management Responses

<u>**Recommendation 1**</u>

The Director, By-Law Services Branch, should expand existing service standards to include completion standards and performance targets to improve upon staff utilization, monitoring and reporting for EID activities.

> <u>**Management Response**</u>
>
> Management agrees with this recommendation.
>
> To date, Management has concentrated on setting and monitoring performance standards for the timely prioritization and dispatch of calls.
>
> As set out in the audit findings, by-law requests-for-service (RFS) are categorized as priority 1, 2 or 3 calls in accordance with the urgency of the infraction: for priority 1 calls, complainants are contacted and calls actioned within 24 hours; for priority 2 calls, complainants are contacted and action commenced within 48 hours, and; for priority 3 calls, complainants are contacted within 48 hours and action commenced within 7 days.
>
> Management will undertake to establish completion standards / performance targets and will work to improve staff utilization through a 2006 efficiency review. Given technology upgrades required for tracking purposes, it is expected that completion standards and performance targets will be completed and in place by the end of 2007.
>
> It should be noted that the longer timelines needed to establish those standards are due to the wide variability in the nature and sophistication of different requests for service. For example, one dog bite call may be resolved within a day based on cooperation of the parties, reliability of information and other factors, while another dog bite call may take several months to close based on availability of witnesses, appeal processes and other factors.

<u>**Recommendation 2**</u>

The Director, By-Law Services Branch, should ensure Coordinators and Supervisors expand their monitoring activities to include the monitoring of overall performance against established standards to keep a record of their monitoring findings and to report

periodically as appropriate on these findings to include suggested actions to take to improve on overall performance achievement.

Management Response

Management agrees with this recommendation.

As noted in recommendation 1, Management will work to establish completion performance standards and agrees that they should be monitored and reported upon. Technology enhancements will be required to implement and track the standards electronically.

Recommendation 3

The Director, By-Law Services Branch, in concert with the Information Technology Services Branch, should pursue opportunities to enhance operational efficiency through the use of available technology tools and ensure that technology opportunities are recorded and evaluated on a periodic basis.

Management Response

Management agrees with this recommendation.

The Information Technology Services (ITS) Branch has already initiated discussions with the By-law Services Branch with respect to reviewing technology requirements and related tools to assist the Branch in pursuing their operational efficiencies. It is anticipated that formal discussions and planning sessions will commence in Q1 of 2006 with a view to providing and defining technology opportunities, budget requirements and a go forward plan by the end of 2006.

Recommendation 4

The Director, By-law Services Branch, should ensure that surprise cash counts are implemented as part of the cash handling activities performed in the Licensing and Programs Division as recommended in the 2004 internal audit.

Management Response

Management agrees with this recommendation.

The Licensing and Programs Division operates a cash handling operation for the sale, renewal and transfer of taxi and other licenses. An internal audit of revenue collection procedures was conducted in 2004 that examined: segregation of duties and end-of-day procedures; timely processing and recording of receipts; custody of cash; secure storage; centralized receipt of cash; and, supervisor/manager oversight. The (current) 2005 audit found that all 2004 recommendations had been implemented with the exception of surprise cash counts.

Management has already begun the process to undertake an internal audit of its cash management practices and will ensure a formalized approach is in place by the end of Q1 in 2006.

Recommendation 5

The Director, By-law Services Branch, in conjunction with a counterpart in Corporate Services, should:
   a) **formally agree who has overall responsibility for ensuring that appropriate revenue cycle controls for all by-law revenues are in place, and are reviewed, reconciled and evaluated on a regular basis; and**
   b) **ensure a plan is established to identify and correct control weaknesses including an up-to-date universe of deputized organizations and reconciliation of issued parking tickets.**

Management Response

Management agrees with these recommendations.

The Director, By-law Services Branch has met with the City Treasurer and City Clerk to clarify and confirm responsibility for revenue processes and controls.

A number of changes through the ParkSmart program and ticketing administration processes have been implemented to improve accountability overall.

Management recognizes that additional improvements are required to ensure that adequate controls and processes are in place to ensure revenues are being maximized and reconciled. As a result, an interdepartmental committee has been established that will begin meeting regularly in 2006 to ensure appropriate controls are in place and finalized by Q4 of 2006.

Recommendation 6

The Director, By-law Services Branch, should ensure that health and safety risk areas faced by enforcement and inspections officers are assessed annually including assessment of the effectiveness of the measures taken to address health and safety risks.

Management Response

Management agrees with this recommendation.

The 2005 audit found that By-law Services undertook "a good combination of proactive and reactive measures to ensure compliance and that health and safety concerns are effectively addressed" but indicated that it would be beneficial to annually assess the top 5-6 occupational hazards and ensure appropriate mitigation measures are in place.

Management will ensure that this annual review is completed by Q4 of 2006. To support this review, Management is in the process of establishing a joint Occupational Health and

Safety Committee comprised of management and operational staff from each of the service areas that will address health and safety risks.

In addition, Management has recognized that enhanced training will reduce health and safety risks faced by officers on a regular basis. As a result, the deployment model has identified the establishment of a training officer and coordinator to ensure officers are properly trained and tested. The training office is expected to be in place by the fourth quarter of 2006.

Recommendation 7

The Director, By-Law Services Branch, should schedule a formal review of the actual achievements of implementation of the new model against its original performance objectives within 12 – 18 months after project initiation and once major aspects are considered implemented.

Management Response

Management agrees with this recommendation. Management has already planned a post-implementation review of the deployment that will be undertaken in the fourth quarter of 2007.

Recommendation 8

The Director, By-Law Services Branch, should require that there be formal, timely, and periodic (probably at least on a quarterly basis) assessments of important project completion dates versus targets for remaining universe of by-laws to be harmonized, until such time as the project is successfully completed.

Management Response

Management agrees with the intent of this recommendation.

Management has established a separate Project Team that meets on a monthly basis and continually reviews project completion dates and priorities. This information is captured on a Project Team Radar chart, which is distributed to all team members and reviewed with the Senior Management Team, the Branch Management Team and reported to Council through regular updates and presentations to various committees such as EPS and ARAC.

Recommendation 9

The Director, By-Law Services Branch, should systematically assess and monitor risk areas that could lead to further delays to the Harmonization project.

Management Response

Management agrees with this recommendation.

Further to the response to Recommendation 8, the Director currently meets, and will continue to meet, on a monthly basis with the project and Branch Management Team to monitor and assess risk areas in the harmonization of by-laws. The Branch is also awaiting a response from the Province on the enactment of a new City of Ottawa Act, which will allow regulations to be enacted differently based on geography. As a result of the challenges related to the rural/urban diversification in terms of enacting new regulations, the Province has also extended the expiry date for the harmonization of the remaining licensing by-laws until the end of 2007. It is anticipated that all of the harmonization work will be completed by this date.

Recommendation 10

The Director, By-law Services Branch, should establish an initiative to identify key strategic, operational and project areas of higher risk where more systematic risk management techniques can be integrated.

Management Response

Management agrees with this recommendation.

Current management practices include risk management in the form of minimizing liability exposure and containment of negative risk in areas affecting both Branch staff and clients and the effective management of opportunity risk. It is recognized that presenting the right information to Branch Management is essential to enabling effective risk management decisions. It is anticipated that the 2006 efficiency review will help meet this objective and will be included as part of the By-law Services work plan.

Recommendation 11

The Director, By-Law Services Branch, should include risk management in EID training plans for managers and staff.

Management Response

Management agrees with this recommendation.

Further to the response to Recommendation 10, as part of the 2006 efficiency review, key operational risks will be identified that can be built into training plans for managers and staff

Recommendation 12

The Director, By-law Services Branch, should ensure a more structured approach to delivering and accounting for EID operational and program performance results including periodic performance reports that compare actual versus planned performance and requires an assessment of significant variances with actions to address those variances.

Management Response

Management agrees with this recommendation.

The Corporate Performance Measurement Framework established OMBI measures as a priority area for performance measurement. The annual Branch Accountability Plan will be strengthened in 2006 to reflect strategic as well as operational and program performance results. Management has already implemented 17 enforcement OMBI performance measurements and 7 licensing performance measurements in 2005 and will be implementing an additional 22 enforcement and 10 inspection OMBI measures in Q1 of 2006. Monitoring and reporting will be occurring on a monthly basis within the Branch and among the Departmental Senior Management Team.

Recommendation 13

The Director, By-law Services Branch, should incorporate a more structured approach to maturing and improving EID management practices through the use of a Management Control Framework and Logic Model.

Management Response

Management agrees with this recommendation.

Management will be completing a Branch Logic Model within Q1 of 2006. This will serve to illustrate the cause and effect relationships between activities, outputs and outcomes and assist management identification of critical evaluation questions and areas of emphasis. The existing management control framework is being strengthened departmentally and within the Branch. The reporting areas, nature of the reports and frequency have been documented and will be actively reviewed by individual managers and collectively by the Branch Management Team.

Recommendation 14

Ensure the EID management team uses the Management Control Framework to self-assess the effectiveness of management practices each year at planning time to determine priority areas for improvement in the coming year.

Management Response

Management agrees with this recommendation.

Further to Recommendation 13, the Branch will use the enhanced Management Control Framework to self-assess management effectiveness annually. The results of ongoing monitoring and reporting at the activity level and periodically at the program level (e.g. the 2006 efficiency review), coupled with financial and human resource performance reporting will inform the annual planning exercise undertaken by the Branch.

General Management Response

The amalgamation of the City of Ottawa in 2001 resulted in the establishment of the By-law Services Branch, which brought together 12 different regulatory frameworks supported by 67 full-time equivalents (FTEs) collectively responsible for administering and enforcing approximately 500 different by-laws. As part of the 2004 budget process, Council in an effort to find additional efficiencies and cost savings approved the restructuring of By-Law Services by consolidating most of the enforcement and inspection services into one area. This resulted in the transfer of parking, zoning and property standards enforcement as well as the transfer of lottery licensing and special event services creating a new By-Law Services Branch comprised of 147 FTEs.

Initially located in 10 different locations operating under several different collective agreements and different service models, the By-law Services Branch has been working very hard to consolidate and harmonize its regulations and polices to ensure that services are delivered in a cost efficient and effective manner. Although approximately 85% of the regulations have been consolidated, By-law Services has faced significant challenges in harmonizing its numerous by-laws and is the only city of comparable size that has had to undergo an amalgamation exercise which has included consolidating and harmonizing various regulations and processes within an urban and rural setting. Even Toronto did not have as extensive a process given that their licensing regulations were already harmonized under an upper tier system. Nor did they have to cope with such diverse urban/rural geography.

The Branch is appreciative and supportive of the audit exercise undertaken in 2005 and generally concurs with the recommendations put forward. The Branch intends to take the opportunity to achieve these objectives through the Branch efficiency review that will be undertaken in 2006.

Chapter 8: Audit of Internet Usage and Controls

Executive Summary

1.0 Introduction

The Audit of Internet Usage and Controls was part of the 2005 audit plan brought forward by the City's Auditor General and received by City Council on December 15, 2004.

1.1 Background

There are approximately 9,000 users of the Internet within the City of Ottawa. All users have access to e-mail, World Wide Web, and other Internet communications protocols (for example, MSN messenger chat, FTP, and specialized library catalogue systems protocols) within the City of Ottawa. To facilitate this communication and transfer of information, the City has 220 high-speed wide-area network connections and 60 dial-up connections.

Information Technology Services Branch reported a total of 26.7 million Internet "hits", performed by 6,226 users who accessed the Internet during the month of October 2005, which represents an average of 4,282 hits per user for that month.

The City's e-mail systems transfer over 200,000 e-mails daily.

The use of the City's Internet and e-mail services are regulated and governed through two (2) policies. For the purpose of this audit, we reviewed the following policies, which were in effect at the time of our review:

- ▪ Responsible Computing Policy (August 13, 2001); and
- ▪ Responsible Use of the Internet Policy (December 11, 2003).

The Ottawa Public Library (OPL) has a requirement for increased flexibility and less restrictive filtering of Internet and e-mail content that result in less stringent application of security controls.

1.2 Audit Scope

The audit scope is limited to Information Technology (IT) strategy, policies, procedures and other controls (including the technical tools) that define and control the City of Ottawa's use of the Internet. In particular, the following were reviewed:

- o Information Management/Information Technology (IM/IT) Security strategy
- o Responsible Use policies
- o Incident investigation policies
- o Service request policies
- o Firewalls
- o Anti-Spam filtering
- o Anti-Virus filtering
- o Content filtering

- o 8 large City sites and 6 small City sites
- o Internet traffic (sites visited) for conformance to Responsible Use of the Internet Policy
- o E-mail usage for compliance to policy

The Ottawa Police Service was not included in the audit.

1.3 Audit Objective

The audit objective is to provide an independent and objective assessment of:
- o The adequacy, effectiveness and reliability of security strategy, policy, measures and controls in place over the usage of the Internet and e-mail; and
- o To determine whether Internet and e-mail usage is compliant with City policies.

1.4 Key Findings and Recommendations

The key findings and recommendations from this audit can be summarized in the following items.

On the whole, the e-mail controls to safeguard system/information confidentiality, integrity and availability worked as expected. Specifically, we found that the security controls surrounding the e-mail isolation of dangerous attachments were successful. Even though knowledgeable users were found to be able to bypass file type blocking controls, they were not able to bypass anti-virus controls and the nine anti-virus engines blocked malicious file content.

Although, we found that Library and Employment Centre Public Desktop Lockdown could be greatly improved from providing an automated Windows XP patching, and the latest Symantec Antivirus version.

Finally, we determined that the implementation of the anti-spam firewall in January 2004 had greatly reduced the amount of SPAM e-mail that City staff must process and, reduced the possibility of the SPAM setting off a malicious software infestation, and reduced the e-mail delivery system resource requirements.

Recommendation 1

That Information Technology Services investigate the tools used to perform blocking by file type to enable this feature regardless of extension.

Recommendation 2

That Information Technology Services deploy the latest Symantec Antivirus version.

Recommendation 3

That Information Technology Services update the configuration of the Antivirus systems to include anti-virus checking on read from disk and before program execution.

Management Response

Management agrees with recommendations 1, 2 and 3.

IT Services is investigating a new feature recently available for the first layer of virus-scanning protection, which permits blocking of file types regardless of the extension used. Testing to ensure there is no negative impact on e-mail delivery services will occur in Q1 2006.

IT Services considers that the risk of using the current version of Symantec Antivirus (7.61) is mitigated as three additional layers of anti-virus and malicious file protection also safeguard the City network, and Symantec continues to issue updated virus signature files per the support agreement up to January 31, 2006.

It is not uncommon for an organization of the size of the City of Ottawa to delay or skip version upgrades of software products. Upgrades are done either because the new functionality offered is needed by the City and is supported by a business case for the upgrade, or because the product is no longer supported by the vendor. IT Services has evaluated the additional features and business case for each new version as it is released. In fact, the City partnered with Symantec in Q1 2005 to beta-test version 10, as this is the first version to add features to safeguard against the current threat from spyware. Following this evaluation, Symantec recommended in late Q3 2005 that the City begin a managed upgrade directly from version 7.61 to Symantec Antivirus version 10.

IT Services initiated the upgrade to Symantec Antivirus 10 in Q4 2005, to be completed by January 31, 2006. This upgrade includes an assessment of the productivity impact of including anti-virus checking on read from disk and before program execution.

Recommendation 4

That Information Technology Services:
- **Review the level of awareness of the SPAM e-mailbox and increase visibility if warranted; and**
- **Continue monitoring of the effectiveness of the current SPAM filtering tool.**

Management Response

Management agrees with these recommendations.

The spam@ottawa.ca mailbox continues to be part of IT Services' ongoing security awareness program. Over 1,000 e-mails received by City staff from external sources are submitted monthly to the SPAM mailbox for review. In addition, four City Brief articles were published in 2005 on the topic of SPAM, each including a reminder about the availability of the SPAM mailbox. IT Services will continue to remind staff of the SPAM e-mailbox regularly.

Upgrades to the SPAM filtering service are implemented by IT Services when available from the vendor, to ensure continued effectiveness of the service. As noted in the report, monitoring of the SPAM filtering service is performed daily, and reviewed monthly by IT Services.

October data from MessageLabs indicated that 65% of all e-mail worldwide was identified as SPAM. Of the 50,000 e-mails received from external sources daily to the City's 9,000 e-mail users, slightly over 50% is identified as SPAM and immediately rejected. Roughly 0.5% of these e-mails are SPAM that is <u>not</u> identified or rejected, and successfully reaches a City recipient – 250 e-mails per day for the entire City. Users are encouraged to forward SPAM messages to IT Services to assist in increasing the effectiveness of the SPAM filtering service.

HTTP Web Site Filtering

While the Websense content filtering tool is generally regarded as a success, it also identifies a key weakness to the overall City security posture. The City network is a homogenous group of devices without separation from one another by security controls. The implication is that an outbreak of a security incident can quickly impact all systems on the network. The City security model relies on strong perimeter security to help prevent such incidents. Most users on the City network are protected through a variety of protective security devices largely associated with the perimeter. The Ottawa Public Library users are partially exempt from some of these controls. The result is that the strong perimeter security controls are negated potentially allowing malicious code to move onto the City network. This bypass of some controls is a weakness in the security posture of the City.

<u>Recommendation 5</u>

That Information Technology Services:

▪ **Tighten the Websense service implementation to reduce possibility of service bypass.**

<u>Management Response</u>

Management agrees with this recommendation.

In 2005, prior to the audit, IT Services launched an extensive project to enhance the rigour of the Websense implementation, scheduled for completion in Q1 2006. At the time of writing this response (November 2005), an extensive range of additional Websense filtering features is now in place.

The audit findings identified one small site (the Don Gamble Community Centre) that allowed City of Ottawa staff unfiltered access to the Internet. This was a subnet routing issue that misidentified these four City staff to Websense as Library staff workstations, which are unfiltered (see below). IT Services has corrected this routing issue.

- **Review some level of Library filtering to reduce the risk, such as a limited number of isolated general use systems for unfiltered web access. If this cannot be completed to an appropriate level, then Information Technology Services should consider separating the Ottawa Public Library from the City's system.**

Management Response

Unfiltered Internet access is provided to Ottawa Public Library (OPL) staff for reasons of intellectual freedom. This is as a result of a Library Board directive and therefore is a governance issue with the Library Board and outside the jurisdiction of the IT Services Branch.

Since 2001, a considerable amount of effort from IT Services has been directed to manage the risk of this configuration. For example, Library workstations are on separate network segments that make it easy to isolate viruses, worms and spyware in the event of a malicious code outbreak. On the advice of IT Services staff, Library Management agreed, in October 2005, to allow IT Services to protect their workstations from Internet-borne malicious code. The workstations used by Library staff do not allow staff to visit malicious websites, however they remain completely unfiltered for all other website content.

Given the OPL is governed by the Library Board, it may not be possible to influence the Board to reverse the decision to allow unlimited access to Internet sites based on the principle of intellectual freedom. Therefore if filtering cannot be implemented to a reasonable level, ITS Branch agrees with the recommendation that consideration should be given to separate the Ottawa Public Library from the City's system. This would be a significant undertaking as the Ottawa Public Library (OPL) is spread across 33 different sites throughout the City. Furthermore, separating the Ottawa Public Library from the City of Ottawa network would incur significant additional costs, due to the sharing of business applications and IT Services resources between OPL and the City.

It is estimated that the cost to separate the Ottawa Public Library from the City's network would be $30,000 of one time capital funding and $150,000 of annual operating costs, including the funding of 1 additional FTE (or equivalent). A budget pressure will be identified for the 2007 budget.

Anti-Virus

Recommendation 6

That Information Technology Services:

▪ **Deploy the latest Symantec Antivirus version; and**

▪ **Update the configuration of the Anti-Virus systems includes anti-virus checking before file read and before program execution.**

Management Response

Management agrees with this recommendation.

IT Services considers that the risk of using the current version of Symantec Antivirus (7.61) is mitigated as three additional layers of anti-virus and malicious file protection also safeguard the City network, and Symantec continues to issue updated virus signature files per the support agreement up to January 31, 2006.

It is not uncommon for an organization of the size of the City of Ottawa to delay or skip version upgrades of software products. Upgrades are done either because the new functionality offered is needed by the City and is supported by a business case for the upgrade, or because the product is no longer supported by the vendor. IT Services has evaluated the additional features and business case for each new version as it is released. In fact, the City partnered with Symantec in Q1 2005 to beta-test version 10, as this is the first version to add features to safeguard against the current threat from spyware. Following this evaluation, Symantec recommended in late Q3 2005 that the City begin a managed upgrade directly from version 7.61 to Symantec Antivirus version 10.

IT Services initiated the upgrade to Symantec Antivirus 10 in Q4 2005, to be completed by January 31, 2006. This upgrade includes an assessment of the productivity impact of including anti-virus checking on read from disk and before program execution.

Log Management

Log management practices need to be improved. Effective log management allows an organization to detect malicious activity, understand current levels of events, and track trends of various operational metrics. If was found that not all security device logs were being saved to permanent storage. It was also found that the logs that were collected were not routinely analyzed for significant events or trend analysis. Finally, the level of coverage of logging was not sufficient to record and detect all significant events on key security enforcement devices.

Recommendation 7

That Information Technology Services:

▪ **Review logging and monitoring processes and systems for effective operational system health and policy enforcement monitoring;**

- **Identify log events that require "real time" detection and alerting and implement appropriate processes;**
- **Review all security devices to ensure appropriate logging coverage;**
- **Ensure all device clocks are centrally synchronized for effective event correlation;**
- **Review regulatory and City policy requirements for an appropriate logging data retention period;**
- **Consider feeding log and monitoring data into a Security Information Management (SIM) tool for automated event analysis and correlation, to better provide a near real time City security posture;**
- **Ensure all devices are logging operational health and security events as a minimum; and**
- **Enable system logging on all devices.**

Management Response

Management does not completely agree with these recommendations.

Industry best practices do not support full logging on all devices at all times due to the high cost. IT Services implements additional logging and alerting on a selective basis, such as with certain high-risk devices or where there is a concern with a particular device.

As part of the Enterprise Security Review project initiated in Q1 2005, IT Services has contracted a third party security company to perform a detailed review of logging and monitoring processes and systems, including an assessment of the cost impact of these recommendations. The review will be completed in Q1 2006. If additional logging is required, a budget pressure will be identified in the 2007 budget. IT Services has implemented alerting for device failure on all servers and network devices.

IT Services has updated all firewalls to receive a synchronized time from NRC.

A review of regulatory and City policy requirements for logging data will be completed in Q2 2006, following the detailed review of logging and monitoring processes and systems in Q1 2006. Log data will be retained in accordance with the City's Records Management Policy and By-Law.

The need for additional logging and Security Information Management (SIM) tool will be assessed in Q2 2006 and if required a budget pressure will be identified in the 2007 budget. Additional logging is estimated to cost between $75,000-$150,000. To purchase and implement a SIM is $150,000, with ongoing operating costs in excess of $200,000 per year. Ongoing FTE (or equivalent) requirements are unknown at this time.

Change Management

Change management process for security devices need to be improved and enforced. It was found that the existing change management process was not being followed for all devices.

Therefore, a linkage is not available between the configurations on security devices and the requestor and approver of these configurations. This tracking is important for periodic security reviews.

Recommendation 8

That Information Technology Services:
- **Implement a more robust Change Management process/system within Corporate Services; and**
- **Enforce the formal Change Management process for all changes to the firewalls and other security systems.**

Management Response

Management agrees with these recommendations.

The current Change Management process in place since 2001 was enhanced in Q4 2005 to encompass all IT Services divisions and the requirement to comply with the City's Records Management Policy.

The Chief Information Officer reminded all IT Services Managers and Program Managers in November 2005, of the requirement to adhere to this Change Management process. This includes the requirement to document results achieved and record these centrally using the City's Records Management framework.

IT Security Policies

The IT Security policies were found to have some deficiencies in both content and interpretation. Not all users and systems were bound by the IT Security policies restricting use of the Internet. In particular, the Ottawa Public Library use of the Internet is governed by the requirement for intellectual freedom. The interpretation of this intellectual freedom results in various applications and services being installed for use by Library staff that bypass some of the controls implemented such as e-mail anti-virus filtering. Installation or configuration changes to access remote (i.e. on the Internet) data sources were also discovered on City workstations. In addition, the growing need to encrypt data to maintain confidentiality introduces the need to develop a policy to manage such encryption. Issues with encryption include key management (ensure that the ability to decrypt documents is maintained) and strength of encryption (ensure that the data or communication is sufficiently protected). The current IT Security policies state that encryption should be used to protect sensitive data, but don't currently address how this should be done.

Recommendation 9

That Information Technology Services ensure the policy prohibit the installation of software not officially sanctioned.

Management Response

Management agrees with this recommendation.

Section 6.4 of the revised Responsible Computing Policy, approved by City Management in September 2005, states: "Users shall not install or download software, shareware, freeware or any other application program onto City-owned IT assets without the express written permission of ITS."

Recommendation 10

That Information Technology Services ensure the policy prohibit the use of non-City approved computing resources for processing City data and assets.

Management Response

Management does not completely agree with this recommendation.

This recommendation applies to the following two situations:

- Use of non-City hardware by staff and/or consultants on the City network (e.g., laptops). Processing City data and assets using non-City hardware (e.g., home computers). IT Services concurs with the recommendation with respect to the use of non-City hardware on the City network (e.g., laptops). In section 6.3 of the revised Responsible Computing Policy, approved by City Management in September 2005, the Policy states: "Non-City hardware shall not be connected to the Corporate network without the express written consent of the ITS Branch."

- IT Services does not agree with this recommendation with respect to processing City data and assets using non-City hardware (e.g., home computers). Such a restriction would prohibit the use of web-mail from a home computer, or working from home on a Word document or Excel spreadsheet. The Responsible Computing Policy clearly defines employee obligations to safeguard electronic and information records in their custody, whether being processed at a City facility or not. The City's Defence-in-Depth Strategy mitigates the risk to the corporation from malicious software brought from a non-City computing environment.

Recommendation 11

That Information Technology Services review the retention periods for e-mail (including deleted e-mail) and compare to use of this data as corporate records and industry best practices.

Management Response

Management agrees with this recommendation.

The retention period for e-mail was reviewed against federal, provincial, and municipal legislation prior to approval of the Records Retention and Disposition By-law approved by Council and the Records Management Policy in 2003. Automated retention rules for e-mail were implemented as a part of an upgrade to the Exchange Server product in September 2005, to ensure compliance with this by-law and policy.

Recommendation 12

That Information Technology Services review the users with administrator rights on their workstations, and where not justified and required, remove the administrator privileges for that user.

Management Response

Management agrees with this recommendation.

A rigorous documented formal process is followed whenever any user requires local administrative rights.

As part of the Enterprise Security Review project, a review will be conducted regarding administrative access rights for IT Services with recommendations provided to the IT Services Management team in Q1 2006. This review will be repeated on an annual basis.

More restrictive administrative rights for laptop users are being implemented as part of the life cycle laptop replacement program. At this point, funding is available to replace roughly 100 units of the total fleet of 900.

Roughly 50% of the current fleet of City laptops are now running a version of the operating system that offers administrative rights control. IT Services plans to implement these administrative rights restrictions by the end of Q1 2006. The remaining 50% of the City laptop fleet needs to be replaced.

Funding of $700,000 and one (1) additional FTE (or equivalent) will be required in order to accelerate this replacement program to be completed over twelve (12) months. A

budget pressure will be identified for the 2007 budget to accelerate this replacement program to be completed over twelve (12) months.

Recommendation 13

That Information Technology Services:
- **Review organization roles and responsibilities with accompanying agreements, such as Service Level Agreements (SLAs); and**
- **Clearly define roles/responsibilities and define processes to ensure control implementation and monitoring is covered.**

Management Response

Management disagrees with these recommendations.

IT Services has reviewed existing organizational roles and responsibilities, and believes that these roles and responsibilities are clearly delineated and effective. Separation of duties and other organizational control mechanisms are fully implemented and maintained across the entire branch.

Encryption Policy

Recommendation 14

That Information Technology Services develop an Encryption Policy to address key aspects of encryption related to the City's operations and requirements.

Management Response

Management agrees with this recommendation.

Encryption technologies are currently used to safeguard specific systems, but these *de facto* standards are not presently in one reference document. Existing encryption standards will be collected and documented by Q2 2006.

Recommendation 15

That Information Technology Services identify tools for encryption of sensitive e-mail content.

Management Response

Management disagrees with this recommendation.

The revised Responsible Computing Policy, section 7.1, as approved by City Management in September 2005 stipulates that sensitive information is not to be transmitted via the corporate e-mail system.

An enterprise wide e-mail encryption solution would be for internal use only and would not necessarily be compatible with external partners, as there is no national or international standard for e-mail encryption.

Should an enterprise-wide e-mail encryption solution be required, it is estimated to cost $100,000 and require 2 FTEs (or equivalent) to administer. A budget pressure would be identified for the 2007 budget.

Recommendation 16

That Information Technology Services implement strong encryption on the link between DC2 and the library lab network that uses the Internet for communication.

Management Response

Management agrees with this recommendation.

IT Security will investigate the use of this link and the safeguards currently in place in Q4 2005.

User IT Security Awareness

Recommendation 17

That Information Technology Services:
- **Create a program with annual user IT Security policy review with mandatory quarterly/semi-annually IT Security awareness briefings;**
- **Continue the Security flash e-mail awareness campaign notifying users of significant e-mail attacks; and**
- **Improve the effectiveness of the IT Security awareness campaign.**

Management Response

Management agrees with these recommendations.

A formal IT Security Awareness program already exists. Awareness articles are issued through City Briefs on a monthly basis, Management Bulletins are also issued as necessary, and IT Security awareness briefings occur to address strategic issues or groups. Awareness activities have been part of the annual planning cycle since 2003. Flash e-mail awareness campaigns will continue.

A third party review to measure and assess the current awareness targets and associated delivery strategy was scheduled to begin October 2005 as part of the Corporate IT Security Awareness Program. This review was deferred to 2006 due to a City-wide budget freeze, and will include specific recommendations and a workplan identifying the priority messaging targets

Internet Usage

The Internet policies should be revised to limit personal use of the Internet to incidental or occasional use only and compliance to the policies should be monitored. Overall, a large amount of the Internet usage was for personal use.

A sample of 50 random user accounts was scrutinized for the month of May 2005. The spread for this group ranged from 44,220 hits (or 2,106 hits per day for the highest user account) to no hits for the lowest user account. The review was based on a statistically valid sample and found that average personal use of the Internet for this group was 53%.

The Top 50 user accounts were scrutinized for the month of May 2005. The spread for this group differed greatly and ranged from 2,098,002 hits (or 99,905 hits per day for the highest user account) to 29,761 hits (or 1,417 hits per day for the lowest user account). We found that their average personal use of the Internet was 66%.

Below is the summary of Internet usage, as reported by Information Technology Services Branch, for the month of October 2005.

TOP 100 PERMITTED WEBSITES VISITED DURING OCTOBER 2005
Per Information Technology Services Branch

Category (per ITS)	Examples	% of Top 100 Website "hits"	% of Total Internet Traffic (Oct 2005)
Internet Search Engines	www.google.ca kh.google.com cdn.mapquest.com	41.7%	25.9%
Advertising	ad.doubleclick.net adcounter.theglobeandmail.com adme.411.ca	29.3%	18.2%
Sports, Shopping & Entertainment	www.tsn.ca www.mls.ca	5.3%	3.3%
News and Media	OttawaSun.com CBC.ca	4.2%	2.6%
References	weatheroffice.ec.gc.ca www.Isuc.on.ca	2.4%	1.5%
Job Search	Workopolis.com	2.0%	1.3%
Information Technology	download.windowsupdate.com www.microsolft.com	1.6%	1.0%
City of Ottawa Application	Interfleet.ca Library.Ottawa.on.ca	1.2%	0.7%
Other	Includes "uncategorized"	12.2%	7.6%
Totals		**99.9%**	**62.1%**

The Responsible Use of the Internet Policy regulates and provides direction for appropriate usage of the Internet to be observed by all users. During the course of our audit, we found non-compliance with the existing policy within the following areas:

▪ Usage, if subjected to public scrutiny, does not cause embarrassment or concern to the City;
▪ Access to non-City e-mail systems and accounts through the Internet (such as Hotmail) from City workstations is strictly prohibited;

- All employee use of the network and Internet is tracked and monitored;
- Users will not use the Internet for illegal or immoral purposes;
- Peer-to-Peer File Sharing;
- Web-chat;
- Internet auction;
- Shared accounts;
- Personal and Dating; and
- Personal Web Sites.

We were unable to conclude whether personal Internet usage by employees occurred during normal working hours, as Information Technology Services Branch did not provide the Office of the Auditor General with the "point in time" records.

Personal e-mail usage was not as high as that of the Internet. Based on a sample of 50 random users, approximately 16% of e-mails were found to be personal. All users had at least some business requirement for e-mail use.

An analysis of the top 50 e-mail users could not be performed, as Information Technology Services was unable to generate an accurate report. We would expect that an organization such as the City of Ottawa would have proven tools to accurately and quickly provide reports such as top e-mail users, random users, sent e-mails, received e-mails, and other e-mail metrics to be used to analyze e-mail usage. Alternative methods to track and monitor high e-mail users should be obtained.

The Responsible Use of the Internet Policy specifically allows personal use of this corporate resource. While it may be expected that some minimum level of incidental personal usage may occur, we would expect that the level of personal use of the Internet should be similar to the expectations of limited personal use of the telephone. The City's policy on e-mail use only permits incidental personal use of e-mail, similar to the expectation of limited telephone use. Given the high personal use of Internet we found, the City's Responsible Use of the Internet Policy should be revised to limit personal use of the Internet to incidental or occasional only.

In order for managers to monitor staff to ensure that they are using Internet and e-mail appropriately, managers need to be provided with reports of Internet and e-mail usage. Information Technology Services is responsible for monitoring and controlling the use of the Internet and e-mail. This should include a process for reporting high volume or unusual usage patterns to managers so that they may evaluate if appropriate usage has occurred.

Currently, Information Technology Services does not provide regular reports of use of Internet or e-mail to departmental managers for review to ensure staff is using these tools appropriately. Monitoring can be accomplished through a process to provide reports to management for these reviews.

Policy Compliance – Internet and E-mails

Recommendation 18

That Information Technology Services:
- **Monitor and control the use of the Internet and e-mail usage by City employees;**
- **Develop appropriate recording tools that provide reliable reporting of e-mail usage;**
- **Develop and implement a process to provide managers with reports of their staff's Internet and e-mail usage so that management can evaluate if appropriate usage of e-mail and Internet is occurring; and**
- **Revise the Responsible Computing Policy to limit use of the Internet to mainly business purposes and limit personal usage to incidental or occasional only.**

<u>Management Response</u>

Management agrees with these recommendations.

IT Services uses Websense to monitor and control the use of the Internet at a macro or system level. Prior to the audit, IT Services launched an extensive project to enhance the rigour of the Websense implementation, scheduled for completion in Q1 2006. An extensive range of additional Websense filtering features is now in place that enhances the monitoring of Internet usage and blocking of websites that are not consistent with the Code of Conduct and Responsible Computing Policy. Monthly reviews of Websense reports by IT Services will continue, and changes to categories, website blocking, and follow-up investigations will continue.

In 2006 IT Services will enhance Internet monitoring using existing Websense reporting tools. A detailed analysis of a minimum of 50 Internet accounts will be conducted on a semi-annual basis for compliance with the Responsible Computing Policy. Instances of non-compliance will be investigated in conjunction with managers and the Labour Relations unit within Employee Services Branch. It is projected that this level of review and follow-up will generate the equivalent of 1.5 FTEs (2,700 hours) of staff effort to implement.

IT Services/Labour Relations will be contacting the respective managers of the 50 random and 50 top users generated throughout the audit. IT Services in consultation with Labour Relations will provide the Internet log report along with guidelines on how to interpret the data set and how to approach employees with any concerns that might be presented on their Internet usage.

IT Services will continue to produce management reports and metrics using Promodag, and will investigate additional monitoring tools and reporting capabilities that would enable monitoring of individual e-mail accounts. Evidence of non-compliance with the Responsible Computing Policy will be investigated in conjunction with managers and

Labour Relations. At this time, the additional effort to review and follow-up is not known pending identification and selection of new tools. A budget pressure would be identified for 2007 to acquire and implement additional monitoring and reporting tools.

The revised Responsible Computing Policy clearly states that the Internet and e-mail are provided for "legitimate business use in the course of assigned duties and only incidentally for personal use", and that disciplinary action, including dismissal, are consequences of non-compliance. The Responsible Computing Policy will be reviewed to ensure that it applies equally to both Internet usage and e-mail usage, and reflects our current practices.

Overall Management Comments

Information Technology Services (ITS) concurs with many of the recommendations proposed by the Auditor General. Where Management does not agree with the findings and/or recommendations proposed by the Auditor General, an explanation is provided to substantiate this position. In all cases, this is the result of further research or consultation with vendor suppliers, security experts, and industry best practices.

In cases where Management has already commenced an action, a status update has been provided. Where no action has been taken, the proposed timeline and any budgetary implications and expected outcomes have been identified.

1.5 Conclusion

This audit reviewed the adequacy, effectiveness and reliability of security measures and controls in place over the usage of the Internet and e-mail and assessed whether usage is compliant with City policies. While security controls currently implemented were found to be generally effective and reliable, there were gaps in the adequacy of the controls. The audit also reviewed the compliance of usage of the Internet and e-mail to the current policy statements and found that there is considerable personal use of these tools. The Responsible Use of the Internet Policy and the Responsible Computing Policy should be revised to limit the use of the Internet to mainly business purposes and limit personal usage to incidental or occasional only. A program to monitor and control Internet and e-mail usage should also be established.

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

4.   2005 ANNUAL REPORT ON THE FRAUD AND WASTE HOTLINE

To enhance existing fraud controls, many large organizations and municipalities have been adopting fraud prevention and detection programs and introducing "whistle blower" policies. Much of this has evolved as a result of the financial reporting discrepancies that have been widely reported upon for companies around the world.

Fraud policies and whistle blower protection have become effective methods of ensuring the protection of assets. Whistle blower protection enables staff to report on suspected or known cases of fraud or waste without being subjected to dismissal, discipline, suspension, penalty or related threats. No employee can be coerced or intimidated for acting in accordance with the policy. The concept of whistle blower protection was initiated by Council at its October 27, 2004 meeting and the Corporate Policy on Fraud and Other Similar Irregularities was approved July 13, 2005.

Under the City's policy, any employee who has knowledge of an occurrence of irregular conduct, or has reason to suspect that fraud or waste has occurred, must notify his/her supervisor or the Auditor General. Upon notification from an employee of suspected fraud, the supervisor must notify the Auditor General. This policy adds the investigation and reporting of fraud and other similar irregularities to the mandate of the Office of the Auditor General. In order to accommodate these additional duties, Council approved for the OAG a revised budget ratio of 0.08% of the City's Operating Budget.

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 Fraud and Waste 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 and is accessible either by phone or the Internet.

Several other organizations, both in the public and private sector, have implemented similar mechanisms to allow employees to anonymously report incidents of fraud and waste. In many cases, due largely to minimal communication with staff, hotlines within these organizations have not been particularly effective in motivating staff to come forth with their concerns. In an effort to ensure the success of City of Ottawa's Hotline, a comprehensive communications strategy was developed to provide all staff with a thorough information package outlining the new policy and the tools available to them to report this type of activity.

Council approved an additional budget of $65,000 in 2005 to implement the hotline as well as an annual future operating budget of $200,000, which would cover the cost of operating the Hotline as well as conducting more in-depth investigations arising from the hotline where further examination is deemed necessary. In 2005, all costs associated with the launch of the Hotline were absorbed within the existing budget of the OAG. Therefore, although concerns have been raised regarding the cost of this program, there was no incremental cost to the City in 2005 of putting the Hotline in place and the approved $65,000 was not added to the OAG budget.

After the launch of the Hotline, a number of calls were received from City staff objecting to receiving information at their home addresses. We would respond by stating that best practice clearly suggests that providing this type of information to employees' homes is the most effective approach in that it allows for unrestricted review of the material. In addition, one cannot overlook the fact that more than half of all City staff do not have access to e-mail at work making home delivery the preferred option.

The decision to mail information to home addresses yielded an interesting finding. It has been discovered that the City does not have accurate home addresses for hundreds of its employees. We have some concerns about this and will be pursuing it further in 2006.

The table below summarizes the reports received by the Hotline from November 1 to December 31, 2005 by report category.

Report Category	Number of Reports
Drug Use	2
Theft	2
Fraud – Financial and Non-Financial	1
Misuse and Unauthorized Use of City Property, Equipment, Materials, Records, Internet	2
Abuse of Work Time of Fraudulent Use of Sick Leave	1
Manipulation or Falsification of Data, Records, Reports, Contracts	2
Violation of Regulation or Law	2
Questioning Municipal Products or Services	30
Customer Service	1
Suggested Topics for Audit by the OAG	2
Other	3
Total	48

To date, the program has identified a number of valid issues which have been discussed with management and the Chair of the Corporate Services and Economic Development Committee. The Hotline has been quite useful in providing management with valuable information regarding areas to examine in order to reduce waste and decrease the risk of fraud. In addition, some of the Hotline reports are being considered by the OAG for additional audit work.

At present, the Fraud and Waste Hotline is set to run for a period of three years. At that time, an evaluation will be undertaken to measure its value to the City and determine if continued investment in the Hotline is warranted. It is anticipated that some form of 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.

5.   2006-2008 AUDIT PLAN

The following presents an update to the three-year audit plan that was presented in 2004, beginning with the 2006 list of projects. While specific audit projects have been presented for 2007 and 2008, the actual projects to be conducted are subject to revision and will be confirmed in subsequent annual reports by the Auditor General to Council.

Given that 2007 marks the beginning of a new term of Council, it will be important to allow the new Council the opportunity to provide input into the 2007 audit plan. As such, the 2007 plan will be finalized once consultations with new Councillors have been completed.

The methodology used to develop our audit plans included the following key steps:

- Meetings with Mayor, 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), and
- Last time audited.

5.1   2006 Audit Plan

Surface Operations - Roads Maintenance

Employment and Financial Assistance (EFA)

Fire Services

Building Permit and Inspection Processes

Public/Private Partnership (P3) Initiatives

Information Technology Management

Fleet Management

Property Management

Financial Internal Control Environment

Hydro Ottawa - Follow-up on the 2005 audit and Governance

Wastewater Management and the Munster Hamlet Sewage Rehabilitation Project (added at the request of Council)

Audits arising from the Fraud and Waste Hotline

5.2   2007 Audit Plan

Ottawa 20/20 Growth Management Strategy

Food Safety and Inspection Control

Human Resources

Development Approvals

Parks and Recreation

Inventory Management

O-Train/Light Rail

Financial Internal Control Environment

Ottawa Community Housing Corporation

Audits arising from the Fraud and Waste Hotline

Follow-up on previous audits

5.3   2008 Audit Plan

Paramedic Service

Grants and Contributions

Traffic Signals, Signs and Pavement Markings

Payroll

Corporate Communications

Environmental Management

Long-Term Care

Ottawa Public Library – Governance

Audits arising from the Fraud and Waste Hotline

Follow-up on previous audits

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