



Office of the Auditor General

**Follow-up to the 2016 Audit of ByWard and
Parkdale Markets**

Tabled at Audit Committee

September 30, 2020



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Executive summary

The Follow-up to the 2016 Audit of ByWard and Parkdale Markets was included in the Auditor General's 2019 Audit Work Plan. Since the report was tabled in December 2016, Council approved a new governance model for the ByWard and Parkdale Markets (the "Markets") in the form of a municipal services corporation. On December 13, 2017, Council approved the delegation of authority to Ottawa Markets to operate the Markets; and on December 29, 2018, a Service and Asset Management Agreement (SAMA) was executed between the Chair of the Board of Directors of Ottawa Markets and the City's General Manager of Planning, Infrastructure and Economic Development.

The key findings of the original 2016 audit when the Markets were City-run under the Markets Management Section included:

Corporate governance and oversight:

- Decisions related to the day-to-day operations of Markets Management were left to the Lead Officer and his team with limited oversight by the Program Manager. The Lead Officer and his team, with limited support, oversight and supervision of their activities, were performing their duties in an environment that had ineffective systems and processes with limited internal controls.
- Markets Management had been realigned multiple times to different City portfolios between 2004 and 2015 including Economic Development, Property Management within Real Property and Asset Management (RPAM), By-Law and Regulatory Services, and the Planning, Infrastructure and Economic Development Department. The continuous change in management of Markets Management over time, its relative size to other sections within the Program Manager's portfolio and City Council's approval to pursue an option to transition the governance of Markets Management to a municipal services corporation (MSC) had resulted in limited management oversight and attention paid to the day-to-day activities of the Markets Management Section.

Strategic direction of Markets Management:

- Since 2009, when initially drafted, no revised business plans had been established for Markets Management. Further, based on the review of available documentation, no evidence was available to demonstrate that the actions committed to in the Parkdale and ByWard Markets 2009 Business Plans were ever undertaken, monitored or reported on.

- Markets Management was striving to maintain and make prosperous the Markets, but limited activities had been undertaken and insufficient resources had been allocated to formally achieve the strategic direction established in the 2009 Business Plans. Overall, no accountability had been assigned for a corporate champion to establish and monitor the 2009 strategic vision of the Markets.

Proposed direction of Markets Management:

- The original direction provided by City Council in 2013 to explore options for the future of the ByWard Market met at least one of the criteria for requiring a formal business case – as per the City’s Project Management Framework. However, the recommendation presented to City Council to pursue an MSC governance model was not based on the results of a completed business case with a formal options analysis.
- The City had undertaken activities to support the recommendation to move towards an MSC for the management of the ByWard and Parkdale Markets including hiring a third party with expertise in public markets who explored options to ensure the long-term success for the Market and analyzed existing market governance structures. However, the options analysis did not provide a fulsome analysis on other forms of ownership structures so the City could not be assured that it was proceeding towards the most effective and economical option that aligned with the City’s long-term vision for the Markets.

Human resource management:

- The operational requirement for the Markets to be open 7-days a week from 6 a.m. to 6 p.m. and the limited resources within Markets Management resulted in overtime incurred by the Officers. Although required by the City’s Overtime Policy, no pre-approval was obtained for the overtime incurred by the Officers.
- Limited monitoring was conducted by the Program Manager on the overtime that accrued and was used by the Officers.
- Overtime tracking for the Officers was not submitted to the Payroll branch for tracking centrally in SAP so compliance with the terms and conditions of the Civic Institute of Professional Personnel (CIPP) collective agreement could not be assessed.
- Occupational Health and Safety Awareness Training had not been completed for some Markets Management employees.

Marketing and promotional activities:

- No promotional plan was established that set out the particular advertising and promotional activities and/or events for the upcoming year to establish spending targets and ensure that forecasted spending for promotional activities and events were aligned to Markets Management’s objectives.
- There was no written agreement between Markets Management and the ByWard Business Improvement Areas (BIA) to stipulate the agreed upon activities/events and associated costs that would be shared to avoid misaligned expectations when incurring costs.

Internal controls and the safeguarding of assets:

- While the Markets Management Section had established a standard process to collect and record revenues, the processes and systems in place for handling cash were insufficient to mitigate the risk of error and potential misappropriation of cash and to ensure compliance with applicable City cash management policies and procedures. Practices observed included:
 - Cash handling, recording and reconciliation could be performed by one person;
 - Access to cash was not sufficiently limited;
 - A lack of documentation for the transfer of custody of cash; and
 - Insufficient controls embedded within the system used to track/manage revenues, including the lack of traceability of transactions, open access and system challenges requiring manual overrides allowed an individual to make changes to the revenue records without detection.

Stakeholders’ grants, agreements and relations:

- Markets Management focused its attention on stakeholders of the ByWard and Parkdale Markets and participated in stakeholder meetings to ensure their activities, to the extent possible, were aligned with those of their stakeholders.

Leasing and contract management:

- Markets Management managed the leases within the Parking Garage building at 70 Clarence.
- Per the terms of the lease with the Head Tenant for the ByWard Market building, base rent was payable in quarterly instalments and calculated by applying an

escalated percentage of “Annual Net Rent” received by the Head Tenant from its subtenants.

- Despite concerns identified in the 2000 Office of the City Auditor Audit Report and the decrease in rent paid to the City for the year 2012, ultimately questioning the Head Tenant’s interpretation of the definition of Annual Net Rent, the City had not exercised its audit rights and a financial audit was not performed of the Head Tenant’s books and records to validate the expenses included in the calculation of Annual Net Rent.
- Due to limited monitoring of the lease by Markets Management since its execution in 1997, matters related to the interpretation and calculation of Annual Net Rent were not identified in a timely manner; potentially resulting in the loss of rental income for the City. In 2013, Real Estate Partnership and Development Office (REPDO) began monitoring the lease closely at the request of Markets Management.

Table 1: Summary of status of completion of recommendations

Recommendations	Total	Complete	Partially complete	Not started	Unable to Assess
Number	10	4	5	1	0
Percentage	100%	40%	50%	10%	0%

Conclusion

Since the 2016 audit report, the Markets Management Section was operational for 13 months until the operation of the Markets was transitioned to Ottawa Markets, an MSC, in January 2018. While some of the recommendations addressed the potential establishment of an MSC, others were related to making improvements to the existing Markets’ processes deemed higher risk at the time of the audit such as control deficiencies in cash handling.

Given the transition to the MSC in January 2018, we assessed management’s implementation of the recommendations when the Markets were run by the City’s Markets Management Section and evaluated processes under the current governance structure.

Management made some progress by completing four out of 10 recommendations. However, five recommendations are partially complete, and one recommendation was not started.

The five partially complete recommendations relate to governance under the existing governance structure, and cash handling processes, approval of overtime, and non-formalized cost sharing plans with the BIA when the Markets were run by Markets Management staff.

The original audit found that there was limited monitoring and reporting on the activities and results of the Markets. As such, the audit recommended that as the City moves forward with the proposed MSC governance model, that strategic/operational objectives and corresponding performance indicators be developed to align with Council's approved vision. Our follow-up work found that a strategic plan was developed as well as evidence of annual reporting to the Members where progress was measured. However, there was insufficient information to allow Members to evaluate how the performance compared to plan for all goals. In addition, while there was regular reporting to the Board of Directors that encompassed updates on the strategic plan by the Chair, the reporting by the Executive Director to the Board was mostly financial and operational in nature and lacked reporting of quantifiable progress against strategic actions and key performance measures of a non-financial nature. An example of a non-financial performance measure includes progress on the development and implementation of a retail mix strategy that maximizes vendor occupancy. In November 2018, a strategic plan dashboard was introduced which provided a visual illustration of the status of each strategic action. At the next two meetings of the Board, the Executive Director advised that there were no changes to the dashboard. Since that time, the Executive Director's reporting did not include any updates on the progress against strategic actions.

The original audit also recommended that an independent Board of Directors be appointed to oversee the activities of the MSC and the implementation of a governance framework that allows the sufficient oversight by the City. In our opinion, an independent Board is one that is comprised of members who do not have a personal interest in the business or operational activities of the markets and could include elected officials. This would be accomplished if Council deemed it beneficial for reasons of board continuity and to support of the strategic objectives established by the Ottawa Markets in a manner that would not impact the independence of the Board, such as a non-voting capacity. We found that the governance model in itself is appropriate to allow sufficient

oversight by the City. However, we noted that the Board has had significant turnover. In light of this turnover and the significance that decision-making and action has on the success of market operations, the City should consider reviewing the composition of the Board in order to mitigate the risk identified as Board decisions and actions, or lack thereof, can impact the success of the markets and the City's assets. Any changes to the Board would require approval by Council.

The original audit also recommended that more robust internal controls be implemented for the handling of cash by Markets Management to ensure compliance with the City's cash handling policies and procedures. Our follow-up work found that Markets Management cash handling processes were updated, however some control gaps remained. We also looked at existing cash handling processes implemented by Ottawa Markets and found that there are reasonable controls in place related to cash handling.

It was recommended that processes be improved to manage overtime and ensure compliance with the City's overtime policy and the CIPP collective agreement. Our follow-up work found that management had implemented new procedures to track overtime, however, we did not find evidence of appropriate approvals by management.

And finally, the fifth recommendation that is partially complete relates to the recommendation that the City establish a marketing and promotional plan and establish a formal cost-sharing agreement with the BIA. Our follow-up work found that a plan was developed but it lacked details on estimated costs and how costs would be shared between the City and the BIA.

The recommendation that was not started relates to management's response to marketing and promotional activities.

The original audit recommended that the City implement measures to review supporting documentation for all BIA invoices prior to approval for reimbursement. Management's response indicated that a monthly summary report of shared expenditures would be provided to the Program Manager for review and approval, however, there was no evidence to demonstrate that this was done.

In summary, the results of our assessment show that there were some gaps with management's implementation of certain recommendations. Furthermore, under the existing governance structure, while there is evidence that the governance model allows for sufficient oversight by the Board of Directors of Ottawa Markets and the City, the composition (structure) of the Board may not be optimal to ensure effective decision-making that is in the best interests of the City, as overseen by Council Members, as well

as stakeholders and residents. In addition, the nature of the reporting to the Board and City Council does not provide comprehensive information to assess whether the implementation of the strategic plan is on track.

Acknowledgement

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

Detailed report – Assessment of implementation status

The following information outlines management's assessment of the implementation status of each recommendation as of May 2019 and the Office of the Auditor General's (OAG) assessment as of January 2020.

Recommendation #1

Table 2: Status

Management update	OAG assessment
Complete	Partially Complete

Audit recommendation:

That the City embed, as part of the powers and duties established for the proposed MSC, the requirement for the MSC to develop strategic/operational objectives, with corresponding performance indicators, aligned to City Council’s approved vision for the MSC. Measurement against the indicators should be performed and reported regularly to the MSC Board and to City Council.

Original management response:

Management agrees with this recommendation.

The ByWard and Parkdale Market Revitalization Project was initiated following a report to Council in May 2016 wherein staff were directed to pursue the Municipal Service Corporation (MSC) model for the ByWard and Parkdale markets. Considerable analysis and consultation took place in advance of that report and recommendation. A formal business case will be presented to the Finance and Economic Development Committee (FEDCO) and Council along with a proposed governance structure in February 2017.

As a part of the proposed governance structure and supporting business case, accountabilities of the City, the new MSC, its board of directors and staff will be clearly articulated and will align with the approved vision for the ByWard and Parkdale Markets.

City Council will be responsible for strategic policy direction and oversight of performance, plans and policy. The City will require the MSC to submit a corporate plan to Council annually. The plan will encompass all of the business and activities of the corporation, its objectives for the period (one to five years) to which the plan relates, and its expected performance for the year.

Management update:

The powers and duties of Ottawa Markets have been defined in a comprehensive Service and Asset Management Agreement between Ottawa Markets and the City of Ottawa. The vision, mandate and objectives of the organization are included along with reporting requirements to Council on strategic objectives, financials and operations.

OAG assessment:

On April 12, 2017, Council approved a new governance model for the ByWard and Parkdale Markets (the “Markets”) in the form of a Municipal Services Corporation (MSC). Section 203 of the Municipal Act, 2001 and Ontario Regulation 599/06 allows municipalities to establish an MSC. The City is represented by the Mayor and each Councillor of the City as ex-officio Members of the MSC and are collectively referred to as the “Members”. Various legal and administrative matters were undertaken to incorporate Marchés d’Ottawa Markets (Ottawa Markets) as a not-for-profit MSC including appointing a Board of Directors (Board). The Board was appointed by the Members. The governance structure of Ottawa Markets is as follows:

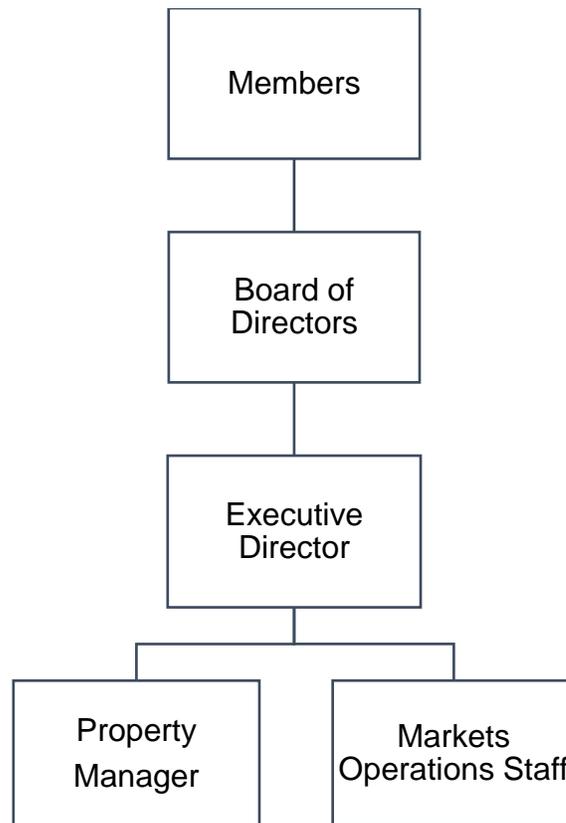


Figure 1: Governance structure of Ottawa Markets

The Board, comprised of eight¹ members, has a duty to supervise the management of the activities of Ottawa Markets. The current members of the Board are:

- Bryan Chandler, Accountant and serves as Interim Chair and Treasurer of the Board (appointed June 2018)
- Pam Bianconi, Director, Business Development, Colonnade Bridgeport and serves as Vice-Chair of the Board (appointed June 2018)
- Catherine Callary, Vice President, Destination Development, Ottawa Tourism (appointed July 2017)
- Marianne Gee, Founder Gee Bees Honey Company (appointed June 2019)
- Suneeta Millington, Canadian diplomat and international lawyer (appointed July 2017)
- Lauren Kennedy, Director of Public Affairs at Chicken Farmers of Canada (appointed July 2017)
- Greg Skotnicki, President, Market Maker Agriculture (appointed July 2017)
- Nicolas Moyer, President and CEO, Canadian Council for International Co-operation (appointed September 2019)

The Executive Director, who was recruited and hired by the Board, is responsible for observing all requirements of the corporation's by-laws relating to the conduct of the affairs of the Ottawa Markets.

The property manager is a third-party firm that was hired by Ottawa Markets to manage the commercial retail space and common areas associated with the Market Building at 55 ByWard Market Square and the garage retail units at 70 Clarence.

Markets operations staff include managers, coordinators and assistants who are responsible for operating the vending operations at both the ByWard and Parkdale Markets.

On December 13, 2017, Council approved the delegation of authority to Ottawa Markets to operate the Markets and on December 29, 2018, a Service and Asset Management Agreement (SAMA) was executed between the Chair of the Board of Directors of Ottawa Markets and the City's General Manager of Planning, Infrastructure and Economic Development. We observed evidence of the requirement for Ottawa Markets

¹ The number of directors on the Board is a minimum of three and a maximum of 11, with a recommended number of nine, 2018-2022 Council Governance Review, page 22 of Document 6

to develop and submit a strategic plan to the Members which was completed in June 2018. The strategic plan incorporates the mandate, mission and guiding principles that were approved by Council on April 12, 2017 as well as goals and actions to execute the strategy.

We noted evidence of annual reporting to the Members where progress was measured however there was insufficient information to allow Members to evaluate how the performance compared to plan for all goals. For example, the report presented at the annual meeting of the Members in June 2019 included financial information, and facts and figures such as the number of outdoor vendors, the average daily outdoor stand rental and the number of indoor vendors. While relevant, the facts and figures are not reported against targets or compared to prior year results. Without the comparison against targets or prior year results, the Members are not provided with sufficient information to assess whether the MSC is achieving its goals or improving its operations under the new governance model.

While we did note regular reporting to the Board of Directors that encompassed updates on the strategic plan by the Chair, the reporting by the Executive Director to the Board was mostly financial and operational in nature and lacked reporting of quantifiable progress against strategic actions and performance measures. Examples of non-financial performance measures include progress on the development and implementation of a retail mix strategy that maximizes vendor occupancy and the expansion of market vendor product offerings.

In November 2018, the Executive Director provided a strategic plan dashboard which provided a visual illustration of the status of each strategic action. Based on our review of the minutes of this meeting, the Executive Director discussed timelines for various items. Based on our review of the minutes since incorporation, this was the first indication of reporting against strategic actions. At the next two meetings of the Board in December 2018 and January 2019, the Executive Director advised that there were no changes to the dashboard. Since that time, the Executive Director's reporting did not include any updates on the progress against strategic actions.

Recommendation #2

Table 3: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

That the City develop a process which ensures that full documentation of business cases and options analysis therein to support the recommendations, are developed, approved, and retained prior to Committee or Council presentation. As the City is establishing the powers and duties of the proposed MSC, consideration should be given to how the City will maintain oversight to fulfil its fiduciary responsibility over the operations of the MSC, including the right to conduct periodic audits on the operations of the MSC.

Original management response:

Management agrees with this recommendation.

A formal Business Case process has been developed and documented in the Corporate Business Case Development Guidelines. The detailed guidelines were approved by City Council on April 9, 2014. The guidelines were communicated to staff through management bulletins and other internal communications channels. The creation of a business case is also a requirement under the City’s Project Management Policy. In addition to the guidelines, a formal, two-day Business Case Development training course has been implemented by the Learning Centre, and is offered several times annually. It should be noted that these guidelines are intended for all business cases, whether or not they are considered by City Council. Staff are expected to properly document a business case before seeking approval, and this is clearly communicated in the guidelines, policy and training related to business case development.

In accordance with Section 203 of the Municipal Act, 2001 and Section 6 of Regulation 599/06, a formal business case for the proposed Municipal Services Corporation will be completed and will include information such as: options analysis, risk analysis, recommendations, and an implementation plan. This business case will be presented to FEDCO and Council along with a proposed governance structure in February 2017.

Management update:

Implementation of this recommendation is complete.

The business case supporting the establishment of the MSC was approved by Council in April 2017.

OAG assessment:

Section 6 of Ontario Regulation 599/06 “Municipal Services Corporations” requires municipalities to “*adopt a business case study before it exercises the powers*” to establish an MSC.

Prior to submitting the Business Case to the Finance and Economic Development Committee (FEDCO) and Council, there is evidence that City staff took measures to develop and question assumptions, which included a third-party review, to inform the development of the business case and the set up of the proposed MSC. In addition, City staff took measures to incorporate clauses within the Service and Asset Management Agreement to allow City Council and staff to maintain oversight through the established governance model (for e.g. annual reporting, quarterly reporting) as well as the right to conduct periodic audits.

Recommendation #3

Table 4: Status

Management update	OAG assessment
Complete	Partially Complete

Audit recommendation:

That the City ensure that when establishing the MSC, consideration be made for the appointment of an independent Board of Directors, who have the collective requisite skills and expertise to oversee the activities of the MSC and the implementation of an appropriate governance framework to allow the City sufficient oversight of the activities and results of the MSC. Strong consideration should be given to the following elements:

- The right of the City, as sole shareholder, to conduct periodic audits on the operations of the MSC.
- Periodic reporting of activities to City Council including budget to actual information with explanations for significant variances, results against key performance indicators and information on the status of management’s oversight controls.

Original management response:

Management agrees with this recommendation.

A governance recommendation will be put forward to FEDCO and Council in February 2017. This will include the role of the City (as sole shareholder), board composition, board skill sets, and committee structure. City staff will include high-level performance targets that will align with the approved vision for the ByWard and Parkdale Revitalization initiative.

The Board will have a recommended committee structure that must include an audit committee. Results of audits will be reported back to Council as required.

The City will require the MSC to submit a corporate plan to Council annually. The plan will encompass all of the business and activities of the corporation, its objectives for the period (one to five years) to which the plan relates, and its expected performance for the year.

Management update:

Implementation of this recommendation is complete.

The Service and Asset Management Agreement between Ottawa Markets and the City of Ottawa clearly defines Ottawa Markets' responsibilities to report to the City and Council on matters of governance, financial reporting and operational performance. While Ottawa Markets is required to annually provide audited financial statements to the City Treasurer, through the Service and Asset Management Agreement, the City is authorized to conduct audits of Ottawa Markets.

OAG assessment:

The SAMA includes provisions that allow the City to maintain oversight through the established governance model (e.g. annual and quarterly reporting) as well as the right to conduct periodic audits.

We noted that the governance model in itself is appropriate to allow sufficient oversight by the City as there are requirements under the SAMA for Ottawa Markets to report annually to the Members (comprised of the Mayor and each City Councillor) and quarterly to the City Treasurer. However, we noted that the nature of reporting to date has been predominantly focussed on financial performance. While we noted some evidence of annual reporting of facts and figures, this data was not reported against targets or compared to prior year results for example. Without the comparison against targets or prior year results, the Members are not provided with meaningful information to assess whether the MSC is achieving its goals or improving its operations under the new governance model. Reporting progress against targets is a critical component for determining whether the implementation of the strategic plan is on track. Examples of reporting against targets that we expected to see in the annual report include progress on the development and implementation of the retail mix to maximize vendor occupancy, the expansion of market product offerings, and the change in vendor occupancy and the related licensing and permit revenue.

Our follow-up work included looking at the composition of the Board. Council approved the appointment of the inaugural Board of Directors including the collective requisite skills and expertise that the Board should have as a whole. The inaugural Board of Directors consisting of nine members was approved by Council on July 12, 2017. Since that time, there has been significant turnover in Board membership and the process for recruiting, evaluating and selecting members of the Board has been on an ad-hoc basis.

Prior to the MSC beginning operations in January 2018, 33% of the Board members had resigned (three out of nine Board members) and within the first month of Ottawa Markets operations, the turnover increased to 44% with the resignation of one more Board member. Since that time, four new Board members were appointed and one more Board member resigned as recently as June 2019. At the time of our assessment as at September 30, 2019, the Board was comprised of eight members, four (50%) of whom were part of the inaugural Board of Directors approved by Council in July 2017. The recommended number of directors is nine.²

We noted that the inaugural and current Board of Directors of Ottawa Markets includes citizen members only and does not include any Council members. However, the by-law³ of Ottawa Markets gives the City's Director of Economic Development and Long-Range Planning the right to attend and participate in a non-voting capacity in all meetings of the Board⁴. This structure which was approved by Council is consistent with recommendations put forth by a Governance Advisory Group (the "Advisory Group") that was appointed by City Council in 2016 to advise City staff on governance best practices. In contrast, Ottawa Community Lands Development Corporation (OCLDC), a municipal development corporation with the City of Ottawa as shareholder, is comprised of a mix of City Council and non-City Council directors. The Advisory Group indicated in its report that it was "critical that the MSC board not include elected officials or members that have a vested interest in the business or operational activities of the markets or surrounding areas"⁵. The report by the Advisory Group did not specify why it was critical to exclude elected officials. This contradicts recommendations stemming from the 2018-2022 Council Governance Review report tabled in December 2018 by the City Clerk and Solicitor that recommended a mix of City Council and non-City Council directors on the Board of OCLDC.

Recognizing that there are differences in the mandate of the OCLDC and the Ottawa Markets, both are corporations that fall under the City's umbrella which requires the

² The number of directors on the Board is a minimum of three and a maximum of 11, with a recommended number of nine. 2018-2022 Council Governance Review, page 22 of Document 6

³ By-law No. 1, A By-law relating generally to the conduct of the affairs of Marchés d'Ottawa Markets, clause 6.4 (a)(i)

⁴ Starting May 27, 2019, the City's Manager, Right of Way, Heritage and Urban Design Services, took on this role

⁵ ByWard and Parkdale Market Revitalization Report, Recommendations on Governance, page 6

need for strong governance to protect the City's assets in the best interests of stakeholders and residents. This includes having an independent Board of Directors. While it is important for Board membership to be independent, in our opinion we do not think that this explicitly should exclude elected officials from the Board of Directors of the Ottawa Markets. The Ottawa Markets by-law makes reference to reasons for disqualifications from being a director⁶ including a person who has a direct/indirect:

(A) beneficial interest in a business or organization having a place of business, place of operation, or operating from and/or in the Market Areas (including, without limitation, any owner, shareholder, member, director, officer, or employee); and/or

(B) beneficial interest in land (including leasehold and/or freehold) in the Market Areas for commercial and/or profit making purposes; and /or

(C) pecuniary interest in the outcome of a deliberation or decision of the Board and/or in any contract or contract proposal to be concluded by, or on behalf of, or to the benefit of, the Corporation and/or in any other affair of the Corporation.

In our opinion, as long as a director does not have a real or perceived direct or indirect interest from which they could personally benefit, membership on the Board of Ottawa Markets could include Council members.

In light of the high-level of turnover on the Board and the significance that decision-making has on the success of market operations, the City should consider reviewing the composition of the Board in order to mitigate the risk identified as Board decisions and actions, or lack thereof, can impact the success of the markets and the City's assets. This will help to ensure that the markets operations and activities are aligned with Council's approved vision and are in the best interests of stakeholders. Any changes to the Board would require approval by Council.

⁶ By-law No. 1, A By-law relating generally to the conduct of the affairs of Marchés d'Ottawa Markets, clause 5.3 (a)(v)

Recommendation #4

Table 5: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

That the City ensure that lease clauses are clearly articulated and understood, prior to finalization, to avoid misinterpretation between the parties. Additionally, once a lease is executed, contract management monitoring responsibility should be formally assigned to a party with the appropriate skills and support to ensure adherence to the terms and conditions of the lease, including exercising the right to audit clause at appropriate points during the lease term.

Original management response:

Management agrees with this recommendation.

Each unit has a role to play in the leasing process. REPDO acts as the leasing agent (advertising space and negotiating with Tenants) and interprets the lease documents when requested. REPDO works hand-in-hand with Legal Services (who reviews the lease document, provides legal advice, etc.) as well as the client group (in this case Markets Management) responsible for the facility containing the rental space. Markets Management maintains a day-to-day relationship with the tenant and engages both REPDO and Legal Services when required.

Management will review the current contract management monitoring process as part of the work being undertaken to establish the MSC and will include the results of this review in the governance report being brought forward to Committee and Council in February 2017.

Management update:

Implementation of this recommendation is complete.

Ottawa Markets, through the Service and Asset Management Agreement, has been assigned the leases for 55 ByWard and the retail spaces at 70 Clarence. Through this Agreement, Ottawa Markets are now responsible for the overall management of the

existing leases and have authority to enter into new agreements for those specific locations.

OAG assessment:

Under the existing SAMA between the City and Ottawa Markets, Ottawa Markets is responsible for all property management responsibilities. Since Ottawa Markets began operations in January 2018, all property management responsibilities have been outsourced to Paradigm Properties (Paradigm).

Based on our examination of selected records, the terms for the calculation of rent are clear. In addition, external legal counsel is involved in the negotiation of lease agreements. We also noted that the lease agreements include provisions permitting assignment to City without penalty and early termination without penalty should the leases be reassigned to the City upon termination of the Service and Asset Management Agreement.

We also examined evidence of reporting to the Board on a regular basis by Paradigm to provide updates on leasing matters.

Recommendation #5

Table 6: Status

Management update	OAG assessment
Complete	Partially Complete

Audit recommendation:

That the City implement more robust internal controls for the handling of cash by Markets Management to ensure compliance with the City’s Cash Handling Policy and Procedures and the Change Float Policy and Procedures, considering the following:

- Maintenance of a signed copy of the Cash Handling Indemnity Form for each employee, including Ambassadors, who is or may be involved in the handling of cash;
- Requiring that cash be counted, totaled, and signed off by the cash handler when cash is being transferred from one person to another;
- While the implementation of a Point of Sales (POS) for a short period of time might be uneconomical, consideration should be given if the period is extended;
- Preparing a cash deposit and reconciling the Markets Management System (MMS) on a daily basis;
- Segregating duties between the person responsible for processing the summary report in MMS, preparing the related cash deposit, and the person who cancels receipts;
- Limiting, to the extent possible, the number of individuals who have access to the safe;
- Requiring that the cash box in the safe be locked and that a chain of custody log be maintained when the cash box is accessed or removed from the safe; and,
- Use and safeguarding of City of Ottawa Receipt Books for manual processing as per the Cash Handling Policy and Procedures.

Original management response:

Management agrees with this recommendation.

Markets Management have commenced the review of specific cash handling procedures to address the proposed OAG considerations in this report to ensure compliance with the City’s Cash Handling Policy and Procedures and the Change Float

Policy and Procedures. As of October 2016, three of the eight considerations have been fully implemented. Review of the remaining considerations will be completed by the end of Q1 2017.

Management update:

Implementation of this recommendation is complete.

Cash handling processes have been updated to reflect the requirements of the cash handling policy. Markets Management and Cash Operations have worked together to ensure compliance. Final sign-off on the procedural documentation was completed on May 10, 2017.

OAG assessment:

Given the change in governance of the ByWard and Parkdale markets since the 2016 audit report, we looked at not only City management's actions to our recommendations but also Ottawa Market's existing processes to assess whether there are reasonable processes in place to mitigate the risks around cash handling.

Based on our assessment of City management's actions prior to the establishment of the MSC, we noted that the City of Ottawa's Cash Handling Policy and Procedures were updated in March 2017. These corporate policies and procedures together with the updated Markets Cash and Financial Policies and Procedures addressed the controls that were lacking during the original audit such as the need to maintain a chain of custody log and to safeguard receipt books in a secure location with limited access.

The 2016 audit noted limited segregation of duties related to the handling, recording and reconciliation of cash. Segregation of duties is important so that more than one person shares cash handling responsibilities during the entire cash process and mitigates the risk of misappropriation of cash. The audit expected to observe evidence of segregation of duties on both the deposit slips and the Maintenance Management System's Summary of Cash Receipts by Deposit report (MMS report). A deposit slip is the record of the amount of monies being sent to the bank. It is to be initialled by the persons completing the deposit. We found that the deposit slips we reviewed had two initials. Whereas the MMS report is an overview of the sales and transactions, including cancelled or voided transactions. It represents what monies should be deposited. It also represents how monies were collected (e.g., cash, cheques, debit/credit card, etc.). Having a second staff member review the MMS reports and related deposits can also mitigate the risk of misappropriation of cash. Based on our review of MMS records, we were unable to confirm whether a second staff reviewed the MMS reports on a

consistent basis. Of the eight MMS reports provided, two did not have evidence of two reviewers' initials. In these instances, it is not known whether there was adequate segregation of duties between the person who collected the cash, processed the MMS report and prepared the cash deposit.

Given the transition to an MSC, we performed a high-level assessment of existing cash handling processes of Ottawa Markets. We performed a walkthrough of the cash handling process at the ByWard Market which included observing staff process the receipt of cash through to the preparation of the deposit. Based on our observation, we found that there are reasonable controls in place related to cash handling, including segregation of duties for cash intake, recording and bank deposits. Ottawa Markets has also implemented a mobile payment application (Square) which has reduced the use of cash as a method of payment.

Recommendation #6

Table 7: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

That the City ensure that all operational departments handling cash are compliant with the corporate cash management policies and procedures to prevent mishandling of funds and to safeguard against losses.

Original management response:

Management agrees with this recommendation.

City departments are responsible to ensure staff comply with the Cash Handling Policy and Procedures. These requirements are outlined in the policy and any updates to the policy are communicated to staff through management bulletins and other internal communications channels.

Specific to this audit, Markets Management will ensure staff in the unit handling cash are compliant with the corporate cash handling policies and procedures. Process improvements have been made to ensure ongoing compliance with the Cash Handling Policy and Procedures, and compliance requirements have been communicated to staff. As noted in the management response to Recommendation 5, three of the eight considerations have been fully implemented. Review of the remaining considerations will be completed by the end of Q1 2017.

Management update:

Implementation of this recommendation is complete.

Cash handling processes have been updated to reflect the requirements of the cash handling policy. Markets Management and Cash Operations have worked together to ensure compliance. A procedures document was created, finalized and approved in Q2 2017. Markets Management cash handling practices are now fully compliant with corporate policy.

OAG assessment:

Based on our enquiries and review of documentation, Collections and Cash Handling (CCH) in collaboration with the Policy, Process and Review (PPR) Branch have a process in place to assess compliance with cash handling policies and procedures. Key activities that are performed by CCH and PPR to assess cash handling compliance include:

- Issuing management bulletins reminding staff to review applicable cash handling policies and procedures;
- Requesting heads of operating units of sites who handle cash to complete a self-assessment questionnaire;
- Conducting risk assessments to determine which cash handling sites should be reviewed for cash handling compliance; and
- Conducting compliance reviews at a sample of sites that handle cash (site visits).

CCH issues a management bulletin annually to remind staff who handle cash to review the applicable policies and to complete a self-assessment to identify gaps in compliance. However, the completion of the self-assessment is not mandatory.

Accordingly, there is no follow-up process to ensure that each operating unit head has submitted the self-assessment questionnaire. Mandatory reporting would be useful as the information may affect changes to the sample of sites to visit and could potentially identify sites that have significant and/or pervasive issues.

A key activity to ensure compliance with the corporate cash handling policies and procedures is the conduct of site visits by PPR at a sample of sites. Some of the key areas that are assessed include:

- Cash handling policy and procedures awareness and training;
- Safe and secure custody of cash (e.g. safes are in a restricted area);
- Receipting process (e.g. all payments are properly receipted, receipt books are properly secured);
- Cash count procedures;
- Deposit preparation; and
- Cash pickups.

The sample for site visits is selected based on a set of criteria and risk factors. We noted that 50% of the sites handling cash between 2012 and 2019 had at least one cash handling compliance review. The majority of the compliance reviews were

conducted within four departments which make up 72% of all sites that handle cash. However, we did note significant variances in the number of site visits each year. For example, the number of compliance reviews has ranged between four and 25 sites per year since 2016. Between 2012 and 2014, the number of compliance reviews ranged between 15 and 20 sites per year. No reviews were conducted in 2015. The sample selection methodology and the robustness of the testing program that is used by CCH and PPR to monitor cash handling compliance were not assessed as part of this follow-up.

The measures put in place by CCH and PPR to jointly assess cash handling compliance are reasonable. However, we encourage management to make the completion of the self-assessment questionnaire mandatory rather than voluntary.

Recommendation #7

Table 8: Status

Management update	OAG assessment
Complete	Partially complete

Audit recommendation:

That the City develop appropriate processes to ensure compliance with the City of Ottawa Overtime Policy and the CIPP collective agreement and to embed the appropriate internal controls related to managing overtime. This would include approval of all overtime in advance, appropriate calculation of overtime in line with the CIPP collective agreement, submission of overtime worked to Payroll branch for tracking in SAP, and ensuring ongoing oversight of overtime incurred and time-off-in-lieu (TOIL) taken by Markets Management.

Original management response:

Management agrees with this recommendation and it has been implemented.

Management has recently implemented new procedures to address the appropriate tracking of overtime.

Overtime worked may be required due to operational requirements on any given shift or may be planned for events, covering for other staff, etc. The small complement of full-time staff (four) and the hours of operation (6 a.m. to 6 p.m.) leave very little room for flexible scheduling to reduce overtime.

The Program Manager, Markets Management with the assistance of Payroll, has implemented the following new procedures with staff for the approval, recording and, the monitoring and oversight of overtime:

The Program Manager signs off on the schedule monthly, which may include overtime shifts for planned events;

Staff inform the Program Manager of any planned overtime not recorded on the schedule;

All overtime worked is now recorded in SAP through Employee Self Serve, where appropriate controls are in place to ensure there are documented approvals of overtime

worked and overtime banks are limited to 100 hours as per the CIPP collective agreement; and,

The Program Manager has taken the necessary steps to ensure that the payment of overtime is being completed fully in accordance with the CIPP Collective Agreement.

Management update:

Implementation of this recommendation is complete as per the original management response.

OAG assessment:

Based on our enquiries and review of documentation, we were able to confirm that new procedures were communicated to staff and that SAP was used to record overtime. However, there was no evidence that planned overtime was approved by the Program Manager.

Recommendation #8

Table 9: Status

Management update	OAG assessment
Complete	Partially Complete

Audit recommendation:

That the City establish a marketing and promotional plan at the outset of the next fiscal year. Based on this plan, the City should establish a formal cost-sharing agreement with the ByWard BIA that includes expectations related to the level of support required for reimbursement of costs incurred. As the City transitions towards a proposed MSC to oversee the operations of the Markets, considerations should be made as to the formality of the cost sharing activities with external parties.

Original management response:

Management agrees with this recommendation.

In early 2016, Markets Management staff initiated an events calendar and discussed cost sharing plans with the BIA’s Executive Director. The outcome of those discussions has led to verbal agreements and documentation outlining proposed and actual costs.

Markets Management and the BIA Executive Director are working towards a formal cost sharing plan for promotions and advertising for 2017. This will be completed by December 31, 2016.

Management update:

Implementation of this recommendation is complete.

Markets Management and the ByWard Market BIA have reconciled planned revenues/expenses against actuals for 2016. This has been documented and includes copies of all invoices/expenses. A summary report for 2016 was signed off by the Markets Manager and the Executive Director of the BIA in March 2017. A copy of this reconciliation was provided to Finance.

OAG assessment:

While we did see evidence that the Markets and the BIA approved initiatives for 2017, the plan did not include the estimated costs. Accordingly, there was no evidence as to how the costs for the proposed initiatives would be shared between the City and the BIA.

Based on our enquiries with Ottawa Markets, we understand that Ottawa Markets has not entered into any partnerships or cost sharing agreements to co-sponsor marketing and promotion initiatives.

Recommendation #9

Table 10: Status

Management update	OAG assessment
Complete	Not Started

Audit recommendation:

That the City implement measures to review and confirm supporting documentation for all BIA invoices, to demonstrate receipt of goods and services relative to the City, prior to approval for reimbursement.

Original management response:

Management agrees with this recommendation and it has been implemented. A monthly summary report of shared expenditures with supporting invoices is being provided to the Program Manager for review and approval prior to financial processing.

Management update:

Implementation of this recommendation is complete as per the original management response.

OAG assessment:

While management was able to provide an annual summary of shared costs, there is no evidence that monthly summary reports of shared expenditures with invoices were reviewed and approved by the Program Manager prior to processing.

Recommendation #10

Table 11: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

That the City take action to post the Health and Safety Policy for employees and ensure that all Markets Management staff complete the Occupational Health and Safety Awareness required training in a timely manner.

Original management response:

Management agrees with this recommendation and it has been implemented.

On October 27, 2016 Management posted the Health and Safety Policy for employees. As of November 10, 2016, all Markets Management staff have completed the Occupational Health and Safety Awareness Training.

Management update:

Implementation of this recommendation is complete as per the original management response.

OAG assessment:

Based on our review of SAP records, staff have taken the Occupational Health & Safety Training.

Due to the time lapse and change in management of the markets since the 2016 audit, we were unable to verify whether management took the necessary steps to post the Health and Safety Policy in the Markets Management office.

Table 12: Status legend

Status	Definition
Not started	No significant progress has been made. Generating informal plans is regarded as insignificant progress.
Partially complete	The City has begun implementation; however, it is not yet complete.
Complete	Action is complete, and/or structures and processes are operating as intended and implemented fully in all intended areas of the City.
No longer applicable	The recommendation is obsolete due to time lapses, new policies, etc.
Unable to Assess	Action is not currently taking place; however, remains applicable