



Office of the Auditor General / Bureau du vérificateur général

**AUDIT OF THE CITY'S OPERATING RELATIONSHIP WITH THE
OTTAWA CENTRE FOR RESEARCH AND INNOVATION (OCRI)**

2010

**VÉRIFICATION DES RELATIONS OPÉRATIONNELLES DE LA VILLE
AVEC LE CENTRE DE RECHERCHE ET D'INNOVATION D'OTTAWA
(OCRI)**

Table of Contents

EXECUTIVE SUMMARY	i
RÉSUMÉ.....	i
1 INTRODUCTION.....	1
2 DETAILED FINDINGS, OBSERVATIONS AND RECOMMENDATIONS	2
3 CONCLUSION.....	6
4 ACKNOWLEDGEMENT.....	6

EXECUTIVE SUMMARY

Introduction

In the fall of 2010, the City's Fraud and Waste Hotline received a report recommending a value-for-money audit regarding the funding provided by the City of Ottawa to the Ottawa Centre for Research and Innovation (OCRI). In response to this requirement, the Office of the Auditor General (OAG) launched a preliminary assessment of the City's relationship with OCRI.

Background

The City of Ottawa provides annual core and project funding to OCRI, an economic development corporation with the goal of fostering the advancement of the region's globally competitive knowledge-based institutions and industries. The City has a significant relationship with OCRI: In 2010, OCRI represented approximately 60% of the total Economic Development Branch budget and the City funds represent approximately 25% of OCRI's budget. The City's Economic Development Branch oversees the most significant portion of the City's relationship with OCRI and provided funding of \$2,267,000 in 2010. In addition, OCRI receives an annual grant (\$75,000) from the Customer Relations, Business Integration and Funding Branch for the School Breakfast Program – although this program is being transferred from OCRI to the Ottawa-Carleton Learning Foundation in 2011. Public Health also provides OCRI with a \$250,000 grant for a school-based substance abuse program.

Our preliminary assessment was conducted through document review and interviews within the City of Ottawa. We grouped our findings against three expected norms: strategic business alignment, agreements and payments, and monitoring results. As we gained insight into the City's relationship with OCRI, we also developed recommendations to address areas for improvement.

Preliminary Assessment Objective and Scope

The purpose of the assignment was to conduct a preliminary assessment of the agreement and relationship with OCRI. We conducted the preliminary survey in accordance with the professional practices framework of the Institute of Internal Auditors. However, it should be noted that the assignment is not an audit. Rather, it is an independent assessment of the relationship with OCRI.

The scope of the assessment involved a review of the agreements between the City and OCRI and the associated financial reporting from 2007 through 2010.

Summary of Key Findings

Our assessment found that the current OCRI work aligns with the City's economic development strategy since OCRI's focus on knowledge-based industries is in line with the City's goal to leverage existing strengths in knowledge-based talent,

businesses, and organizations. We also found that there were formal agreements for both core funding and projects that defined OCRI activities and reporting requirements. We found preliminary evidence to indicate that the proportion of OCRI's administrative services allocated to the City funded projects appears high and has increased significantly. In 2010, of the \$2.6 million the City provided to OCRI, \$680,000 was allocated to OCRI's administrative costs. We also note that the City has recognized the need to improve the monitoring of results that these activities are having on the achievement of objectives.

Recommendations and Management Responses

Recommendation 1

That the City work with OCRI to understand and review the administrative charges to confirm that they are reasonable prior to renegotiation of the 2011 core funding renewal. This review will allow the City to ensure that City funds are directed to key activities and that reasonable administrative charges are allocated to the City.

Management Response

Management agrees with the recommendation.

As part of the 2011 funding agreement negotiations, it is the full intent of staff to identify and agree on appropriate administrative costs related to each economic development program that OCRI undertakes for the City of Ottawa. This exercise will ensure that City funds are directed to key economic development program activities and that reasonable administrative charges are allocated to the City.

The 2011 funding agreement negotiations should be complete by Q3 2011.

Recommendation 2

That the City use the economic development scorecard (currently being developed) to assess the results of the OCRI activities to determine their value. This will allow the City to make better resource allocation decisions centred on the outcomes associated with their investments.

Management Response

Management agrees with the recommendation.

The Economic Development Branch intends to proactively monitor OCRI's performance in three ways.

Firstly, each contract signed between the Economic Development Branch and OCRI (whether for core funding or funding related to a specific project) will include a detailed list of milestones (either monthly, quarterly or annually) and deliverables to ensure maximum accountability. Payment schedules will be tied to such milestones. On a quarterly basis, OCRI will meet with staff to review the results achieved in addition to providing a written summary of their activities.

Secondly, a broad base of performance metrics will be implemented in an economic development dashboard that will monitor the economic health and trends of the City of Ottawa. This dashboard will also allow the City of Ottawa to determine if investments in OCRI are being reflected in these metrics. It is important to note that broad city-based metrics are not just driven by OCRI but are affected by a range of factors that can be national and international in nature. Careful consideration will be given to isolate those performance metrics over which OCRI has influence.

Thirdly, the Economic Development Branch will negotiate with OCRI to obtain observer status at the OCRI board. This will provide an observer seat at the board level, where the manager of the Economic Development Branch will have an opportunity to observe OCRI's overall activities, as well as gain feedback from other board members on OCRI's performance.

Management anticipate that the first new contract cycle with the schedule and milestones will be completed by Q3 2011 and then continue on an on-going basis. The economic development dashboard will be complete by Q3 2011, and negotiations with regard to observer status should be complete by Q4 2011.

Conclusion

While, given the nature of the assessment, we do not conclude on whether the City has received value for money with respect to its relationship with OCRI, we are not recommending a full value for money audit at this time. Based on the results and conclusions, we believe that a comprehensive value for money audit would not lead to significantly different findings.

Acknowledgement

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

RÉSUMÉ

Introduction

À l'automne 2010, les responsables de la ligne directe de fraude et d'abus de la Ville ont reçu un rapport dans lequel on recommandait la réalisation d'une vérification de l'optimisation des ressources en ce qui concerne le financement octroyé par la Ville d'Ottawa au Centre de recherche et d'innovation d'Ottawa (OCRI). En réaction à ce rapport, le Bureau du vérificateur général a amorcé une évaluation préliminaire des relations de la Ville avec l'OCRI.

Contexte

La Ville d'Ottawa accorde à l'OCRI, une société de développement économique qui cherche à promouvoir l'avancement des institutions et des industries de la région qui sont axées sur le savoir et compétitives à l'échelle mondiale, annuellement un financement d'activités de bases et financement de projets. La Ville entretient des relations importantes avec l'OCRI : en effet, en 2010, environ 60 % du budget global de la Direction du développement économique lui était consacré, tandis que le financement octroyé par la Ville compte pour environ 25 % de son propre budget. La Direction du développement économique de la Ville chapeaute en très grande partie les relations qu'entretient la Ville avec l'OCRI, et lui a octroyé un financement de 2 267 000 \$ en 2010. De plus, l'OCRI bénéficie d'une subvention annuelle de 75 000 \$ de la Direction des relations avec la clientèle, de l'intégration opérationnelle et du financement pour le Programme des petits-déjeuners dans les écoles, bien que ce dernier soit transféré à la Fondation d'Ottawa-Carleton pour l'Éducation en 2011. Santé publique Ottawa accorde également une subvention de 250 000 \$ à l'OCRI pour la mise en œuvre d'un programme de lutte contre la toxicomanie dans les écoles.

L'évaluation préliminaire a consisté à examiner la documentation et à réaliser des entrevues à la Ville d'Ottawa. Nous avons regroupé nos constatations en fonction de trois normes attendues : l'orientation stratégique des activités, les ententes et les paiements ainsi que la surveillance des résultats. Alors que se précisait notre compréhension des relations de la Ville avec l'OCRI, nous avons également formulé des recommandations sur les points à améliorer.

Objectif et portée de l'évaluation préliminaire

Le but du mandat était de réaliser une évaluation préliminaire des ententes et des relations de la Ville avec l'OCRI. Nous avons procédé au sondage préliminaire conformément au cadre de référence des pratiques professionnelles de l'Institut des vérificateurs internes (IVI). Il convient toutefois de souligner que ce mandat ne constitue pas une vérification en soi; il s'agit plutôt d'une évaluation indépendante des relations de la Ville avec l'OCRI.

La portée de l'évaluation comportait un examen des ententes conclues entre la Ville et l'OCRI ainsi que les rapports financiers portant sur ces ententes pour les années 2007 à 2010.

Résumé des principales constatations

Au terme de cette évaluation, nous avons constaté que les activités actuelles de l'OCRI s'harmonisent avec la stratégie de développement économique de la Ville, puisque la cristallisation des efforts de l'OCRI autour des industries du savoir correspond à l'objectif de la Ville, qui cherche à tirer parti de ses forces en mettant à profit sa main-d'oeuvre, ses entreprises et ses organisations axées sur le savoir. Nous avons également constaté qu'il existait des ententes officielles pour le financement de base octroyé à l'OCRI et pour ses projets, ententes qui définissent ses activités de même que les exigences en matière de rapports. Nous avons réuni des données préliminaires selon lesquelles la proportion de services administratifs de l'OCRI consacrés aux projets financés par la Ville apparaît importante, en plus d'avoir considérablement augmenté. En 2010, la Ville a accordé un financement total de 2,6 millions de dollars à l'OCRI, et de cette somme, 680 000 \$ ont été affectés aux frais administratifs de l'OCRI. Nous avons également observé que la Ville admet la nécessité d'améliorer la surveillance des résultats qu'ont ces activités sur l'atteinte des objectifs.

Recommandations et réponses de la direction

Recommandation 1

Que la Ville collabore avec l'OCRI dans le but de comprendre et d'examiner les frais administratifs afin de confirmer qu'il s'agit de frais raisonnables avant de renégocier le renouvellement de l'entente régissant le financement de base pour 2011. Cet examen permettra à la Ville de s'assurer que les sommes versées sont allouées aux principales activités et que les frais administratifs qu'elle assume sont raisonnables.

Réponse de la direction

La direction approuve la recommandation.

Dans le cadre des négociations de l'entente de financement pour 2011, le personnel prévoit définir quels sont les frais administratifs appropriés, et s'entendre à cet égard, pour chacun des programmes de développement économique mis en place par l'OCRI au nom de la Ville d'Ottawa. Cet exercice permettra de veiller à ce que les fonds octroyés par la Ville soient affectés aux activités des principaux programmes de développement économique et que seuls des frais administratifs raisonnables sont imputés à la Ville.

Les négociations de l'entente de financement pour 2011 devraient être terminées au troisième trimestre de 2011.

Recommandation 2

Que la Ville utilise une feuille de pointage du développement économique, laquelle est en cours d'élaboration, afin d'évaluer les activités de l'OCRI et d'en établir la valeur. L'utilisation de cette feuille de pointage permettra à la Ville de prendre des décisions éclairées en matière d'attribution des ressources, soit en fonction des résultats liés à ses investissements.

Réponse de la direction

La direction approuve la recommandation.

La Direction du développement économique prévoit surveiller de façon proactive le rendement de l'OCRI de trois manières.

Tout d'abord, tous les contrats signés entre la Direction du développement économique et l'OCRI, qu'il s'agisse de contrats portant sur le financement de base ou sur le financement d'un projet en particulier, comprendront une liste détaillée des étapes à respecter (mensuelles, trimestrielles ou annuelles) et des réalisations attendues afin d'assurer la meilleure reddition de comptes possible. Le calendrier des paiements sera établi en fonction de ces étapes. Chaque trimestre, le personnel de l'OCRI se réunira avec celui de la Ville pour passer en revue les résultats obtenus et soumettre un résumé écrit de ses activités.

Ensuite, un large éventail de mesures de rendement sera inclus dans un tableau de bord du développement économique qui permettra de suivre l'évolution de la santé économique de la Ville d'Ottawa et d'en dégager les tendances. Ce tableau de bord permettra aussi à la Ville de déterminer si ses investissements dans l'OCRI se reflètent dans ces mesures. Il est important de noter que ces mesures générales de rendement pour la ville ne sont pas uniquement influencées par le rendement de l'OCRI, mais également par une gamme de facteurs nationaux et internationaux. Il faudra prendre soin d'isoler les mesures de rendement sur lesquelles l'OCRI exerce son influence.

Finalement, la Direction du développement économique négociera avec l'OCRI afin d'obtenir le statut d'observateur au conseil d'administration d'OCRI. Le gestionnaire de la Direction du développement économique pourra ainsi assister aux réunions du conseil d'administration de l'OCRI et avoir un aperçu global de ses activités, et recueillir les commentaires des autres membres du conseil au sujet du rendement de l'organisation.

La direction prévoit que le premier nouveau cycle de contrats s'accompagnant de calendriers et d'étapes à respecter sera complété au troisième trimestre de 2011, pour ensuite se poursuivre sans relâche. Le tableau de bord du développement économique sera au point d'ici le troisième trimestre de 2011, tandis que les

négociations concernant l'obtention du statut d'observateur devraient s'achever d'ici le quatrième trimestre de 2011.

Conclusion

Même si la nature de l'évaluation ne nous permet pas de tirer de conclusions quant à l'optimisation des ressources de la Ville au chapitre de ses relations avec l'OCRI, nous ne recommandons pas qu'une vérification d'optimisation des ressources en bonne et due forme soit réalisée. Les résultats et les conclusions de l'évaluation nous portent à croire que la réalisation d'une vérification détaillée d'optimisation des ressources ne permettrait pas de tirer de conclusions réellement différentes.

Remerciements

Nous tenons à remercier la direction pour la coopération et l'assistance accordées à l'équipe de vérification.

1 INTRODUCTION

1.1 Background

The Ottawa Centre for Research and Innovation (OCRI) is an economic development corporation with the goal of fostering the advancement of the region's globally competitive knowledge-based institutions and industries. OCRI is a non-profit, partnership organization that operates on an annual budget that comes from a variety of sources including municipal, provincial and federal government; membership fees; professional development programs; and private sector contributions. Annual funding from the City of Ottawa in 2008, 2009 and 2010 was approximately \$2.2 to 2.7 million.

The City has a significant relationship with OCRI: In 2010, OCRI represented approximately 60% of the total Economic Development Branch budget and the City funds represent approximately 25% of OCRI's budget. The City's Economic Development Branch oversees the most significant portion of the City's relationship with OCRI. In addition, OCRI receives an annual grant (\$75,000) from the Customer Relations, Business Integration and Funding Branch for the School Breakfast Program - although this program is being transferred from OCRI to the Ottawa-Carleton Learning Founding in 2011. Financial reports indicate that the OCRI has received \$250,000 from the City's Public Health for a school-based substance abuse program.

In the fall of 2010, the City's Fraud and Waste Hotline received a report recommending a value-for-money audit. In response to this requirement, the City's Auditor General launched a preliminary assessment of the City's relationship with OCRI.

This report summarizes the results of the preliminary assessment.

1.2 Preliminary Assessment Objective and Scope

The purpose of the assignment was to conduct a preliminary assessment of the agreement and relationship with OCRI. We conducted the preliminary survey in accordance with the professional practices framework of the Institute of Internal Auditors. However, it should be noted that the assignment is not an audit. Rather, it is an independent assessment of the relationship with OCRI.

The scope of the assessment involved a review of the agreements between the City and OCRI and the associated financial reporting from 2007 through 2010.

1.3 Approach

We conducted the preliminary assessment through document review and interviews within the City of Ottawa, specifically the Economic Development Branch, Community Development and Funding Branch, and Finance Department.

We developed findings based on the results from our fieldwork. Moreover, while explicit criteria were not developed given the nature of this assessment, we did group our findings against three expected norms: strategic business alignment, agreements and payments, and monitoring results. As we gained insight into the City's relationship with OCRI, we also developed recommendations to address areas for improvement.

2 DETAILED FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

This section details our findings and recommendations based on three management practices that identify typical expectations for governing a business relationship.

2.1 Strategic Business Alignment

The current OCRI work aligns with the City's economic development strategy. OCRI's focus on knowledge-based industries is in line with the City's goal to leverage existing strengths in knowledge-based talent, businesses, and organizations.

The City of Ottawa has published an economic development strategy: Partnership for Prosperity, Ottawa's Five-Year Investment Strategy for Sustainable Economic Prosperity. It outlines strategic objectives and goals and includes a theme to build on Ottawa's knowledge-based industries and workers and a governance model based on partnerships with communities. This strategy acknowledges the role OCRI can play in contributing to the Innovation Ottawa Partnership focused on the knowledge-based sectors. It also recognizes the Entrepreneurship Centre (run by OCRI) as a channel to promote business education program to nurture local entrepreneurs.

The City's goal to leverage existing strengths in knowledge-based talent, businesses, and organizations aligns with OCRI's mission: To lead Ottawa in economic development by connecting business, research, education, government and talent to advance the competitiveness of our knowledge-based industries and institutions, to build wealth and enhance our quality of life.

The school-breakfast program, operated by OCRI until 2010, is being realigned and transferred to the Ottawa-Carleton Learning Foundation (the charitable arm of OCRI).

2.2 Agreements and Payments

There is a formal agreement for both core funding and project funding. The agreement is clear that the activities must align with the City's strategy. It outlines payment schedules as well as reporting obligations to the City.

The City provides two types of funding to OCRI: core funding and project funding. Core funding is a budget item approved annually by Council to fund four main

activities that OCRI provides: Entrepreneurship Centre, Ottawa Global Marketing, Investment and Commercialization, and Life Sciences/Biotechnology. To formalize the agreement for funding these core activities, there is an Economic Development Partnership Funding Agreement that is negotiated annually based on the approved budget. The agreement includes expected clauses such as quarterly and annual reports, keeping of proper books of accounts and records, stipulations that the beneficiaries of the activities must be businesses and residents of the City, and others.

In addition to the core funding, the City also funds specific projects from the Economic Development grants budget. OCRI submits a grant application to the City. The City has a Grants and Contribution guide for Economic Development Projects that outlines eligibility requirements, proposal and application process, and funding criteria and assessment. If the application is successful, an agreement is signed. This agreement mimics the clauses of the core funding agreements.

Detailed quarterly reports that summarize core-funded activities are prepared by OCRI and submitted to the City. The report includes a President's Report on activities and the partnership in general, as well as metrics for each of the activities. Status reports for the project activities are also submitted although they are much simpler. The Economic Development Branch is responsible for assuring that OCRI is compliant with agreement(s).

The core funds are paid based on a monthly payment schedule. Because the core funds are approved in the budget, no approval is required to authorize individual payments. Conversely, project funds are paid based on quarterly milestones. For these payments, the Economic Development Branch authorizes the payment based on an invoice from OCRI. The Finance Department processes the payments and ensure they do not exceed the committed amounts.

2.3 Monitoring Results

Three branches in the City (Economic Development, Community Development and Funding, and Public Health) have partnership programs with OCRI. The trend of increasing City funding of OCRI since 2007 reversed in 2010 when City funding of OCRI declined.

In 2010, City has provided \$1.865 million in core funding and \$402,500 in project funding. The following table outlines City spending for economic development activities.

(thousands)	2007	2008	2009	2010
Budget (Core Funding)	\$1,815	\$1,855	\$1,865	\$1,865
Projects	Nil	\$891	\$856	\$402
Total Economic	\$1,815	\$2,746	\$2,721	\$2,267

(thousands)	2007	2008	2009	2010
Development Funding				

In addition, it appears that there has been some funding provided to OCRI that does not necessarily directly relate to economic development. Until 2010, the City provided a \$75,000 grant to OCRI to run a school breakfast program. In 2010, the OCRI Board made the decision to move the program from OCRI to the Ottawa-Carleton Learning Foundation, which is the charitable arm of OCRI.

In addition to this, financial reports indicate that OCRI also receives a \$250,000 grant from Public Health for a school-based substance abuse program.

There is preliminary evidence to indicate that the proportion of OCRI's administrative services allocated to the City funded projects appears high and has increased significantly.

Based on information analysed in OCRI's quarterly report (September 30, 2010) submitted to the City, the cost of core services are allocated to the different programs. In 2010, the programs funded by the City of Ottawa represent approximately 25% of OCRI revenues, or approximately \$2.6 million. However, these programs bore 60.4% of the reallocated Core Services costs (\$680,000 of a total of \$1,125,000). We also noted, based on annual report data, that the administrative allocation increased by 59% from 2008 to 2009.

The Economic Development Branch is aware of these allocations and increases and will be investigating and addressing them with OCRI during the renegotiation of the core funding agreement for 2011.

OCRI reports activities to the City in interim, quarterly, and annual reports. The City has recognized the need to improve the monitoring of results that these activities are having on the achievement of objectives.

Economic Development Branch staff review OCRI activity reports (annual/quarterly/interim). The ability to interpret the information contained in the reports to determine if the activities are contributing to achievement of results is recognized as an area for improvement. To address this gap, the economic development strategy includes a section on measuring progress and accountability and includes a recommendation that City Economic Development Branch staff develop a set of objectives and performance measures. Similarly, Council has directed staff to develop an economic development scorecard. City staff have recommended in the Economic Development Strategy Implementation Plan report to the Finance and Economic Development Committee and Council that an information dashboard tool be implemented that will allow the City to continually gauge Ottawa's economic indicators and compare them with those in other cities.

Recommendations and Management Responses

Recommendation 1

That the City work with OCRI to understand and review the administrative charges to confirm that they are reasonable prior to renegotiation of the 2011 core funding renewal. This review will allow the City to ensure that City funds are directed to key activities and that reasonable administrative charges are allocated to the City.

Management Response

Management agrees with the recommendation.

As part of the 2011 funding agreement negotiations, it is the full intent of staff to identify and agree on appropriate administrative costs related to each economic development program that OCRI undertakes for the City of Ottawa. This exercise will ensure that City funds are directed to key economic development program activities and that reasonable administrative charges are allocated to the City.

The 2011 funding agreement negotiations should be complete by Q3 2011.

Recommendation 2

That the City use the economic development scorecard (currently being developed) to assess the results of the OCRI activities to determine their value. This will allow the City to make better resource allocation decisions centred on the outcomes associated with their investments.

Management Response

Management agrees with the recommendation.

The Economic Development Branch intends to proactively monitor OCRI's performance in three ways.

Firstly, each contract signed between the Economic Development Branch and OCRI (whether for core funding or funding related to a specific project) will include a detailed list of milestones (either monthly, quarterly or annually) and deliverables to ensure maximum accountability. Payment schedules will be tied to such milestones. On a quarterly basis, OCRI will meet with staff to review the results achieved in addition to providing a written summary of their activities.

Secondly, a broad base of performance metrics will be implemented in an economic development dashboard that will monitor the economic health and trends of the City of Ottawa. This dashboard will also allow the City of Ottawa to determine if investments in OCRI are being reflected in these metrics. It is important to note that broad city-based metrics are not just driven by OCRI but are affected by a range of factors that can be national and international in nature.

Careful consideration will be given to isolate those performance metrics over which OCRI has influence.

Thirdly, the Economic Development Branch will negotiate with OCRI to obtain observer status at the OCRI board. This will provide an observer seat at the board level, where the manager of the Economic Development Branch will have an opportunity to observe OCRI's overall activities, as well as gain feedback from other board members on OCRI's performance.

Management anticipate that the first new contract cycle with the schedule and milestones will be completed by Q3 2011 and then continue on an on-going basis. The economic development dashboard will be complete by Q3 2011, and negotiations with regard to observer status should be complete by Q4 2011.

3 CONCLUSION

While, given the nature of the assessment, we do not conclude on whether the City has received value for money with respect to its relationship with OCRI, we are not recommending a full value for money audit at this time. Based on the results and conclusions, we believe that a comprehensive value for money audit would not lead to significantly different findings.

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