



Office of the Auditor General

Report on Audit Follow-ups

**Tabled at Audit Committee
September 30, 2020**



Office of the Auditor General

September 30, 2020

Mayor, Members of Audit Committee and Council,

I am pleased to present this report on follow-ups of audits carried out by the Office of the Auditor General of the City of Ottawa.

The report includes an overview and an executive summary for each of the follow-ups conducted.

Respectfully,

A handwritten signature in black ink that reads 'Ken Hughes'.

Ken Hughes

Auditor General



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Table of Contents

Progress toward improvement.....	1
Summary and assessment of overall progress made to date on audit recommendations	1
Executive summaries – Audit follow-ups	4
Follow-up to the 2015 Audit of Ethics	5
Follow-up to the 2016 Audit of ByWard and Parkdale Markets.....	8
Follow-up to the 2017 Audit of Child Care Services.....	15
Follow-up to the 2017 Audit of the Management of the Lansdowne Contract.....	19
Follow-up to the 2017 Investigation into the Giver 150 Playground at Mooney’s Bay Park	28
Follow-up to the 2017 Review of the Management of Emergency Shelter Providers – Contract Management	30

Progress toward improvement

The Office of the Auditor General (OAG) conducts audit follow-ups two to three years after an audit is complete to afford management time to implement the recommendations. A follow-up may be conducted sooner if corrective action is complete. The OAG adheres to the best practices and professional standards of the international audit community by including the practice of audit follow-ups. The Audit Process includes the Planning Phase, the Fieldwork Phase, the Reporting Phase, and finally, the Follow-up Phase. In the follow-up, the OAG evaluates the adequacy, effectiveness and timeliness of actions taken by management on reported observations and recommendations. This evaluation ensures that the required measures, promised by management and approved by Council, have been implemented.

The audit follow-ups contained in this report include:

- Follow-up to the 2015 Audit of Ethics
- Follow-up to the 2016 Audit of ByWard and Parkdale Markets
- Follow-up to the 2017 Audit of Child Care Services
- Follow-up to the 2017 Audit of the Management of the Lansdowne Contract
- Follow-up to the 2017 Investigation into the Giver 150 Playground at Mooney's Bay Park
- Follow-up to the 2017 Review of the Management of Emergency Shelter Providers – Contract Management

As can be seen in the next section, it is clear from the results of these follow-ups that management is committed to the audit process.

Summary and assessment of overall progress made to date on audit recommendations

Audits are designed to improve management practices, enhance operational efficiency, identify possible economies and address a number of specific issues. The Follow-up Phase is designed to identify management's progress on the implementation of recommendations from the audit reports. This report is not intended to provide an assessment of each individual recommendation. Rather, it presents our overall evaluation of progress made to date across all completed audits. Should Council wish to have a more detailed discussion of specific follow-ups, OAG staff are available to do so.

The table below summarizes our assessment of the status of completion of each recommendation for the above-noted audit follow-ups.

Table 1: Summary of status of completion of recommendations

Follow-up	Total	Complete	Partially complete	Not started	No longer applicable	Unable to assess
Ethics	6	3	2	0	1	-
ByWard and Parkdale Markets	10	4	5	1	-	0
Child Care Services	31	24	6	0	1	-
Management of the Lansdowne Contract	17	6	9	1	-	1
Giver 150 Playground at Mooney's Bay Park	3	3	0	0	0	-
Management of Emergency Shelter Providers – Contract Management	5	2	3	0	0	-
Total	72	42	25	2	2	1
Percentage	100%	58%	35%	3%	3%	1%

We have categorized each of the audit follow-ups based upon the following criteria:

- **Solid progress** = 50% or more of the recommendations evaluated as 'complete'.
- **Little or no progress** = 50% or more of the recommendations evaluated 'not started'.
- **Gradual progress** = all others.

Solid progress:

- Follow-up to the 2015 Audit of Ethics
- Follow-up to the 2017 Audit of Child Care Services
- Follow-up to the 2017 Investigation into the Giver 150 Playground at Mooney's Bay Park

Little or no progress:

- None

Gradual progress:

- Follow-up to the 2016 Audit of ByWard and Parkdale Markets
- Follow-up to the 2017 Audit of the Management of the Lansdowne Contract
- Follow-up to the 2017 Review of the Management of Emergency Shelter Providers – Contract Management

Based on this, all of the audit follow-ups showed some progress. With these audit follow-ups now complete, no further work to review the implementation of these recommendations is intended by the OAG. However, as a result of the annual work plan and/or Council requests, new audits in any of these areas may occur in the future.

Executive summaries – Audit follow-ups

The following section contains the executive summary of each of the audit follow-ups.

Follow-up to the 2015 Audit of Ethics

The Follow-up to the 2015 Audit of Ethics was originally included in the Auditor General's 2015 Audit Work Plan and tabled at Audit Committee in May 2017. At that time, we found that six of the eight recommendations were not complete. As a result, the follow-up was subsequently included in the Auditor General's 2020 Work Plan.

The key findings of the original 2015 audit included:

- The results of the all-staff survey conducted were positive and suggested that in general, the ethical climate at the City was quite strong, although some opportunities for improvement were noted.
- The City's Code of Conduct and Fraud and Waste Hotline were found to be important components in maintaining a strong ethical culture at the City.
- There was no mandatory requirement for all employees to regularly take training with a focus on ethics in a public sector environment or the Code of Conduct.
- Of the policies referenced in the Code of Conduct, 6 of 17 were overdue for review.
- The majority of ethics-related communications were conducted ad hoc or on demand as there was no overarching communications strategy that set out the frequency of communications and messaging to employees.
- Only a fraction of full-time employees were being assessed annually on their adherence to the Code of Conduct and the performance evaluation process was not consistently being used as a means to remind employees of the importance of their adherence.
- It was generally understood that the City Clerk and Solicitor as well as the Litigation and Labour Relations branch had taken the lead on the Code of Conduct and initiatives related to ethics, although the City's overall responsibilities for ethics management had not been formally defined or documented.

Table 2: Summary of status of completion of recommendations

Recommendation	Status as at May 2017	Status as at February 2020
#1	Partially complete	Complete
#2	Partially complete	Complete
#3	Partially complete	Partially complete
#4	Partially complete	Partially complete
#5	Complete	-
#6	Partially complete	No longer applicable
#7	Complete	-
#8	Partially complete	Complete
Total	2 Complete (25%) 6 Partially complete (75%)	3 Complete (50%) 2 Partially complete (33.3%) 1 No longer applicable (16.6%)

Conclusion

Since our previous follow-up in May 2017, management has completed three recommendations concerning employee protection from reprisal and the establishment of an Ethics function. However, two recommendations remain outstanding. Despite in-person presentations to staff and the launch of an online module, few City employees have completed training related to ethics and the Code of Conduct. In order to fully implement this recommendation, management must ensure that all City staff complete the online module or equivalent in-person training. Corporate policies and procedures referenced by the Code of Conduct also need to be reviewed every four years to ensure that they remain current, relevant and aligned with the Code.

Acknowledgement

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

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

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 3: 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.

Follow-up to the 2017 Audit of Child Care Services

The Follow-up to the 2017 Audit of Child Care Services was included in the Auditor General's 2019 Audit Work Plan.

The original 2017 audit found that improvements were needed to ensure that child care funding was used as intended and benefited an optimal number of families. More specifically, the key findings included:

Waitlist management, eligibility assessment and management of fee subsidy funding

- There was a centralized waitlist and processes were in place to assess eligibility for fee subsidy and assign spaces on a priority basis. However, the waitlist was not accurate and management had not reinforced key controls to ensure on-going eligibility for fee subsidies.
- There was inadequate oversight over the assessment process which had a significant negative financial impact.
- The number of children reported to be on waitlist for fee subsidy was overstated between 6 and 25%.
- The manual steps used to calculate the waitlist figures increased the risk of error.
- No annual reviews were conducted for 29 months. Without these reviews many families that became ineligible continued to receive subsidized child care.
- There were numerous “bring forward” items in applicant files that had not been followed up.
- Staff were not recovering overpayments for parents who had become ineligible for subsidy.
- Despite an active monitoring process that was in place, Management continued to process fee subsidy applications and place children in spaces beyond the available \$64.4 million fee subsidy budget.
- Attendance recording practices did not ensure that children who received a fee subsidy from the City were actually attending child care.
- There was limited independent review of staffs' work.

Information provided to Committee and Council and senior management for decision making purposes

- Some of the information in the 2016-2017 Service Plan and provided to Council and senior management contained inaccuracies which may have resulted in program and budget decisions being based on inaccurate information.

- The numbers of “full fee” and “fee subsidy” families reported to be on the waitlist in the 2016-2017 Service Plan were incorrect.
- The Service Plan report to Committee and Council did not identify the risk or additional costs associated with collecting receivables from parents.
- There was no cost/benefit analysis of the 11 City run child care sites in the Municipal Child Care (MCC) program. The cover report to Committee and Council with the 2016-2017 Service Plan referred to the MCC Program Review as having been completed in 2015. We found, however, that the review had not been done.
- The waitlist and annual reassessment numbers and termination rates provided to Senior Management to monitor the program were not always complete, accurate and timely.

Controls to manage service levels and administrative costs and ensure that service providers use funds for intended purposes

- Controls were in place to monitor the funding provided to service providers, however they were not being adequately applied.
- City files did not contain all the documentation that service providers were required to submit.
- There was no documented evidence of review of files by City staff.
- There was no monitoring of performance against Provincial service level and administrative cost targets throughout the year to ensure that the City was on track to meet them.

Table 4: Summary of status of completion of recommendations

Recommendations	Total	Complete	Partially complete	Not started	No longer applicable
Number	31	24	6	0	1
Percentage	100%	78%	19%	0%	3%

Conclusion

Management made good progress by completing 24 out of 30 recommendations that remain applicable. However, six recommendations are partially complete.

The six recommendations that are partially complete relate to the initial assessment process, the process for following up on bring forward items, the review of the Municipal Child Care Centres (MCC) program and the completion of a development plan as part of a succession plan.

Two of the six partially complete recommendations relate to the initial assessment process. The original audit found that processes were in place to support the initial eligibility assessment for a fee subsidy and calculate the parental contribution, if any. However, some of the applications assessed at the time of the original audit contained errors which resulted in an incorrect eligibility assessment. The original audit also found that there was inadequate oversight of the assessment process and limited review of staff's work. As such, the audit recommended that the City improve the initial assessment process to ensure compliance with policies and procedures and to ensure that reviews of these assessments are completed. Our follow-up found that management implemented a plan to improve the initial assessment process, however, further measures are required to review and monitor the results of file reviews.

The third recommendation that is partially complete relates to "bring forward" items. The original audit found that there were over 2,000 "bring forward" items in applicant files that had not been followed up. As such, the audit recommended that the City follow-up on bring forward items on a regular basis. Our follow-up found that management introduced new measures for setting bring forward (reminder) items. However, further measures are necessary to improve reporting of bring forward items to ensure that there is no significant backlog.

Our follow-up found two recommendations related to the review of the MCC program were partially complete. The original audit found that the MCC program review had not been completed and that a cost-benefit analysis had not been conducted of the 11 City run child care sites. As such, the audit recommended that the City complete the MCC program review and a cost-benefit analysis of the MCC program. Our follow-up found that management completed an MCC review and is in the process of finalizing the report. Since the original audit, management updated the allocation of budgets and costs in the City's financial system so that standard management reports more

accurately represent the full cost of operating the MCCs. However, we noted areas for improvement communicating the City's full cost per child care space.

The sixth recommendation that is partially complete relates to the completion of a development plan as part of a succession plan. The original audit found that while a number of successors had been identified for key positions across CSSD branches, the succession plan did not include a development plan. As such, the audit recommended that the City complete a development plan. Our follow-up found that management has made significant progress and is in the process of developing individualized development plans.

In summary, management has made good progress towards implementing the recommendations stemming from the 2017 audit. Recommendations covered a wide range of processes and activities aimed at improving the management of waitlist figures, fee subsidy funding, service levels, and administrative costs; the initial assessment process; the monitoring of funding agreements; and reporting. Management should continue its efforts towards completing the other recommendations to further strengthen their practices and procedures.

Acknowledgement

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

Follow-up to the 2017 Audit of the Management of the Lansdowne Contract

The Follow-up to the 2017 Audit of the Management of the Lansdowne Contract was included in the Auditor General's 2019 Audit Work Plan.

In October 2012, the City entered into a limited partnership agreement with the Ottawa Sports Entertainment Group (OSEG) and others related to the redevelopment and operation of components of Lansdowne Park. The project included redevelopment of Frank Clair Stadium¹ and the Civic Centre², as well as the construction of retail, office and residential areas at the site. A public, open space known as the Urban Park was created, which includes the Horticulture Building and the Aberdeen Pavilion. The City is responsible for the Urban Park area.

OSEG operates the stadium, arena and parking garage and is responsible for the public areas throughout the retail and residential parts of Lansdowne Park. It is also the property manager for the maintenance and repair of the Urban Park.

The original audit focused on corporate governance and oversight, and provision of services under the contract agreement.

The key findings associated with each of these areas were:

1. **Corporate Governance and Oversight:** The City's Recreation, Cultural and Facility Services (RCFS)³ department had overall responsibility for Lansdowne park. However, RCFS was able to draw on other City departments to provide support for management of the Lansdowne agreements, as required.
 - a. The City did not have a comprehensive approach, document or tool to effectively monitor compliance to all provisions of the Lansdowne Partnership Plan agreements. Clear responsibility and accountability for monitoring of compliance by City staff was not established. No evidence was found that some of the contract provisions were being monitored at all, and in some cases, there was confusion as to who was responsible to monitor them.

¹ Frank Clair Stadium is now named TD Place.

² The Civic Centre is now named TD Place Arena.

³ A listing of all abbreviations used in the Follow-up Report is provided in Appendix A.

Follow-up to the 2017 Audit of the
Management of the Lansdowne Contract

- b. Overall, monitoring of the insurance provisions for the Lansdowne agreements was not in place. There was a lack of clear understanding and accountability for the monitoring and review of insurance provisions in contracts and agreements with third parties who provide services for, or on behalf of, the City.
- c. Both City staff and OSEG lacked awareness of certain reporting requirements in the Lansdowne agreements. In some cases, City staff and OSEG were not aware that reports were required to be issued.
- d. Trust accounts for Stadium and Parking Garage reserve funds were not set up as required under the Stadium Lease and Parking Structure Reciprocal Agreement.⁴ Rather, money for reserves had been deposited into OSEG's general bank account and interest had not been allocated to the reserve funds.
- e. OSEG had not established a Transportation Demand Management (TDM) office and OSEG did not have a dedicated TDM Coordinator, as required within the Site Plan Agreement.
- f. The City had not established a risk management plan for Lansdowne Park operations to ensure that all risks are managed effectively throughout the life of the Lansdowne project.
- g. The responsibility for utilities at the Lansdowne site was not fully allocated to the proper owners and/or understood, and the City had paid for utilities for which it is not the end user. At the time of the audit, City management was aware of the issues and was in the process of rectifying the situation, including recovering excess funds paid for water.⁵
- h. As the Lansdowne site moved from construction to day-to-day operations, the City did not have a transition plan, as required under its Public-Private Partnership (P3) Policy.

2. Provision of Services under the Contract Agreements

- a. The City had established a good working relationship with its P3 partner based on a common focus, the co-location of services and the ability to easily contact

⁴ According to the Life Cycle plans for the stadium and the parking garage, OSEG was required to contribute \$1,427,250 annually into reserve funds for projected capital and repair expenditures that were to be maintained in segregated trust accounts.

⁵ At the time of the audit, the City had recovered approximately \$185,000 for natural gas that it was not required to pay for.

Follow-up to the 2017 Audit of the Management of the Lansdowne Contract

each other when necessary (e.g.: for discussion of financial, event planning, shared services and property management, etc.).

- b. Ottawa Farmers' Market (OFM) revenues and utility cost recoveries did not comply with the OFM License of Occupation. In addition, a separate agreement to the OFM license was signed by a City staff member that did not have sufficient authority to do so under the City's delegation of authority by-law.
- c. Within the separate agreement, it was stated that the City was prepared to absorb OFM heating costs for the 2014/2015 season only, with the intention to monitor to ensure that for the 2015/2016 season an actual cost recovery could be determined. However, there was no evidence that the City monitored the heating costs or that the City was recovering all direct operating costs for the OFM. The reduced rates in the separate agreement continued to be used for the 2016 and 2017 indoor market seasons.
- d. While OFM was required to reimburse utility costs for the outdoor markets, there was no evidence that utilities were recovered from OFM.
- e. The Lansdowne agreements did not include a process to deal with issues that are not specifically covered in the agreements.

To address the areas of improvement above, the original Audit of the Management of the Lansdowne Contract Program provided 17 recommendations for implementation by the City of Ottawa. The follow-up to the 2017 Audit of the Management of the Lansdowne Contract assessed the status of completion for each recommendation, results of which are summarized in the table below. Details on the assessment are included in the detailed report.

Table 5: Summary of status of completion of recommendations

Recommendations	Total	Complete	Partially Complete	Not Started	Unable to Assess
Number	17	6	9	1	1
Percentage	100%	35%	53%	6%	6%

Conclusion

The Lansdowne Partnership Plan is one of the largest projects that the City has ever undertaken. It is based on a 30-year closed financial system, or waterfall, entered into with OSEG and other partners in 2012. The site transitioned from “construction” to operational” in Q3, 2014. The City’s Recreation, Cultural and Facility Services (RCFS) department has overall responsibility for Lansdowne Park.

This P3 is governed by approximately 30 complex legal agreements. The authority within the City that is responsible for the administration of the contract and for monitoring and evaluating contract performance during the operation phases of the project has a significant responsibility that is crucial to ensure that the City retains value for money during the whole life of the contract. P3 project risks related to asset operation and maintenance remain relevant and can be quite significant in cases where high-value long-term contracts have been entered into.

This is particularly important in the current environment:

- *“Based on the updated 30-year pro forma, over the life of the partnership and from Partnership cashflow distributions, OSEG is not expected to recoup a total of \$69 million of interest/funding and the City would not receive \$62 million of accrued interest on its deemed equity.”⁶*
- After less than 6 years of operation, based on OSEG’s current forecasts, there will not be sufficient cash flow for the City to receive its expected return on investment.

Operations phase risks can pertain to the clarity of project agreements or to the City’s capacity for monitoring long-term contracts. A common risk for P3s may arise from the departments putting in less effort in the monitoring of the operations phase of P3 projects and also have less expertise available than for previous project phases. As a result, there may be a lack of monitoring experience, which will adversely affect the oversight of projects.⁷

⁶ Pg. 21, FEDCO Report 9, 1. Lansdowne Partnership Plan Annual Report.

⁷ Auditing Public-Private Partnerships – A Discussion Paper © 2015 CCAF-FCVI Inc. (now the Canadian Audit & Accountability Foundation)

Follow-up to the 2017 Audit of the Management of the Lansdowne Contract

The Lansdowne public-private-partnership has been in its operational phase for six years now. Significant issues were identified three (3) years ago in the original audit related to adequate oversight over quality of service and management of risk for this important City asset. While it was found that management has completed six (6) recommendations, during the follow-up we found significant deficiencies related to a number of recommendations, including recommendations related to the responsibility and accountability for monitoring compliance, reporting requirements and the receipt of contract deliverables. While the City has developed some tools for managing agreement deliverables, there is significant room for improvement in how deliverables are monitored and tracked.

We found that while RCFS has developed a departmental Risk Management Framework and operational risk register for the Lansdowne agreements, the City is not effectively identifying, analyzing, mitigating and monitoring risks for the Lansdowne agreements.

We also found that the City did not provide evidence to demonstrate effective monitoring of lifecycle plans for the Lansdowne stadium and parking structures at the time of the audit cut-off date of October 31, 2019. Since then, the City has begun to draft process documentation (e.g. flow charts) and developed a spreadsheet to document the 5-year Lifecycle Plan for 2019-2024. This spreadsheet does not include detailed monitoring and tracking of the previous period (2014-2018). Deferred amounts from the previous period have been included, however the document does not include any documented information on actual performance and evidence of monitoring for the 2014-2018 and 2019-2024 periods. If the City does not implement a process to effectively monitor lifecycle plans for the stadium and parking structure, there is an increased risk that the required repairs may not be completed and/or not completed within required timeframes. This may result in additional repairs being required for the stadium and parking structure to remain useful throughout their expected life or result in a situation where the Lifecycle Fund may be insufficient to meet the lifecycle needs of the assets.

It was recommended in the original audit that the City take action to ensure that trust accounts are set up as agreed in the Stadium Lease and the Parking Structure Reciprocal Agreement. We found that OSEG has set up Capital Replacement Fund (CRF) accounts for the stadium and parking structure which are not formal trust accounts. We reassert our recommendation that the City ensure that the accounts are

Follow-up to the 2017 Audit of the Management of the Lansdowne Contract

converted to formal trust accounts or that appropriate assurances are to put into place in the Lansdowne agreement(s) in order to mitigate risks and effectively protect the funds from misuse and other creditors.

The City has also not yet obtained proof of insurance for the parking structure for the residential condominium.

Finally, while it was found that the City's P3 Guidelines were reviewed and include specific instructions for employees responsible for P3 projects, City staff would require a baseline of knowledge and experience in managing infrastructure and/or service contracts to successfully leverage the P3 Guidelines. Therefore, we suggest that the City consider developing a P3 Management Framework that includes a P3 Centre of Expertise.

It was also found that the existing definition of a P3 within the P3 Policy is unclear as evidenced by our evaluation against an existing infrastructure project. We also advise that the City review and revise the P3 Policy to provide clear criteria for the classification of P3s and that the P3 Policy include a requirement for the City to formally evaluate and document agreements similar in nature to P3s against this criteria. This would ensure that the City could support decisions relating to the classification of future opportunities (i.e. P3 vs. non-P3) and provide clear direction with respect to the management/oversight and applicable accounting requirements relating to each initiative.

Recommendations and responses

Recommendation:

It is recommended that the City ensure that the accounts are converted to formal trust accounts or that appropriate assurances are to put into place in the Lansdowne agreement(s) in order to mitigate risks and effectively protect the funds from misuse and other creditors.

Management response:

Management agrees with this recommendation.

As described in the report Finance is looking for an alternative to a Trust Account structure that will also protect the funds. Finance staff have been working closely with the OSEG Chief Financial Officer and legal counsel and, with the City's legal counsel to

Follow-up to the 2017 Audit of the Management of the Lansdowne Contract

identify possible solutions to this issue. This may require an amendment to the Lansdowne agreement or the researching of options for other available financial mechanisms. The time to research options and make the necessary changes is expected to be complete by Q1 2021.

Recommendation:

The City should develop a P3 Management Framework and establish a centralized Centre of Expertise to effectively manage P3s and ensure a consistent approach is used to identify, evaluate, execute and monitor P3 opportunities and arrangements. The framework should include P3 specific Governance Structure, Strategy and Objectives, Policy, Guidelines, Procedures, Centre of Expertise (including roles, responsibilities and knowledge requirements for resources), procurement processes, Contract/Project Management Framework, Risk Management Framework and Performance Monitoring and Measurement Framework. A formal P3 Management Framework would help to ensure that the City's P3 practices are aligned with industry leading P3 practices and the applicable accounting standards (i.e. Public Sector Accounting Board (PSAB)) and support an effective, consistent, transparent approach to the management and accounting for P3 arrangements.

Management response:

Management agrees with this recommendation.

Under the current governance structure, once the P3 project is operational, an Executive Sponsor is appointed. The Executive Sponsor (a member of the City's senior leadership team) is responsible for oversight of the P3 from implementation to conclusion. An accountability matrix is developed, which identifies the financial, legal, asset management, real estate, operational oversight, monitoring and reporting requirements. Corporate resources are housed within their respective areas of expertise. Management of the ongoing relationship and monitoring of service delivery resides in the operational department responsible for the service mandate. This has proven to be the most efficient and effective arrangement for real time management of P3 projects. Subject matter specific P3 expertise is provided by external consultants on an "as and when required" basis.

The City also has an Enterprise Risk Management Framework and Policy, which were designed to create a risk-aware corporate culture where the management of risks is integrated into the operations and administration of the City. This Policy applies to all

Follow-up to the 2017 Audit of the Management of the Lansdowne Contract

work at strategic, corporate and operational levels including projects and work activities where risk is inherent.

Supply Services has responsibility for P3 policy and expertise in contract administration and recently implemented a number of improved contract administration tools to support departments, including the development of a Contract Administration Policy. Together the P3 Policy, P3 Procedures, P3 Guidelines, and Contract Administration Policy, provide the foundational framework for the consistent identification, evaluation, execution and management of P3 projects as and when such opportunities arise. In an effort to further support staff, the P3 Policy will be updated to provide clearer criteria to help determine what constitutes a P3 and, the requirement to formally evaluate new projects against this criterion.

Management will explore the implementation of technological tools and contract management software available to the City to enhance the usability and tracking of performance management of the obligations outlined in the project Matrix. This work is expected to be completed by Q2 2021.

Additionally, the General Manager of Recreation, Cultural and Facilities Services will consolidate the monitoring function for P3s and similar contracts under a dedicated resource within RCFS by Q2 2021.

Recommendation:

In addition to the P3 Management Framework recommended in the previous section, the City should review and revise the P3 Policy to provide clear criteria for the classification of P3s and that the P3 Policy include a requirement for the City to formally evaluate and document agreements similar in nature to P3s against this criteria. The evaluation should occur during the Project Assessment Phase of the initiative to ensure that the appropriate procurement process(es), reporting requirements and agreement(s) are identified before formal planning begins.

Management response:

Management agrees with this recommendation.

The Innovative Client Services Department will review and revise the P3 Policy to provide clear criteria for the classification of P3s by Q2 2021.

Acknowledgement

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

Follow-up to the 2017 Investigation into the Giver 150 Playground at Mooney's Bay Park

The Follow-up to the 2017 Investigation into the Giver 150 Playground at Mooney's Bay Park was included in the Auditor General's 2019 Audit Work Plan.

The key findings of the original 2017 audit included:

- The City did not breach any relevant by-laws, policies, procedures or other applicable requirements
- The City had no clear intake and evaluation mechanism in place to engage in relationships like the one proposed by Sinking Ship Entertainment (SSE)
- There were some weaknesses and lessons learned based on the extent to which the City demonstrated the principles of transparency, accountability and due process. Specifically, related to:
 - documentation of due diligence and related decision-making
 - the process for identifying a potential need for public engagement/consultation.

Table 6: Summary of status of completion of recommendations

Recommendations	Total	Complete	Partially complete	Not started	No longer applicable
Number	3	3	0	0	0
Percentage	100%	100%	0%	0%	0%

Conclusion

As future projects, of similar or of a greater breadth, are not unlikely for the City; it was important that changes be implemented. Management has been proactive in addressing the recommendations of the investigation. All the recommendations have been completed.

Acknowledgement

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

Follow-up to the 2017 Review of the Management of Emergency Shelter Providers – Contract Management

The Follow-up to the 2017 Review of the Management of Emergency Shelter Providers – Contract Management was included in the Auditor General's 2019 Audit Work Plan.

The key findings of the original 2017 review were as follows:

- The City's *Emergency Shelter Standards* ('the Standards') provide shelter operators with a framework for delivering services to an acceptable level. However, they had not been updated since 2005, did not address areas covered in other Ontario municipalities' standards and lacked clarity on what constituted minimum acceptable service.
- The City had up-to-date executed agreements with each shelter provider.
- Required City inspections were occurring on a timely basis, however, gaps in some inspection tools and processes were noted.
- Not all requirements set out in the agreements and corresponding inspection results were being tracked in a consolidated manner.
- Records of the corrective actions taken as a result of inspections were not maintained.
- Based on a review of social assistance information for a sample of shelter clients, where the clients had Ontario Works income, it had been reflected in the national homelessness system used to track client contributions. However, the City did not periodically conduct similar tests or review shelter providers' intake procedures during inspections.
- Based on a review of a sample of the City's payment files for shelter operators, monthly shelter invoices complied with the per diem fee amounts in the agreements. As well, the number of shelter nights provided reconciled to the national homelessness system. However, the City did not have documented procedures to guide staff in completing a number of key financial processes.
- The City had an informal policy to pay shelters in cases where they provided lengthy/intensive services to clients, even if the clients did not stay overnight. Controls over these payments were limited.

Follow-up to the 2017 Review of the Management of
Emergency Shelter Providers – Contract Management

Table 7: Summary of status of completion of recommendations

Recommendations	Total	Complete	Partially complete	Not started	No longer applicable
Number	5	2	3	0	0
Percentage	100%	40%	60%	0%	0%

Conclusion

Management has made good progress in implementing the review’s recommendations. Three recommendations remain partially complete, primarily because while updates to the Emergency Shelter Standards have been drafted, they have not been finalized and approved by Committee and Council. Once this is completed, management will be able to implement other outstanding actions including updating the inspection processes and related checklists. Housing Services also plans to develop and administer a client satisfaction survey independent of the inspection processes.

Acknowledgement

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