



Office of the Auditor General

Annual Report

**Tabled at Audit Committee
November 26, 2019**



Office of the Auditor General

November 26, 2019

Mayor, Members of Audit Committee and Council,

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

Respectfully,

A handwritten signature in black ink that reads 'Ken Hughes'. The signature is written in a cursive style.

Ken Hughes

Auditor General



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Table of Contents

Overview of activities	1
Fraud and Waste Hotline	2
Tabling protocol	2
Budget	2
Executive summaries of each audit	3
Audit of Benefits Processing – Compliance and Program Management.....	4
Audit of City Estimates.....	12
Audit of City of Ottawa Superannuation Fund (COSF)	23
Audit of Light Rail Transit (LRT) Land Negotiations and Purchases	27
Audit of Ottawa Fire Services – Fire Suppression	31
Audit of Stage 2 Light Rail Transit (LRT) Project Procurement.....	38
Appendix A – By-law No. 2013-375 and No. 2015-11	44

Overview of activities

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

Seven new audits were completed since my last annual report in April 2019. These include:

- Audit of Benefits Processing – Compliance and Program Management
- Audit of City Estimates
- Audit of City of Ottawa Superannuation Fund (COSF)
- Audit of Light Rail Transit (LRT) Land Negotiations and Purchases
- Audit of Ottawa Fire Services – Fire Suppression
- Audit of Stage 2 Light Rail Transit (LRT) Project Procurement
- Audit of Planning, Infrastructure and Economic Development Department – Land Management System (to be presented In Camera)

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

As audits are developed, depending on the nature of the findings, it may be more suitable to issue some related audit elements in separate reports; for example, less significant issues may also be addressed through the issuance of management letters provided directly to management. Since the last Annual Report, we have not issued any management letter related to audits.

Fraud and Waste Hotline

The City's Fraud and Waste Hotline is an anonymous and confidential vehicle for City staff and the general public to report suspected fraud or waste. Our Office continues to be responsible for the administration of the City's Fraud and Waste Hotline, which is available for employees and the public as part of the City's Fraud and Waste Policy. Our Office reviews all cases submitted through the Hotline. The bulk of the investigations related to the reports are done by City management and reviewed by the Office of the Auditor General (OAG). The OAG resources required to support the Hotline is roughly one and a half Full Time Equivalent (FTE) or significantly higher at times due to higher case volume and the nature of cases. We will be issuing a full report of the Hotline's 2019 activity at a future Audit Committee meeting.

Tabling protocol

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

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

Budget

The annual budget for the Office of the Auditor General is in accordance with the budget strategy for the Term of Council. The 2019 budget for the City of Ottawa Auditor General's Office was \$2.0 million.

Executive summaries of each audit

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

- Audit of Benefits Processing – Compliance and Program Management
- Audit of City Estimates
- Audit of City of Ottawa Superannuation Fund (COSF)
- Audit of Light Rail Transit (LRT) Land Negotiations and Purchases
- Audit of Ottawa Fire Services – Fire Suppression
- Audit of Stage 2 Light Rail Transit (LRT) Project Procurement
- Audit of Planning, Infrastructure and Economic Development Department – Land Management System (to be presented In Camera)

Acknowledgement

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

Audit of Benefits Processing – Compliance and Program Management

Purpose

The Audit of Benefits Processing – Compliance and Program Management focused on whether the City’s systems, practices and procedures effectively managed benefits processing during 2016, 2017 and 2018. As part of the audit, we examined whether the firms contracted by the City for benefits processing, administration and analysis provided services as specified in their respective contracts, and that only eligible expenses were paid. The audit also focused on whether the City processes were adequate to ensure the privacy and security of employee and dependents health and personal information handled by benefits contractors. The audit was included in the 2018 Audit Plan of the Office of the Auditor General (OAG), approved by City Council in November 2017.

Rationale

Within the City, the responsibilities for the benefits management was shared between Human Resources and Corporate Finance departments. Human Resources was the Plan Sponsor and managed the benefits plans for the City of Ottawa providing benefits to roughly 15,800 employees and retirees, their spouses and dependents. Whereas, the main responsibilities of the Pensions and Benefits Branch of Corporate Finance was to ensure the insurer had accurate information on eligible employees, retirees, their spouses and dependents as well as to remit insurance premiums monthly to the insurer.

The City had contracts with three service providers for both itself and the Amalgamated Transit Union 279 Conventional (ATU)¹ to deliver its benefits program. The core activities performed by each provider included:

- Insurer – reviewed, approved or rejected submitted claims and paid approved claims;

¹ ATU 279 benefits are handled through an Employee Benefit Trust covered by a Trust Indenture agreement. Day-to-day administration has been delegated to the City for payroll deductions and benefits eligibility administration. A Trust Committee comprised of City HR Management and staff and Union representatives are involved in selecting the insurance companies.

- External Benefits Consultant – supported the City’s management of benefits with services that included audits of the insurer’s claims, reviewing the insurer’s claims approval processes, as well as actuarial and communication services; and
- Third-party administrator – provided benefits administration for retirees and dependents; provided ATU recipients with cost of living adjustments benefit payments; calculated and provided ATU with Ontario Health Premium benefit payments; and, calculated and provided LTD recipients with benefit top-up payments.

We did not examine the benefits program of the Ottawa Public Library or the Ottawa Police Service, the procurement processes for the benefits contracts, specific assessment of the ATU Benefit Trust Indenture agreement, or long-term disability benefits. Long-term disability benefits may be addressed in a future audit.

This audit was important because the City pays over \$80 million per year for benefits and this cost has increased by 17.9% between 2014 and 2018, while the number of insured employees and retirees has only increased 2.2%. The increase in the cost of benefits per employee was mainly due to the rising cost of health care, particularly the cost of prescription drugs and an increase in the cost of long-term disability claims. Additionally, the City’s group benefit program is a self-funded plan in which the City assumes the financial risk for providing these benefits should claims exceed forecasts.

More details about the audit objective, scope, approach, and criteria are provided in our full report.

Findings

The key findings associated with the audit’s objectives are as follows:

- 1. Professional fees paid to the external benefits consultant during 2017 exceeded the amount in the original contract by 89% (\$616,471 paid versus \$325,900 contract)**

The City contracts with its external benefits provider for six services (i.e., contract renewal, LTD benefits consulting, financial audits, core benefits consulting, actuarial valuation and communications for the benefits plan). During 2017, fees were paid to the external benefits consultant for activities that were not included in the original contract. While there are emails from City staff approving these additional activities and fees, they were not approved via the City’s formal contracting practices and as such did not comply with the Procurement By-law.

The external benefits consultant is paid both by the City and by the insurer. The practice of the insurer paying the external benefits consultant a percentage of claims is not unusual in the industry, however, it reduces the City's control over the amounts paid to the external benefits consultant under the contract and was a contributing factor in the payments exceeding the contract limit.

2. Satisfactory controls to ensure only eligible claims paid

In addition to the insurer's processing controls over the claim submissions, the external benefits consultant conducts compliance reviews. We found that compliance reviews were conducted on drug claims and health claims and no significant discrepancies were identified. Where it was discovered that ineligible expenses had been paid by the insurer, the City recovered these amounts from the insurer.

These findings were consistent with the detailed testing that we performed on drug claims and on claimant eligibility which also found minor exceptions.

3. Lack of monitoring of amounts paid to its insurer for reimbursement of claim paid versus the insurer's fees

The City pays its insurer a retention/administrative fee (i.e., combination of a fixed fee per transaction, percentage of the value of claims paid), and percentage of premiums depending upon the transaction. The City does not monitor how much is paid to the insurer for reimbursement of benefits claims paid versus the insurer's fees.

4. Some of the Quality Assurance requirements stipulated in the contract with the insurer are not fulfilled

The City's contract with the insurer requires the insurer to have a quality assurance process in place that includes case management audits, claims adjudication audits, system coding audits and call center audits.

The insurer provides an annual report to the City on the timeliness and quality of services provided in accordance with the case management audit requirements. However, the claims adjudication audits and the systems coding audits have been carried out by the City's external benefits consultant and not the insurer. As the City pays its external benefits consultant separately, it is in effect paying for these services twice.

Additionally, we found that the contracted call center audits have not been completed. As a result, the City cannot confirm that employees and retirees receive a consistent level of service when they call the insurer.

5. Service level agreement penalties on performance were not received by the City in a timely fashion

The City's service level agreement (SLA) with its insurer defines service level targets to be provided and agreed-upon penalties if service levels are not achieved. Throughout the year, the insurer measures their performance against these targets and reports on these and any penalties to the City annually - within 90 days of year-end.

In its SLA reports the insurer calculated that penalties of \$16,650 for 2016 and \$5,300 for 2017 were owed to the City for failing to achieve some of the specified service standards. We found that the City did not receive these penalties in a timely fashion as penalties for 2016 were not applied until October 2018 and 2017 penalties had not been applied at the time of the audit.

6. Measures are in place to protect personal information

To process benefits, the City and its contractors are provided with personal information on City employees, retirees and their dependents. All involved parties are required to protect this personal information.

We found that the City's Technology Solutions Branch has implemented measures that require all outgoing and incoming messages from the domains of the insurer, external benefits provider and third-party administrator be encrypted.

In addition, during the contracting process for the insurer, the City included mandatory requirements related to the protection of personal information, which the insurer, external benefits consultant and third-party administrator satisfied prior to contract award.

As required by its contract with the City, the insurer provided annual reports from third-party firms verifying that its controls were designed and operating effectively for the protection of personal information. No significant weaknesses were identified in the audit reports.

Conclusion

Overall, we found that the City's systems, practices and procedures to manage benefits processing are designed and operating effectively. However, there remain opportunities for improvement, particularly related to the management of contracts in respecting contract amounts and formalizing changes to contractual agreements.

With minor exceptions, City employees, retirees and dependents are only reimbursed for eligible expenses. The City has undertaken various quality assurance activities, which have identified ineligible expenses being paid by the insurer. In these cases, the City has been successful in recovering these amounts from the insurer.

We found that while the City's insurer and external benefits consultant are generally providing services in the manner specified in contracts, including the approval of claims by employees and retirees accurately and in timely fashion, not all reporting requirements are being fulfilled.

Potential savings

While potential savings were not quantified, opportunity to reduce the City's costs were identified through:

- Ensuring that service providers provide all the services specified in their contracts;
- Not paying the external benefits consultant to carry out tasks that are already included in the insurer's contract; and
- Ensuring that penalties are applied in a timely fashion.

Recommendations and responses

Recommendation #1

That the City ensure that the insurer is completing quality assurance activities described in the contract and actively monitor the results of the quality assurance activities.

Management response:

Management agrees with the recommendation and it has been implemented.

Human Resources has developed a Quality Assurance Monitoring Procedure that outlines the detailed steps and responsibilities of Human Resources and the Insurer to ensure that quality assurance and monitoring activities will be completed as described in the contract.

The Insurer will deliver the quality assurance audit reports quarterly to Human Resources, within six weeks of the close of the calendar quarter. Human Resources will then assess the results and bring forward matters for discussion to the next standing business meeting with the Insurer. Actions required based on the assessment will be documented in the business meeting minutes and monitored until completion.

Quality assurance audits for year-to-date 2019 have been received and are on the agenda for the bi-monthly business meeting with the insurer in November 2019.

Recommendation #2

That the City ensure that penalties applied under the service level agreement are enforced at agreed upon rates in a timely fashion.

Management response:

Management agrees with the recommendation and it has been implemented.

Human Resources has developed a Service Level Agreement Penalty Payment Procedure to ensure that the penalties applied under the service level agreement are enforced in a timely fashion.

The Insurer will provide the Annual Service Level Agreement Reports, which include the details of the penalties due and at what rate, to Human Resources and the External Benefits Consultant within 12 weeks of the close of the calendar year. Human Resources will assess the reports and bring forward matters for discussion to the following regular bi-monthly business meeting with the Insurer and the External Benefits Consultant. Actions required based on the reports will be documented in the bi-monthly business meeting minutes, including the specific penalties that the Insurer is to apply. The Insurer will apply the penalties before the end of June of the calendar year.

This process is complete for 2019 and all outstanding penalties have been applied.

Recommendation #3

That the City document and properly approve all changes to the scope of work, deliverables and/or fees in its benefits contracts.

Management response:

Management agrees with the recommendation.

Human Resources worked with Supply to identify opportunities to strengthen practices for the documentation and approval of changes to the scope of work, deliverables

and/or fee in its benefits contracts. Supply Services made a series of recommendations to Human Resources in October of 2018, which have been adopted. Supply Services will be updating the City's procedure on contract changes in Q4 2019 after which, Human Resources will review and update the processes as required based on the requirements of the revised procedure. This work will be completed by Q1 2020.

Recommendation #4

That the City only pay its external benefits consultant directly and stop indirect payments from the insurer to the external benefits consultant.

Management response:

Management agrees with the recommendation.

Human Resources is developing new payment protocols and an account structure that will enable the City to pay the External Benefits Consultant directly from a City account.

These payment protocols and an account structure will be implemented by Q1 2020.

Recommendation #5

That the City analyze the costs and benefits of implementing a process to verify the accuracy of spousal and dependent information provided by City employees.

Management response:

Management agrees with the recommendation.

The Finance Services Department will analyze the costs and benefits of implementing a process to verify the accuracy of spousal and dependent information provided by City employees. The review is scheduled to be completed by Q2 2020.

Recommendation #6

That the City complete Management Action and Response Plans for recommendations included in reviews performed by the external benefits consultant.

Management response:

Management agrees with the recommendation and it has been implemented.

Human Resources has completed Management Action and Response Plans for all recommendations included in reviews performed to date by the External Benefits Consultant.

Human Resources, the Insurer and the External Benefits Consultant review the Action and Response Plan at the regular bi-monthly business meetings as required to resolve all items. Resolutions are captured in the bi-monthly business meeting minutes.

This process was instituted in Q2 2019 and will be followed for future recommendations resulting from reviews performed by the External Benefits Consultant.

Audit of City Estimates

Purpose

The Audit of City Estimates examined the effectiveness of the City's estimation processes and related governance structures supporting the following estimates: OC Transpo short-term and long-term ridership, the Long Range Financial Plan (LRFP) Transit and stormwater rates.

Background and rationale

The City of Ottawa uses estimates and models to support strategic, financial and operational decisions. Effective estimation and modelling processes support better decision-making, financial and service outcomes. This audit was intended to provide assurance that these processes and related governance structures are functioning effectively for selected estimates.

The Service Planning Branch within OC Transpo and the Transportation Planning Service produce short-term and long-term ridership forecasts respectively. Short-term ridership forecasts are used during the annual budget cycle to estimate total fare revenue and as an input to decisions regarding aggregate service hours¹. Accurate short-term forecasts help ensure that the budget is met and over the longer term, that the revenue/cost ratio of 55% for transit fares identified as a target within the City's Fiscal Framework is achieved. Long-term ridership forecasts are used within the City's Transportation Master Plan (TMP) and Official Plan. They are also used to calculate transit development charges, develop business cases (e.g. Stage 1 and Stage 2 LRT), plan infrastructure projects and conduct affordability modelling to support the Long Range Financial Plan (LRFP) Transit.

The Financial Strategy, Planning and Budgeting Branch within Corporate Finance produces the LRFP Transit and estimates stormwater costs to calculate stormwater rates. The LRFP Transit reflects the City's operating and capital requirements for the transit system over a 30-year period (i.e. to 2048). Affordability modelling is conducted in order to test the plan's affordability, based on defined parameters. Given the financial significance of the LRFP Transit, the affordability of the plan is essential to the City's long-term financial viability. Stormwater services are delivered on a rate-supported

¹ The total number of bus hours provided to OC Transpo customers across the transit system.

basis. As a result, the accuracy of estimated stormwater operating and capital costs is necessary to ensure ratepayers are charged appropriately and services can continue to be provided in a sustainable manner.

Findings

The key findings associated with each estimate are as follows.

Short-term ridership

1. **Governance:** We found that Service Strategy staff at OC Transpo are responsible for the development of short-term ridership forecasts and OC Transpo's Departmental Leadership Team (DLT) oversees issues related to ridership. However, the availability of data to support the Transit Commission's oversight role is currently limited as operational and performance reporting related to the transit system has been suspended since 2015.
2. **Continuous improvement:** We found that current revenue and ridership forecasting methods have been in use since at least 2012. A third-party review of the regression model in 2015 made eight recommendations, three of which remain outstanding.
3. **Retention of specialized knowledge and expertise:** We found that short-term ridership forecasts are prepared by City staff, all of whom have worked on this file for several years. However, existing practices and processes are not well documented.
4. **Data inputs:** We found that fare evasion is not taken into consideration in calculating ridership or developing ridership forecasts.
5. **Assumptions:** We found that the calculation and rationale for the number of STO passengers transferring to OC Transpo, which is used in the short-term ridership forecast, are not documented. The values currently in use for STO passengers transferring to OC Transpo and seniors using transit on no-charge days for seniors have been in use for many years.
6. **Variance analysis:** We found that staff review other data representing ridership on a periodic basis. While this is a good practice, current data limitations impact the value of this analysis.

Long-term ridership

1. **Governance:** The City is generally meeting expectations. We found that Transportation Modelling staff are responsible for the development, maintenance and application of the model used to produce long-term ridership forecasts. The TRANS Committee² provides oversight of the TRANS regional transportation model used to produce long-term ridership forecasts.
2. **Continuous improvement:** We found that third-party reviews were performed in 2014 and 2015 and that most of the recommendations from the 2015 review were actioned. Modelling projects to further improve the TRANS model are outlined in the TRANS five-year work plan.
3. **Retention of specialized knowledge and expertise:** We found that third parties performing model development work are generally required to conduct workshops to ensure knowledge transfer to in-house staff. However, given the size of the in-house team, there is a risk of loss of experience and knowledge with respect to the model.
4. **Data inputs:** We found that data collected through the Origin Destination travel survey, as well as the model built upon this data, are validated using traffic and transit counts. However, seasonal variations in demand and travel trends cannot be assessed by staff as there are currently no permanent traffic counting stations in Ottawa.
5. **Analysis and use of model outputs:** We found that sensitivity and scenario testing is often carried out either by consultants or members of the TRANS Committee.
6. **Assumptions:** We found that data related to future land use and the transportation network used as inputs to the model are validated by other City departments.
7. **Protection from unauthorized access, changes and loss:** We found that within the City of Ottawa, all networked employees have access to the Transportation Systems sub-directory and some personally identifiable

² A multi-jurisdictional committee responsible for transportation data collection and modelling in the National Capital Region (NCR).

information (PII) is stored there. We also found that staff back up their work to an external hard drive once or twice a year.

Long Range Financial Plan (LRFP) Transit

1. **Governance:** We found that a core working group including a third party performs the affordability modelling supporting the LRFP Transit. An extended working group and representatives from Finance and Transportation Services' management teams review and approve the results before they are submitted to Committee and Council.
2. **Continuous improvement:** We found that benchmarking of the affordability model is not undertaken as the model is specific to the City's current transit system and planned transit projects.
3. **Retention of specialized knowledge and expertise:** The City has outsourced the development and update of the affordability model; however, it owns the intellectual property and therefore can obtain specialized knowledge and expertise from the third party currently under contract or another third party.
4. **Data inputs:** Although there is a process to ensure that inputs to the affordability model are accurate, complete and timely, the performance of this process by Financial Strategy, Planning and Budgeting staff is not documented.
5. **Analysis and use of model outputs:** Although reconciliations and validations are performed by the third party and the Financial Planner, documentation of the Financial Planner's review was not available.
6. **Assumptions:** Although assumptions are reviewed and validated by the core working group and the Deputy City Treasurer, Corporate Finance (henceforth referred to as "Deputy City Treasurer"), documentation of this was not available.

Stormwater rates

1. **Governance:** The City is generally meeting expectations. The Financial Planner uses stormwater cost allocations estimated by departmental managers to determine the annual revenue required to meet the annual operating and capital cost requirements. Costs are recovered through the stormwater rate paid by residential and Industrial, Commercial and Institutional (ICI) properties based on the approved rate structure. Senior Finance staff review the results before they are submitted to Committee and Council as part of the annual budget.

2. **Continuous improvement:** We found that assessments of the methodology used to estimate stormwater costs have not been undertaken due to delays in implementing the new rate structure.
3. **Retention of specialized knowledge and expertise:** We found that the process used to identify and allocate stormwater costs is not complex and is performed by City staff.
4. **Data inputs:** We found that a process exists to identify the stormwater costs to be recovered however sufficient documentation is not retained to support management's estimated allocation of indirect costs used for both stormwater costing and Financial Information Reporting (FIR).

Conclusion

The estimates reviewed were generally governed effectively. Roles and responsibilities were clearly articulated, and oversight was commensurate with each estimate's complexity and materiality. Opportunities for improvement were noted related to the short-term ridership forecast and stormwater cost estimates.

The estimation processes used to evaluate complex and uncertain future conditions were mostly effective, with some exceptions. Although processes are generally in place to ensure that data inputs are accurate, complete and timely, most of the estimates reviewed would benefit from improvements in the data used to produce them or to validate them. In addition, documentation to support estimate assumptions and managerial review and approval could be enhanced in some cases.

For all estimates reviewed, we noted that staff have the expertise necessary to derive the estimates or have engaged a third party with the required skill set. We also observed that sensitivity analysis is being conducted for the long-term ridership forecast and LRFP Transit to assess how changes in key variables impact outcomes. The results of this type of analysis can be used to inform decision-making.

Recommendations and responses

Recommendation #1

The City should include metrics related to short-term ridership (e.g. total ridership, ridership by fare type, comparisons of revenue and ridership to budgets and/or prior year actuals) in the scorecard to be produced.

Management response:

Management agrees with the recommendation.

Staff will recommend to the Transit Commission that ridership be one of the metrics included in the future performance measurement program, to be presented to the Commission in 2020.

Recommendation #2

The City should:

- a. Conduct a fare survey or similar exercise in order to update trip rates by fare product used to calculate and forecast short-term ridership;
- b. Review and update the short-term ridership model, taking into consideration the findings of CUTA's Ridership Methodology Project and recommendations from RSG's 2015 review; and
- c. Document the new model logic based on review and update of the short-term ridership model undertaken under item "b".

Management response:

2.a

Management agrees with the recommendation.

Staff will review the most appropriate means of updating trip rates, whether by survey or by other data-based analyses and will update trip rates by the end of 2020.

2.b

Management agrees with the recommendation.

Staff will update the short-term ridership model once CUTA publishes their ridership methodology project recommendations.

2.c

Management agrees with the recommendation.

All updates to the short-term ridership model will be formally documented within six months of CUTA publishing their ridership methodology project recommendations.

Recommendation #3

The City should ensure that key decisions and processes related to the short-term ridership forecast are formally documented and maintained to ensure its long-term consistency and continuity.

Management response:

Management agrees with the recommendation.

Decisions and processes related to short-term ridership forecasting will be enhanced, documented and maintained beginning in 2020.

Recommendation #4

In addition to Council's direction on October 26, 2016 to review the new stormwater rate structure in future long-range financial plans, the City should review the processes used to identify stormwater costs.

Management response:

Management agrees with the recommendation.

Staff have been directed by Council to review the rate structure and update the LRFP Water, Wastewater and Stormwater during this term of Council. The process used to identify stormwater costs will be included in this review.

The Review findings and subsequent recommendations will be presented to the Finance and Economic Development Committee and Council, as part of the next LRFP planned to be completed by Q3 2021.

Recommendation #5

The City should determine how a system-wide fare evasion rate should be derived, taking into consideration the practices of other transit agencies.

Management response:

Management agrees with the recommendation.

Staff will review the practices of other transit agencies, through Canadian and international contacts, industry associations and benchmarking groups, to determine the most appropriate ways to estimate and report system-wide non-payment of fares on multimodal systems with a mix of fare gates and front and rear boarding if possible, by the end of 2021.

Recommendation #6

With respect to fixed values used in short-term ridership calculations and forecasts, the City should:

- a. perform a review of assumption calculation / rationale, which may include conducting a current survey;
- b. document assumption calculation / rationale and its approval; and
- c. establish a review frequency for assumptions based on their degree of materiality.

Management response:

6.a

Management agrees with the recommendation.

Staff will perform a review of the few fixed values used in current ridership calculations and will assess if there are existing data sources that will help improve their accuracy. If existing data sources are found to improve accuracy, they will replace the fixed value. If insufficient data exists, staff will determine appropriate means of obtaining more accurate data and will replace the existing fixed value with the updated value. Staff will complete this review and include any updated values by the end of 2020.

6.b

Management agrees with the recommendation.

Staff will ensure fixed value ridership calculations are documented, as they are reviewed in 2020, and moving forward.

6.c

Management agrees with the recommendation.

For any ridership calculations that continue to depend on fixed values, staff will review the fixed value on an annual basis and update it if necessary.

Recommendation #7

As it relates to short-term ridership, the City should examine how other data representing ridership can be improved, for example greater use of automated passenger counters (APCs)³, leveraging fare gate data, communications related to the importance of smartcard taps etc.

Management response:

Management agrees with the recommendation and implementation is in progress.

APC equipment has been included on all buses and trains procured in recent years and will be included on all future bus and train purchases. All current trains have APC equipment. When non-APC buses reach their end of useful life, they will be replaced with APC-equipped buses. Staff have begun using fare gate data for O-Train Line 1 and Line 2 ridership analyses.

Recommendation #8

In order to further improve long-term ridership forecasts, the City should develop a business case to obtain the funding and resources necessary to implement permanent traffic counting stations in Ottawa, in consultation with Transportation Planning, MTO and the TRANS Committee.

Management response:

Management agrees with the recommendation.

Traffic Services will develop a business case in consultation with Transportation Planning by the end of Q2 2020 that will serve to identify resource requirements related to continuous count stations (CCS). This information will be brought forward to Committee and Council for review and funding approval consideration as part of the 2021 Budget.

Recommendation #9

The City should limit access to long-term ridership files within the Transportation Systems sub-directory to employees with a “need to know”.

³ Automated passenger counters (APCs) are infrared sensors that count the number of people boarding and disembarking from a transit vehicle.

Management response:

Management agrees with the recommendation and it has been implemented.

Transportation Planning staff have limited access to employees with a “need to know” to the long-term ridership files within the Transportation Systems sub-directory. Moving forward, access to the files will only be granted to staff in a position with a “need to know”, as determined by the Program Manager of Transportation Policy & Networks.

Recommendation #10

The City should perform more frequent backups of long-term ridership modelling files to minimize the risk of loss.

Management response:

Management agrees with the recommendation.

Transportation Planning staff are working to implement daily automatic back-ups of the long-term ridership files by the end of Q1 2020. ITS staff are assisting to provide technical support, including identifying system requirements (e.g. hard disk space) and costs to implement.

Recommendation #11

The City should ensure the review and validation of affordability model outputs which support the LRFP Transit are appropriately documented and retained.

Management response:

Management agrees with the recommendation and it has been implemented.

All change requests and updates to the model are documented and verified by the Financial Planners in an affordability model version tracking document.

Recommendation #12

As it relates to the LRFP Transit, the City should:

- a. document and retain affordability model sensitivity testing results; and
- b. communicate relevant affordability model sensitivity testing results to Committee and Council.

Management response:

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

Key sensitivity testing results are captured within the affordability model. The results of the model sensitivity testing will be documented and included in the next Transit LRFP planned for Q2 2022.

Recommendation #13

During the identification of stormwater costs, the City should ensure the rationale supporting the departments' allocations are corroborated and documented.

Management response:

Management agrees with the recommendation.

Staff have been directed by Council to review the rate structure and update the LRFP Water, Wastewater and Stormwater. The process used to identify stormwater costs will be included in this review and the allocation of these costs will be validated by the supporting departments. All cost and assumptions will be documented and retained within the stormwater model. The next LRFP is planned for Q3 2021.

Audit of City of Ottawa Superannuation Fund (COSF)

Purpose

The overall objective of the audit was to assess whether key systems, practices and procedures supporting the Plan are providing the City with reasonable assurance that its assets are safeguarded and controlled and that there is adequate oversight of service providers involved in the administration of the plan.

Background and rationale

The City of Ottawa Superannuation Fund (COSF) is a Provincially registered defined benefit pension plan (hereinafter referred to as “the Plan”) that was established on September 8, 1931. The Plan has been closed to new members since 1965. COSF membership is comprised of civic employees of the former City of Ottawa and the former Regional Municipality of Ottawa-Carleton (including Fire Department and Police Department employees) hired before July 1, 1965. As at December 31, 2017, the Plan had 560 members (2016 – 595). In 2017 the Plan paid a combined \$18.1 million in pension and death benefit payments.

The City of Ottawa Council is the Plan Sponsor and is responsible for ensuring the Plan remains fully funded over the long term. The COSF has a Board of Trustees (Board) which is the legal administrator of the Plan. The Board is responsible to ensure the Plan is administered in accordance with the Pension and Benefits Act (Ontario), the Income Tax Act (Canada), and that the Plan’s assets are invested according to the Statement of Investment Policies and Procedures (SIP&P). As the legal administrator of the Plan, the Board is required to make decisions and perform duties to operate and manage the Plan in the best interest of all beneficiaries.

COSF was the victim of two cases of fraud between April 2010 and October 2016 where plan beneficiaries who were deceased continued to receive payments. The benefits administrator became aware of the first case when they received returned mail that was sent to the pensioner. Further investigation uncovered an obituary for the pensioner. This was confirmed by the funeral director, and at that point the payments were stopped. A new process was put in place to follow up on all returned mail or unresponsive pensioners and it was at this point that the second case was uncovered. Both incidents were referred to legal counsel. One case reached a settlement that

includes a repayment schedule and the other case is at the Superior Court where legal counsel is seeking a judgement to recover funds.

As a registered pension plan, COSF must file annual financial statements with the Financial Services Commission of Ontario (FSCO). The Secretary Manager (filled by the City's Deputy City Treasurer, Corporate Finance) is responsible for preparing the annual financial statements which are audited by an independent external auditor. While the internal control environment is relevant to the preparation of COSF's financial statements and assessment of risks, audit procedures designed to express an opinion on the financial statements are not intended to be used for expressing an opinion on the effectiveness of internal control. Given this, and in light of two identified instances of fraud, this audit is important to provide assurance that controls are designed and operating effectively to administer the plan while protecting its assets.

This audit was intended to assess whether key systems, practices and procedures supporting the Plan are providing the City with reasonable assurance that its assets are safeguarded and controlled and that there is adequate oversight of service providers involved in the administration of the plan.

Findings

The audit focused on two key aspects, governance and oversight of all participants in the administration of the Plan, and benefits administration. The findings associated with each area are as follows:

Governance and oversight

- Roles, responsibilities and accountabilities of key stakeholders involved in the administration of the Plan are clearly defined;
- One of the Plan's key policy documents, the Administrative Policy, does not have a formal update schedule;
- The COSF is receiving contract deliverables from all the service providers that were selected for testing; and
- The Board of Trustees is not conducting a governance review as per the Administrative Policy, one of the Plan's key documents that specifies the scope and frequency of the governance review.

Benefits administration

- The process in place to reduce the risk of misdirected or fraudulent payments is operating as intended;
- There is a gap in the City's annual verification process that does not allow for sufficient oversight by the City on the status of held pension payments; and
- The benefits administrator has processes in place to safeguard personal information within the physical files of the Plan members.

Conclusion

Overall, the audit found evidence that the Plan is well managed. We noted that the roles, responsibilities and accountabilities of key stakeholders in the Plan are clearly defined, and that service providers have processes in place to safeguard personal information and to mitigate the risk of misdirected or fraudulent payments.

One of the key responsibilities as defined by the Plan's Administrative Policy is to conduct a governance review at least every three years. While we did note certain aspects of a governance review are being carried out on an as needed basis, the extent of the Board's governance review practices do not adhere to the agreed upon review parameters set out in the Administrative Policy. The audit also identified other opportunities to improve the Administrative Policy and to strengthen the Board's oversight of held pension payments.

Recommendations and responses

Recommendation #1

That the COSF Pension Plan Administrative Policy be revised to include a regular update schedule including key roles/individuals who will be responsible for the update process.

Management response:

The COSF Pension Plan Administrative Policy will undergo a comprehensive review. From this, the Policy will be revised to include a regular update schedule including key roles/individuals who will be responsible for the update process. To enable review and approval by the COSF Board of Trustees, this will be approved by the Board by Q1 2020.

Recommendation #2

That the Board of Trustees adhere to the governance review parameters set out in the Administrative Policy.

Management response:

Management agrees with this recommendation.

Further to the response to Recommendation #1, a regular schedule will be established, including key roles/individuals who will be responsible for the review, recommended changes and updates to the Administrative Policy and all other governing documents by Q1 2020.

Recommendation #3

That the City update the Annual Verification process to increase the frequency of reporting by the Benefits Administrator on the status of held pension payments.

Management response:

Management agrees with this recommendation and it has been implemented.

The City's Payroll, Pensions and Benefits Branch has updated the Annual Verification process to include a bi-monthly follow-up with the Benefits Administrator that will continue on an annual basis for the duration required to confirm eligibility each year.

The updated process was put in place effective August 2019.

Audit of Light Rail Transit (LRT) Land Negotiations and Purchases

Purpose

The Audit of Light Rail Transit (LRT) Land Negotiations and Purchases examined compliance of real property transactions for the O-Train Confederation Line transit (“Stage 1 OLRT”) project with the Ontario *Expropriations Act* and other acts, regulations, by-laws, policies and procedures as applicable.

The Audit of Light Rail Transit Land Negotiations and Purchases was included in the 2018 Audit Work Plan of the Office of the Auditor General (OAG), approved by City Council on November 22, 2017.

Background and rationale

The Ottawa’s Light Rail Transit project (OLRT) is Ottawa’s largest single infrastructure project since the building of the Rideau Canal. The O-Train Confederation Line transit (“Stage 1 OLRT”) project, budgeted at \$2.1 billion, is the first stage in the City’s future rail network.

The Stage 1 OLRT project required the acquisitions of real properties which involved several expropriations. In addition, the City entered into agreements with property owners required for three downtown stations (Lyon, Parliament and Rideau) and their six entrances. Agreements were also signed with some institutions, Crown corporations and federal agencies and departments with respect to properties. A number of these agreements provide for the granting of temporary licenses to permit the construction of the project. In addition, some agreements assign the City a long-term easement of land.

Table 1 below illustrates the status of the Stage 1 OLRT real property transactions as of December 31, 2018.

Table 1: Real property transactions

Transaction	Number	Open files
Expropriation proceedings and/or negotiations to acquire property interests	74	18 (Owners of properties that have been expropriated have up to one year after the “revenue-service” date to make a claim)
Agreements with owners of property for three downtown stations and the six integrated entrances.	6	6 (expected to be concluded in 2019)
Agreements with institutions, Crown corporations and federal agencies and departments for required properties	17	13 (expected to be concluded within 6 months of revenue service)
Total	97	37

Several municipal and provincial acts provide the City the authority to acquire lands, including the *Municipal Act*, the *Ontario Expropriations Act* and the *City of Ottawa Act*, to name a few. This audit was to provide assurance that real property transactions for the Stage 1 OLRT project complied with the *Ontario Expropriations Act* and other acts, regulations, by-laws, policies and procedures as applicable. The Corporate Real Estate Office (CREO) provided oversight over the execution of the real property transactions to ensure such compliance.

We selected a sample of 15 of the real property transactions for testing. In our opinion this sample was adequate for us to provide reasonable assurance on extent of compliance for the 97 real property transactions.

Findings

The audit focused on three key aspects, and key findings associated with each area are as follows:

1. Expropriation approval and proceedings

For all of the expropriations that we selected for testing, we found that the intention to expropriate was approved by Council, as required by the Ontario *Expropriations Act* and the City's expropriation process. In addition, in accordance with the City's expropriation process, Council approved the expropriations prior to the expropriation plan being registered and Notices of Expropriation, Election and Possession being served as per the Ontario *Expropriations Act*.

Furthermore, we found that agreement as to compensation was reached with the owners, and the following requirements of the Ontario *Expropriations Act* were met in all applicable instances:

- A Notice of Application for Approval to Expropriate Land was served to the owner by the City, and the notice was published once a week for three consecutive weeks in a newspaper having general circulation in the locality in which the lands were situated;
- A Plan of Expropriation, signed by the City and an Ontario land surveyor, was registered in the proper land registry office within three months after the expropriation approval, and the plan indicated whether the property is required for a limited time only or is only a limited estate, right or interest; and
- Notices of expropriation, election and possession were served after the plan registration date.

2. Real property compensation

For all of the real property transactions that we selected for testing for which a final settlement was concluded, we found compliance with the following requirements of either the Ontario *Expropriations Act* or the City's *Real Property Acquisition Policy*:

- The settlement was approved by the delegated authority;
- The settlement was based on market value and applicable eligible entitlements, as defined by the Ontario *Expropriations Act*;
- The variance between the appraised value and the acquisition price, was explained by eligible entitlements (e.g. moving expense) per the Ontario *Expropriations Act*;

- Market value was supported by an appraisal completed by an independent real estate professional or by a qualified City staff appraiser; and
- Where the estimated market value was \$750,000 or greater, a second appraisal was obtained and completed by an independent real estate professional.

Every real property transaction that we tested, for which a final settlement was concluded, was based on market value and applicable eligible entitlements. There were no instances where other considerations were included in the transaction that would have needed approval by Council or the delegated authority.

3. Environmental obligations

Every real property transaction that we selected for testing met the environmental requirements defined in the City's *Real Property Acquisition Policy* and the Ontario *Environmental Assessment Act*.

Conclusion

The audit concluded that real property transactions for the Stage 1 OLRT project were executed in compliance with the Ontario *Expropriations Act* and other acts, regulations, by-laws, policies and procedures, as applicable.

Audit of Ottawa Fire Services – Fire Suppression

Purpose

The audit examined key management systems, practices and processes within Ottawa Fire Service (OFS) to ensure they support the delivery of effective and efficient fire suppression operations.

Background and rationale

The OFS provides service to approximately 970,000 citizens across a coverage area of roughly 2,800 square kilometers. Operational oversight of OFS is provided by the fire management team which consists of the Fire Chief, four Deputy Fire Chiefs and a Program Manager of Operational Support Services.

The fire suppression program of the OFS is focused on controlling and/or extinguishing fires. The OFS provides emergency response coverage through 45 fire stations located across Ottawa using the services of approximately 900 unionized “career” firefighters and approximately 480 “volunteer” (paid on-call) firefighters who are not unionized. In addition, there is a dispatch centre and an emergency backup dispatch centre.

As required under its collective agreement with the Ottawa Professional Firefighters Association (OPFFA), OFS maintains a minimum of 161 career firefighters on duty at all times. These career firefighters work a 42-hour work week in staggered 24-hour shifts. This schedule results in them working seven 24-hour shifts every 28 days.

OFS suppression teams rely on information systems including Flexible Data Management (FDM). FDM supports the capture of data used to manage day-to-day OFS activities (e.g. response times) and to support suppression response teams (e.g. via data on the structure and design of specific City buildings). This and other systems are maintained by OFS staff.

It is within this context that the audit of OFS fire suppression operations was undertaken.

Findings

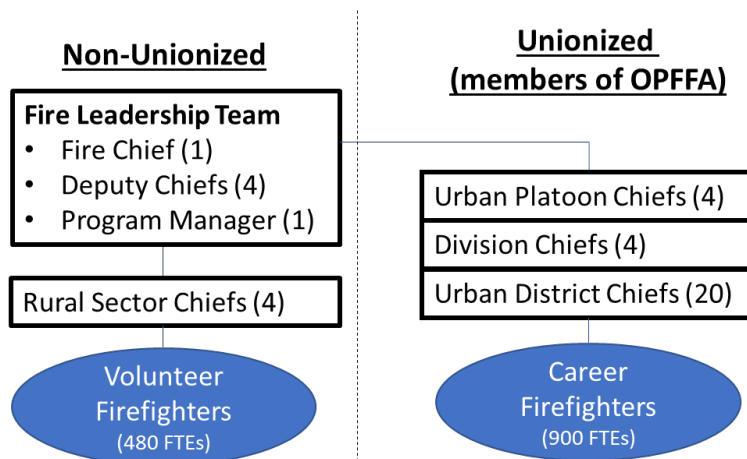
The audit focused on management systems, practices and processes in three key areas which were selected based on risk:

- Governance and oversight;
- Recruitment processes; and
- Management of key information systems.

Key findings associated with these areas are as follows:

1. Supervisory oversight of career firefighters can be improved

The audit found that a lack of separation in union affiliation between unionized OFS supervisory staff and unionized career firefighters impacts OFS senior leadership’s capacity in managing effective and efficient fire suppression operations.



Beyond the Fire Leadership Team, consisting of the Fire Chief, four Deputy Chiefs and a Program Manager, and the Rural Sector Chiefs, all fire suppression supervisory personnel (i.e. Platoon Chiefs, Division Chiefs and District Chiefs) and fire suppression staff (career firefighters) are members of the same union.

This structure creates management challenges. For example, the current collective agreement stipulates that management and disciplinary matters are the sole responsibility of the employer/management. This has been interpreted by the OFS Leadership as meaning that supervisory personnel (e.g. District Chiefs and Platoon Chiefs) are not considered management and therefore they cannot be involved in planning, directing or controlling operations or in addressing disciplinary matters.

As a result, all operational management matters (i.e. planning, directing, controlling operations) become the direct responsibility of the four Deputy Chiefs given that their direct reports (e.g. Platoon Chiefs, District Chiefs and Division Chiefs) are not considered management.

The absence of an OFS middle management layer, together with other collectively bargained provisions, has limited the ability of the OFS Leadership Team to build the management competency in supervisors (e.g. Platoon Chiefs, District Chiefs and Division Chiefs). The current collective agreement includes restrictions for OPFFA members (e.g. Platoon Chiefs, District Chiefs and Division Chiefs) to take on temporary assignments (e.g. to build management competencies, broader experience, or undertake special projects such as Light Rail Transit safety system oversight).

To address these issues, we found that OFS senior management have advanced a collective bargaining proposal to exclude Division and Platoon Chiefs from representation under the OPFFA and have these positions be management professional exempt (MPE). While this change in structure, which has yet to be collectively bargained, would provide a starting point for enhanced governance and oversight, OFS senior management also recognize the potential concerns/barriers of such a change including:

- OPFFA opposition to any change that would reduce the size of their membership;
- Supervisor (e.g. Platoon Chief, District Chief) reluctance to give up their current 24-hour shift staffing model; and
- The need to build the managerial competencies of OFS supervisors (e.g. literacy for report writing, financial/budget management, labour relations management etc.) given these supervisors have not been required to have or develop these skills in their current positions.

We found that OFS senior management have identified succession planning as an organizational need, however they acknowledge that the plan to address it is at a very early stage.

2. OFS recruitment processes is not efficient

OFS runs a bi-annual firefighter recruitment campaign which attracts many applicants (typically 1,500 to 2,000) for a limited number of fire suppression hires (30 – 40 per year). This process is of high importance for OFS in order to maintain its fire suppression capacity. Further, this process represents the single-entry pathway to the OFS “career” cadre of employees which includes specialty groups (e.g. hazardous

materials team) Fire Prevention, Training, Safety, Maintenance etc. Movement into these groups is only available to fire suppression staff per the current collective agreement.

The audit found that the current recruitment process is lengthy (typically eight to nine months in duration) and highly resource intensive due to several factors including there being no requirement for applicants to be pre-qualified to any recognized standard (i.e. National Fire Protection Association (NFPA) standards). In the absence of pre-qualification requirements, unlike many other municipalities, the OFS assumes the burden of training new hires to NFPA standards.

OFS senior management acknowledge the inefficiencies in the current recruiting process and have taken initial steps to undertake a Recruitment and Hiring Strategy Review. The objectives of this initiative include a review of best practices and identifying the most cost-effective approach to provide quality of recruits. This initiative will also include identification of potential short, mid and long-term adjustments to improve the OFS recruitment approach.

3. Diversity and inclusion focus of OFS recruitment processes can be improved

The audit found that there are opportunities to improve the representation of diversity groups within the OFS. Based on 2017 data comparing the available workforce to the OFS workforce, women, members of visible minorities and persons with disabilities are underrepresented in the OFS workforce.

The audit found that the OFS is making progress in attracting a more diverse pool of applicants. For example, the percentage of applicants identifying as being a member of a visible minority grew from 6.6% in 2016 to 10.0% in 2018. This compares favourably to the 7.6% workforce availability of this group.

There remain opportunities, however, to improve the diversity of the OFS applicant pool, particularly for women who remain underrepresented in relation to workforce availability.

City Departments are required to provide annual diversity and inclusion plans. In 2017, the City's Diversity and Inclusion (DI) Branch within the Human Resources made several non-binding recommendations for the Emergency and Protective Services Department. OFS management has implemented recommendations to target recruitment to increase the diversity of applicants. However, no specific action has been taken to use diverse hiring panels and more inclusive selection and interview processes.

As an organization within the Emergency and Protective Services Department, the OFS does not have its own specific diversity goals and does not provide any reporting to Council related to the progress of its diversity and inclusion efforts.

4. Information system business continuity controls have been implemented, however, broader IT planning and data quality management can be improved

The OFS is reliant on information systems to support the timely capture of data used to support management of operations and suppression response teams in their day-to-day activities. The 2016 City reorganization introduced a portfolio approach to the delivery of emergency response services wherein OFS information systems technical support staff levels were reduced or transferred to the Emergency and Protective Services Department which now provides information systems support to the OFS.

In relation to the key information systems that support OFS operations, we found that the OFS is reliant on various organizations to support its systems. These groups include the City IT Business Group, the Ottawa Police Service, third party vendors, and OFS staff.

Within this support environment, we found that OFS has implemented effective back up and business continuity controls for its key information systems. However, opportunities for improvement exist in relation to its broader information technology planning and information system data quality management.

Conclusion

The OFS has a complex management environment illustrated by the scope of its mandate in providing service to the citizens across Ottawa and the complexity of its labour relations / collective bargaining environment.

The audit found that OFS management systems, practices and processes have generally been established to support delivery of effective and efficient fire suppression operations. The audit found, however, that opportunities exist to strengthen some of these management systems, practices, and processes.

Recommendations and responses

Recommendation #1

That the City move OFS supervisory staff out of the current collective bargaining unit.

Management response:

Management agrees with this recommendation.

Management cannot unilaterally implement this recommendation as labour relations matters for firefighters are governed by the *Fire Protection and Prevention Act, 1997* (“FPPA”). The FPPA stipulates that every firefighter employed in a fire department forms part of a bargaining unit for the purpose of collective bargaining unless, “in the opinion of the Board, he or she exercises managerial functions or is employed in a confidential capacity in matters relating to labour relations or her or she is a person designated under subsection 54(4)”. The Ontario Labour Relations Board (OLRB) has the exclusive jurisdiction to determine the question of whether a person exercises managerial functions or is employed in a confidential capacity in matters relating to labour relations. Letter of Understanding #6 of the collective agreement affirms that the City has two avenues for pursuing the exclusion of positions from the bargaining unit on the basis of the performance of managerial duties: via agreement with the Association, or via an application to the OLRB under s. 54(2) of the FPPA.

OFS senior management have previously advanced a proposal to exclude Division Chiefs and Platoon Chiefs from the OPFFA bargaining unit and to instead have these positions be management professional exempt (MPE), through collective bargaining. The OPFFA has not agreed to the proposal. OFS senior management is committed to pursuing this exemption in the next round of collective bargaining in Q1 2020 and, failing agreement with the OPFFA, will consider an application to the OLRB, in consultation with Legal Services.

Recommendation #2

That the City conduct a thorough evaluation of the OFS recruitment process and framework to ensure the most effective and efficient use of City resources while ensuring the highest quality of recruits, with consideration for diversity and inclusion.

Management response:

Management agrees with this recommendation.

OFS is committed to the principles of diversity and inclusion. OFS has initiated a review of its recruitment and hiring strategy, which includes benchmarking, identifying current challenges and possible solutions to identify the most efficient and cost-effective approaches to attract the highest quality of recruits with consideration for a diverse workforce. This review is underway and will be presented at the Community and Protective Services Committee no later than Q2 2020.

Recommendation #3

That the City initiate regular reporting to Council on the status and effectiveness of OFS workforce diversity approaches.

Management response:

Management agrees with this recommendation.

Additional information with respect to recruitment and diversity will be highlighted in the Ottawa Fire Services annual report to Council.

Recommendation #4:

That the City develop a comprehensive risk-based IT planning process for the OFS, including the identification and monitoring of system lifecycle requirements and support resource requirements.

Management response:

Management agrees with this recommendation.

OFS is currently working on a Technology Roadmap as part of a larger departmental initiative that will define the short, medium and long-term technology priorities for the Service. This includes the implementation of an OFS Business Intelligence Framework, which is intended to allow the Fire Leadership Team to analyze new dashboards of data to make operational and strategic decisions, including technology planning and resource implementation. The OFS Technology Roadmap is expected to launch in Q3 2020.

OFS will also continue to oversee device lifecycle requirements through this new Roadmap, with the strategic assistance of the City's IT Services.

Audit of Stage 2 Light Rail Transit (LRT) Project Procurement

Purpose

The Audit of Stage 2 Light Rail Transit (LRT) Project Procurement examined the established procurement process and its adherence to the stated process, and ensured it was conducted in accordance with the principles of fairness, openness, and transparency. The audit also reviewed the adequacy in which City staff fulfilled their responsibilities as set out in the delegation of authority approved by Council.

Background and rationale

The O-Train Line 1 Confederation Line is the first stage of the Light-Rail Transit system in Ottawa. It forms part of OC Transpo's integrated transit network. It connects to the existing Bus Rapid Transitway at Tunney's Pasture Station in the west, Blair Station in the east, and to the O-Train Line 2 Trillium Line at Bayview Station. The City assembled a public-private partnership (P3) that includes financial commitments from the provincial and federal governments, and a private-sector project team, the Rideau Transit Group.

Stage 2 of the Light Rail Transit plan was introduced as a component of the City of Ottawa's 2013 Transportation Master Plan. It expands on the Line 1 Confederation Line and on the existing Line 2 Trillium Line. The Trillium Line extension, which uses diesel-powered vehicle technology, is an extension of the existing single-track line from present terminus at the Greenboro Station to Limebank Station and will also include the Airport Link to the Ottawa Macdonald-Cartier International Airport. The maintenance and life cycle portion of the project will apply to both the extension and the existing infrastructure of the Trillium Line.

The City of Ottawa was responsible for managing the procurement process for the "Design, Construction, Finance, and Maintenance" of the Stage 2 Trillium Line Extension Project.

On February 24, 2017, the Finance and Economic Development Committee (FEDCO) considered, for recommendation to Council, the *Stage 2 Light Rail Transit*

Implementation-Project Definition and Procurement Plan report¹, which established the competitive procurement process for the Stage 2 Light Rail project. On March 8, 2017, Council subsequently approved the subject report as amended.

Stage 1 and Stage 2's contracts for both the Trillium and Confederation Line were competitively awarded individually.

Findings

Our audit included interviewing City staff, key consultants involved in the Stage 2 Trillium Line procurement process and reviewing relevant procurement files. The audit focused on processes, practices and controls in two key areas, which were selected, based on risk:

- The procurement process (Request for Proposal (RFP), evaluation, and contract award); and
- The Delegation of Authority.

The key findings associated with the LRT Stage 2 Trillium Line procurement are as follows.

Openness and transparency of process

The Request for Qualification (RFQ) was distributed to the vendor community by means of MERX, an electronic tendering service. Following the RFQ identification of qualified proponents, the RFP documents were distributed to the qualified proponents for consideration. During both processes, the City responded to questions from interested parties and undertook a series of collaborative commercially confidential meetings with each proponent. The approach and activities conducted by the City during the RFQ and RFP process were appropriate and involved many industry engagement activities which encouraged openness and transparency for all bidders. We found that the procurement process undertaken for the requirements of the RFP for the Stage 2 Trillium Line was conducted in an open, fair, and transparent manner with bidders.

¹ Report reference ACS2017-TSD-OTP-0001.

In regard to openness and transparency to the public and Council, in Ontario, it is seen that the standard practice of Infrastructure Ontario² is to make publicly available redacted RFP documents to promote transparency to the public and the marketplace. Notable Infrastructure Ontario examples for similar projects where RFPs are publicly disclosed include; Hamilton LRT, Finch West LRT and Hurontario LRT. This transparent disclosure of RFPs is also seen in the Province of British Columbia at Partnerships British Columbia³.

Compliance with RFP documents

The procurement of the Stage 2 Trillium Line was structured as a Public-Private Partnership (P3) project, also referred as a Design-Build-Finance-Maintain procurement (DBFM). A Procurement Management Office was established, and an organizational structure was determined along with the roles and responsibilities of its key players. To achieve a successful outcome, the City called upon the services of numerous subject matter experts from various areas of expertise including external legal services, infrastructure projects and financial advisors, as well as engineering, construction, and project management consultants.

An Evaluation Framework was developed and shared with all evaluators which described and outlined the evaluation process used to select the preferred proponent and safeguard the interests of the City from claims of an invalid or unfair process. Training was developed and facilitated by the contracted legal counsel.

The evaluation of the procurement process was overseen by a Bid Evaluation Steering Committee and an Executive Steering Committee and included various subcommittees. The various subcommittees were responsible to review conflicts of interest, ensure the completeness of the bids, evaluate the technical conformance of the bids and to evaluate the bidders' proposal to the technical requirements, as well as to review and evaluate the financial submissions.

² Infrastructure Ontario (IO) is a Crown agency of the Province of Ontario that supports the Ontario government's initiatives to modernize and maximize the value of public infrastructure and real estate. For all major public infrastructure projects in the province, IO acts as the procurement and commercial lead.

³ Partnerships BC supports the public sector in meeting its infrastructure needs by providing leadership, expertise and consistency in the procurement of complex capital projects by utilizing private sector innovation, services and capital to deliver measureable benefits for taxpayers.

A fairness commissioner was actively involved in the Stage 2 Trillium Line procurement and provided an independent view with respect to the fairness of the competitive process.

We found that the City is generally meeting expectations. While we did not identify areas of non-compliance with the RFP, we have identified some areas for improvement to ensure a smooth evaluation process for future procurement.

Delegation of Authorities

The Delegation of Authorities outlined in Report ACS2017-TSD-OTP-0001, approved as amended by Council on March 8, 2017, provided substantial authority to City staff in the conduct of the procurement of Stage 2 Trillium Line Extension procurement. The Delegation of Authorities was drafted by staff and reviewed by the City Clerk and Solicitor's Department, Legal Services Branch. We noted that the delegated authorities were clear in the March 8, 2017 Report to Council (ACS2017-TSD-OTP-0001), however, an absence of a reporting protocol was noted. We found that the delegation of authorities in the March 8, 2017 Report limited the role of Council in the procurement process to one of approval of the preferred proponent.

Fraud and Waste disclosure

The City of Ottawa is committed to protecting its financial resources, property, information and other assets from any attempt either by members of the public, contractors, sub-contractors, agents, intermediaries or its own employees, to gain financial or other benefits by deceit or by any other illicit means. A Fraud and Waste Hotline was established to provide a reporting mechanism through which City employees or members of the public may confidentially and anonymously report allegations of fraud or waste. We found that not all participants in the procurement evaluation process were aware of the City's Fraud and Waste Policy, and its corresponding hotline.

Conclusion

The procurement of the Stage 2 Trillium Line was undertaken in such a way that it was compliant with the process described in the RFP documents which were provided directly to the bidders. Roles and responsibilities were clearly articulated, and oversight was commensurate with each Committee's role and authority. Opportunities for improvement have been identified to assist the City in future procurement activities. Although the delegated authorities were adhered to, reporting protocol and the sharing

of information to Council could be enhanced to ensure the process is better understood. The use of the Fraud and Waste Hotline to report perceived areas of concern in the proper context could have also been reinforced to ensure a resolution is achieved appropriately by designated senior officials in an effective fashion.

Recommendations and responses

Recommendation #1

In future P3 projects, or projects of significant public interest, the City should consider publishing RFP documents to ensure the process is more transparent to the public and the marketplace in the same manner as seen with similar entities (e.g. Infrastructure Ontario and Partnerships BC).

Management response:

Management agrees with this recommendation.

For P3 projects, or projects of significant public interest, the City will consider publishing RFP documents redacted to remove sensitive or commercially confidential information. This is consistent with the approach taken for the Central Library Request for Proposal. The P3 Policy and Procedures will be updated to reflect this recommendation by the end of Q2 2020.

Recommendation #2

In future P3 projects, the City should consider selecting a number of technical evaluation participants with sufficient relevant P3 experience in a procurement evaluation setting. Alternatively, guidance provided to lesser experienced participants through the training documentation and in-person sessions should be augmented to avoid confusion about scoring given the nature and complexities inherent in P3 type procurements.

Management response:

Management agrees with this recommendation.

The P3 Policy and Procedures will be updated to reflect this recommendation by the end of Q2 2020.

Recommendation #3

In future P3 projects, the City should consider using a phased bid compliance process clearly stated in the RFP. This would provide an opportunity to bidders to modify their submissions as part of the technical evaluation process, to provide missing or insufficient bid information in order to comply with mandatory requirements and avoid an unnecessary non-compliance determination.

Management response:

Management agrees with this recommendation.

The P3 Policy and Procedures will be updated to reflect this recommendation by the end of Q2 2020.

Recommendation #4

It is recommended that, in future procurement projects where authority is delegated to staff by means other than express delegations included in the Procurement By-law, the City ensures the Delegation of Authority recommendation include clear reporting protocols and specify what will be shared with Council and what will not be shared to avoid misunderstanding.

Management response:

Management agrees with this recommendation.

The Supply procedures manual will be updated to reflect this recommendation by the end of Q2 2020.

Recommendation #5

It is recommended that the City, in future procurement projects, ensures the reporting mechanism of (perceived or real) wrongdoing, fraud, or waste, is properly understood by all participants. This may be achieved by including the Fraud and Waste Policy in the training material provided to participants.

Management response:

Management agrees with this recommendation.

The Supply procedures manual will be updated to reflect this recommendation by the end of Q2 2020.

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

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

The Council of the City of Ottawa enacts as follows:

DEFINITIONS

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

ESTABLISHMENT OF THE POSITION OF AUDITOR GENERAL

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

APPOINTMENT OF AUDITOR GENERAL

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

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

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

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

ACCOUNTABILITY

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

RESPONSIBILITIES

AUDITS

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

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

(3) The Auditor General shall be responsible for carrying out financial (excluding attest), compliance, and performance audits of:
 - (a) all programs, activities and functions of all City departments and agencies, and of the offices of the Mayor and Members of Council;
 - (b) local boards of the City as defined in Part V.1 of the *Municipal Act, 2001*, S.O. 2001, c.25, as amended, and as may be further prescribed in Schedule “A” to this by-law;
 - (c) municipally-controlled corporations as defined in the *Municipal Act, 2001*, S.O. 2001, c.25, as amended, and as may be further prescribed in Schedule “B” to this by-law;
 - (d) grant recipients as defined in Part V.1 of the *Municipal Act, 2001*, S.O. 2001, c.25, as amended; and,
 - (e) any other agencies, boards, commissions and corporations as Council may from time to time create or identify.

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

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

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

INVESTIGATIONS OF FRAUD, MISAPPROPRIATION AND OTHER SIMILAR IRREGULARITIES

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

DUTY TO FURNISH INFORMATION

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

ACCESS TO INFORMATION

9. In accordance with subsection 223.20(2) of the *Municipal Act, 2001*, S.O. 2001, c.25, as amended, the Auditor General is entitled to have free access to all books, accounts, financial records, electronic data processing records, reports, files and all other papers, things, or property belonging to, or used by the City, a local board referred to in Schedule “A”, a municipally-controlled corporation referred to in Schedule “B”, or a grant-recipient, as the case may be, that the Auditor General believes to be necessary to perform his or her duties under this by-law.

NO WAIVER OF PRIVILEGE

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

ANNUAL AUDIT PLAN

11. (1) In each year subsequent to the year of appointment, the Auditor General shall submit an annual audit plan for the next following year to City Council for information by December 31st of each year.
- (2) The Auditor General may, at his or her discretion, prepare a longer term audit plan for submission to City Council.
- (3) No deletions or amendments to the annual audit plan shall be made except by the Auditor General.
- (4) Despite subsection (3), the Auditor General may, if requested by City Council or a board of directors, audit and report on additional matters.

REPORTING

12. (1) No later than December 31st of the next year following the tabling of the audit plan prescribed in subsection 11(1), the Auditor General shall provide to City Council a Notice of Tabling of the Annual Report.
- (2) The Auditor General may, as directed by Council or at his or her discretion, report on a more frequent basis to City Council or any Committee thereof.

OFFICE OF THE AUDITOR GENERAL

13. (1) The Auditor General is authorized to establish an Office of the Auditor General including a managerial hierarchy and administrative policies and procedures.
- (2) The Auditor General is authorized to appoint, promote, demote, suspend and dismiss, subject to any applicable personnel policies adopted by Council, all employees of the Office of the Auditor General.
- (3) The Auditor General is authorized to review the performance of personnel within the Office of the Auditor General subject to any personnel policies applicable to the employees of the City.
- (4) The Auditor General is authorized to retain the services of any individual or corporation for the purposes related to the operation of the Office of the Auditor General and to execute all agreements and contracts required for the provision of such services subject to the provisions of the City's Purchasing By-law.

ANNUAL BUDGET

14. (1) The annual budget of the Office of the Auditor General shall be in accordance with the budget strategy for the Term of Council.
- (2) Requests by City Council or a board of directors pursuant to subsection 11(4) shall be subject to the provision of appropriate funding.

DUTY OF CONFIDENTIALITY

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

IMMUNITY FROM TESTIMONY

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

REPEAL

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

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

CITY CLERK

MAYOR

SCHEDULE “A”

Local Boards

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

SCHEDULE “B”

Municipally-Controlled Corporations

1. Hydro Ottawa Holding Inc./Société de portefeuille d’Hydro Ottawa inc.
2. Ottawa Community Housing Corporation/Société de Logement Communautaire d’Ottawa



BY-LAW NO. 2013 - 375

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

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

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LEGAL SERVICES

VB: G04-01-STAT AG

COUNCIL AUTHORITY:

City Council – October 23, 2013 Motion 63/3

BY-LAW NO. 2015-11

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

The Council of the City of Ottawa enacts as follows:

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

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

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

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

ENACTED AND PASSED this 28th day of January 2015.

CITY CLERK

MAYOR



BY-LAW NO. 2015- 11

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

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

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LEGAL SERVICES

G04-01 STAT AG

Council Authority:

City Council December 3, 2014

Agenda Item 1&

Delegation of Authority By-law

(2014-435), Schedule “A”, s.63