

Presentation of the Annual Report of the Auditor General

Pour l'exercice terminé le 31 décembre 2014

Agenda

1. Comments and Recommendations from the Auditor General
2. Overview of the Bureau du vérificateur général
3. Financial Statement Audits
4. Value-for-Money and Information Technology Audit
 - 4.1. Follow-Ups to Recommendations from Previous Years
 - 4.2. Penetration Tests
 - 4.3. Participation of the Société de transport de Montréal in the Société de gestion et d'acquisition de véhicules et de systèmes de transport
 - 4.4. Outsourcing of Telecommunications Services (amended)
 - 4.5. Information Technology Governance
 - 4.6. Management of Purchase Agreements
 - 4.7. Compliance with Laws and By-laws
 - 4.8. Stock Management
 - 4.9. Business Continuity Management
 - 4.10. Collection and Transportation of Recyclable Materials by Direct Labour
 - 4.11. Technoparc Montréal
 - 4.12. Management of Financial Contributions
 - 4.13. Maintenance of Fire Hydrants

2. Overview of the Bureau du vérificateur général

3. Financial Statement Audit

4. Value-for-Money and Information Technology Audit

4.1. Follow-Ups to Recommendations from Previous Years

Follow-Ups to the Recommendations

- As explained in Chapter 1, the situation regarding the implementation of our recommendations mentioned in my 2013 Annual Report did not improve this year
- Our follow-up attests to the fact that the business units must take corrective measures to follow the action plans developed to ensure the implementation of the recommendations within the target three-year period. Indeed, we observed the following:
 - At the end of the third year of follow-up, 19 (8.5%) of the recommendations made in 2011 were confirmed “Not completed”
 - The status of 44 (23%) of the recommendations made in 2012 and 2013 that the business units claimed to have completed in 2014 was reverted to “Under way”
 - 38 (18%) of the recommendations made in 2013 remain “To be done”

4.2. Penetration Tests

Introduction and Purpose of the Audit

Introduction

In order to ensure a reasonable level of confidence in the quality of existing controls for the purpose of reducing to an acceptable level the risk of cyberattacks on the information systems of some of the city's business units and bodies audited by the city, we continued a program of penetration testing during 2014 that we had initiated in 2012

Purpose of the Audit

To test the security of computer environments deemed critical and assess their resistance to a certain level of cyberattack originating both externally and internally

Results of Penetration Tests

Clearly, the results remain confidential

4.3. Participation of the STM in AVT

Introduction and Purpose of the Audit

Introduction

- AVT was created on April 1, 2010, by Québec’s nine public transit corporations (the “partners”). The Société de transport de Montréal (STM) holds 20% of the voting rights for decisions made within AVT
- The management mandate entrusted to AVT focuses on three areas:
 - Management of contracts, including four bus purchase contracts
 - Management of tendering activities leading to the acquisition of urban buses by the partners for the 2012–2015 period
 - Technology watch and technical studies, which are aimed at sustaining the progress achieved by the partners and improving vehicle performance, reliability and safety

Purpose of the Audit

- To ensure that the processes associated with the STM’s participation in AVT are consistent with the legal foundations established
- To ensure that an adequate governance and accountability reporting process is in place in order to identify and manage the associated risks

Main Findings

Legal Compliance of the Partnership Agreement to Form AVT

- AVT's legal status is not clearly established, its legal capacity to work with third parties and to contract on behalf of partners is often challenged

AVT's Management Mandate

- Contributions are paid by transit corporations to AVT without any assurance that AVT is legally recognized as a public body
- The Bureau du vérificateur général did not track down any evidence that the STM had conducted a risk analysis regarding its participation in AVT. No formal presentation on STM's participation in AVT was made to the Board of Directors (BD)
- STM's participation in AVT currently prevents it from offering services to third parties for remuneration
- The lending of employees by the STM to AVT is raising questions about the management and invoicing of the employees on loan

Main Findings

Governance and Accountability Reporting

- No presentation on AVT's partnership was submitted to STM's BD
- No formal accountability reporting documents have been submitted by the STM's director general to its BD since 2011
- No documents ensuring adequate accountability reporting are produced (management charts, strategic plans, financial statements, annual activity reports)

Conclusion

The Board of Directors of the Société de transport de Montréal (STM) does not have a comprehensive, relevant profile of the impact of its participation in AVT, whether in the form of a risk assessment or adequate accountability reporting

4.4. Outsourcing of Telecommunications Services

Introduction and Purpose of the Audit

Introduction

- Awarding of the contracts for wireline telephony¹ and data transmission¹ to TELUS in 2008, with the primary purpose of:
 - ensuring the availability and development of high-performance networks at the lowest cost for the city
 - generating **savings of \$50 million** over a span of 10 years
- **2009–2010 Audit**
 - Deficiencies in the needs definition process, inconsistencies in the outsourcing strategy, discrepancies in the understanding of specifications and a major reorganization of the staff involved in the project, both at TELUS and at the city
- **2011 Follow-Up**
 - Three major issues needed to be resolved to ensure the sound management of the telecommunications services outsourcing project:
 - The failure to update and prioritize strategic objectives meant that there was a significant risk that optimization of the telecommunications services could not be ensured for future contracts

Introduction and Purpose of the Audit

■ 2011 Follow-Up

- The fact that the Direction générale had not implemented a framework that formalized accountability reporting to authorities, combined with the difficulties associated with development of the financial framework, meant that the authorities could only be partially informed about the use of the authorized credits
- The city was unable to ensure compliance with the outsourcing contracts and optimization of the telecommunications services since the successful bidder had not yet provided all the management tools and disaster recovery plans required in the specifications

Purpose of the Audit

To determine whether the issues that were not resolved after our 2011 follow-up were rectified in order to ensure compliance with outsourcing contracts and optimization of telecommunications services

Main Findings

- The issue of compliance with outsourcing contracts and the optimization of telecommunications services has largely been resolved, management tools and a disaster recovery plans having been provided
- However, the issue of updating the vision and setting strategic telecommunications objectives still remains
- As for the issue regarding governance, a formal and systematic process has yet to be defined and implemented
- Moreover, the **project's financial framework** has still not been presented to the authorities and **has a projected deficit of close to \$32 million** by its forecast completion date of November 30, 2018
- The authorized funds for the data transmission contract will likely run out 2 years before its planned expiry. The city may have to award a new contract as early as fall 2016

Conclusion

- Considering the representations made when the contracts were awarded, **it is imperative that the authorities be brought up to speed** as soon as possible **on the status of the project**, including its financial framework

Financial Framework of the Telecommunications Outsourcing Project¹

Expense Category	Amounts granted			Incurred and projected expenses	Difference
	Bid or budget	Contingency (20%)	Authorized funds		
Wireline telephony – Expenses attributable to the TELUS contract	\$31.M	\$6.2 M	\$37.2 M	\$34.0 M	\$3.2 M
Wireline telephony – Expenses not attributable to the TELUS contract ²				\$4.1 M	\$(4.1) M
Subtotal	\$31.0 M	\$6.2 M	\$37.2 M	\$38.1 M	\$(0.9) M
Data transmission – Expenses attributable to the TELUS contract	\$42.1 M	\$8.4 M	\$505 M	\$62.6 M	\$(12.1) M
Data transmission – Expenses not attributable to the TELUS contract ²				\$18.2 M	\$(18.2) M
Subtotal	\$42.1 M	\$8.4 M	\$50.5 M	\$80.8 M	\$(30.3) M
CET	\$22.4 M		\$22.4 M	\$23.1 M	\$(0.7) M
TOTAL	\$95.5 M	\$14.6 M	\$110.1 M	\$142.0 M	\$(31.9) M

Note 1: Unaudited data obtained from the STI and excluding those related to cellular telephony

Note 2: Expenses resulting from incongruities between the scope of the project presented in the decision-making summary and that stated in the contracts, and hence inconsistencies in the specifications

4.5. Information Technology Governance

Introduction and Purpose of the Audit

Introduction

- City authorities indicate their desire to head in a new direction, towards “**Montréal, Smart and Digital City,**” by increasing the use of technology to better serve and inform Montréal’s citizens
- This will involve significant investments in technology infrastructure and a change in culture for those responsible for both information technology (IT) and various services to citizens
- It is imperative that the city be in a position to benefit from an **optimal IT management structure** in order to reduce its risks and contain its costs while ensuring the quality of services

Purpose of the Audit

To determine whether the existing organizational structure and management processes ensure that IT efficiently and effectively supports the city’s mission, strategies and objectives

Main Findings

- Three major external IT studies have been commissioned by the municipal administration over the past 10 years
- The first two studies led to presenting the authorities with an IT master plan, but it was never ratified
- The third study shed light on several major recurring problems and concluded that the city's IT **maturity level** was **1.5 on a scale of 1 to 5**. This level of maturity is characterized by a direction that is **more reactive than strategic**, organizational silos, more or less formal processes, embryonic management of competencies and a non-integrated heterogeneous enterprise architecture
- It is our opinion that the existing organizational structure and management processes do not ensure a sufficiently effective and efficient IT contribution to the city's mission, strategies and objectives

Main findings

Conclusion

At a time when authorities are looking to tighten the city's fiscal framework while enhancing IT's strategic contribution, **we consider that shortcomings in the governance framework carry major risks that:**

- Available resources will not be allocated to the projects that make the greatest contribution to the city's strategic directions
- IT infrastructure and applications will quickly become outdated and require major investments
- The city will not sufficiently benefit from technology innovations that could more efficiently and effectively improve services to citizens
- Service levels will not meet the needs of the business units, thus impeding their ability to achieve their own business objectives
- IT competencies will not match future needs, which could create increased dependency on outside firms
- Authorities will not be sufficiently informed of the IT risks to which the city is exposed and which may result in crisis situations

4.6. Management of Purchase Agreements

Introduction and Purpose of the Audit

Introduction

- The city acquires \$1.7 billion worth of goods and services
- In order to achieve economies of scale, purchase agreements are signed with several suppliers specifying terms (pre-established prices, delivery times)

Purpose of the Audit

- To evaluate the effectiveness of the measures taken by the city to ensure that the business units use the purchase agreements
- To evaluate the extent to which the steps taken in 2014 as part of the “Harmonisation et automatisé du processus d’achat” project promoted the achievement of the procurement policy’s objectives with respect to the purchase agreements

Main Findings

Follow-Up on the Use of Purchase Agreements and Accountability

- Management reports could be produced to verify whether the units use the purchase agreements, but these reports are based on **incomplete data**. The city cannot determine the scope of the purchases made **using agreements and those made not using agreements**
- There is no performance indicator and no accountability mechanism
- The business units **do not always use the purchase agreements**

Mechanisms for Disseminating Information about Purchase Agreements

- A newsletter detailing new purchase agreements is not produced systematically. Moreover, the distribution list is incomplete
- The search engine for identifying purchase agreements cannot be used to identify purchase agreements for specific products

Main Findings

“Harmonisation et automatisation du processus d’achat” Project

- A new role was created during the implementation of the project, that of the “requester,” in addition to those of “purchaser” and “approver”
- There is some confusion among requesters and purchasers as to who is responsible for determining whether a purchase agreement exists

Conclusion

- We have no assurance that the city **benefits fully from the economies of scale** that should be generated by grouping purchases through purchase agreements

4.7. Compliance with Laws and By-Laws

Introduction and Purpose of the Audit

Introduction

In providing activities and services, boroughs must comply with a large number of laws and by-laws. If the city does not comply with the laws and by-laws to which it is subject, it exposes itself to several major consequences, including financial losses, legal actions, public criticism and a negative image.

Purpose of the Audit

We sought to examine all the mechanisms put in place by the boroughs to ensure compliance with the by-laws governing

- Temporary occupancy of the public domain
- The protection of buildings against sewer back-ups

Main Findings

Regulations concerning the temporary occupancy of the public domain

Temporary occupancy of the public domain is forbidden without a permit provided for in the by-law

Applying the Fees for Temporary Occupancy

- We have questions about the **calculations made** (evidence of fee compliance, information on the surface area occupied)

Monitoring of Temporary Occupancy of the Public Domain

- We did not find any evidence that **an inspection had been conducted** after the permit had been issued to ensure that the actual surface area occupied was consistent with that indicated on the permit
- On October 3, 2014, we visited the two boroughs under audit. **For 12 of the 18 temporary occupancies identified, no permit had been issued**

Main Findings

Regulations concerning the temporary occupancy of the public domain (cont'd)

Site safety management

- 7 out of 12 files indicated safety measures on the permit
- No evidence of an inspection following issuance of the permit to ensure the safety of the space occupied
- Out of the **18 cases identified** during the October 3 visit, **16 were partially or fully non-compliant in terms of the safety of individuals**

Updating the Regulations

- Appendix A lists the streets belonging to a **higher fee** category (main arteries, bicycle paths, parking)
- Appendix A was last **updated** in **1997**
- Several streets in our audit do not appear in Appendix A. The fee was therefore set at a **lower rate**

Main Findings

Regulations Concerning the Protection of Buildings Against Sewer Back-Ups

Obligation for citizens to install equipment intended to protect the building against back-ups. The by-law is aimed at

- New buildings
- Buildings where alterations are made to a plumbing system
- Buildings having been affected by a back-up or flood

Application of the By-Law

- The by-law is **not applied for the first two categories**
- For the third category, a **small number** of buildings subject to a claim resulted in a subsequent inspection to ensure that equipment had been installed and is compliant with the regulations

Main Findings

Regulations concerning the protection of buildings against sewer back-ups

Follow-Up to Inspections and Notices of Non-Compliance

- Inspections are carried out several months after the event
- Follow-up times for notices are long, or no evidence of follow-up

Accountability Reporting

- No accountability mechanism (temporary occupancy) and incomplete accountability reporting (by-law on the protection of buildings)

Conclusion

- For the application of the by-law concerning temporary occupancy, several of the elements raised entail major financial losses and cast doubts as to the possible deliberate misappropriation of funds
- For the application of the by-law concerning buildings, we question the fact that only one out of three categories is looked at

4.8. Stock Management

Introduction and Purpose of the Audit

Introduction

- The business units and the boroughs keep goods intended for use during the normal course of business in stores, depots and mobile units. The value of these stored items was \$30 million as at December 31, 2013, which is similar to the value at December 31, 2012 and 2014
- Several documents have been written: the *Procurement Policy*, the *Stock Management Reference Guide*, the *Inventory Accounting guideline* and the *Fiscal Year-End Procedures Guide*

Purpose of the Audit

- To ensure that the management frameworks provided in the four documents are pertinent and well known
- To ensure that stocks are adequately monitored and evaluated and to assess the existing security measures

Main Findings

Stock Management Framework and Supporting Documents

- Four documents, two issued by the Service de l'approvisionnement and two by the Service des finances, provide the framework for stock-related activities. Several elements in these documents **overlap**, are **incomplete or are inconsistent** in certain respects
- Several of the stakeholders we met were unaware of the **existence** of one or more of the supporting documents
- Not all of the business units take a **year-end inventory**. In the case of those that did take inventory, we noted that an adequate evaluation could not be made since the **documentation was insufficient**
- The procedures for taking inventory and handling stocks are deficient

Main Findings

Frequency of Physical Counts

- With respect to inventory depots, none of the managers responsible for inventories in the four boroughs audited undertook a physical count in good and due form. Moreover, the boroughs do not have **permanent inventory records**. This significantly increases the risk of **loss or theft**, without it being possible to detect these events, as well as the presence of unidentified obsolete items

Security of Storage Facilities

- During our visits to the stock storage facilities, we noted **shortcomings** with respect to the **protection and surveillance** of the facilities, which increases the risk **of theft** or vandalism

Conclusion

We believe that the documents should be revamped so as to create a unique management framework that will serve to better manage and count stocks. Moreover, improvements must be made to facility security.

4.9. Business Continuity Management

Introduction and Purpose of the Audit

Introduction

- Since essential services must be operational at all times, it is crucially important that the city be prepared for any emergency situation that could cause a shutdown or major disruption in its operations
- The business continuity management process manages this risk
- It should be noted that business continuity management ensures that the city's critical activities are maintained in the event of a disaster, while emergency management measures make it possible to react to a major event with a direct impact on the population

Purpose of the Audit

- To determine whether the city takes the necessary steps to address risks that a disaster could affect its operations, and to ensure the continuity of those considered critical
- Our audit focused on the Direction générale, the Direction de l'eau potable du service de l'eau, the SIM and the SPVM

Main Findings

- **There is no business continuity management plan covering all¹ of the city's critical operations.** Such a plan's essential components are missing or incomplete, including:
 - Frameworks, program structure, analysis of risks and impacts on business, continuity plans and their updates, training and programs

Conclusion

In the event of a disaster affecting essential operations, **the city is exposed to the following risks:**

- The city would undoubtedly **resort to improvised responses**
- It is likely that **all critical activities could not be recovered in a timely manner**
- It would be **difficult to maintain essential services** to citizens, which could have serious consequences on their wellbeing.

Note 1: The SIM's communications centre as well as the SPVM's 9-1-1 Emergency Centre and its Information Processing and Command Centre have a continuity management plan.

Main Findings

Overall result for each risk area and business unit

DEP: Direction de l'eau potable
SIM: Service de sécurité incendie de Montréal
STI: Service des technologies de l'information
SPVM: Service de police de la Ville de Montréal

Risk Area	Inherent Risk	Residual Risk (Direction générale, DEP, SIM, STI)	Residual Risk SPVM (9-1-1, IPCC, OCs)	Residual Risk SPVM (Other "services covered")
Governance	MODERATE	MODERATE	LOW	MODERATE
Business continuity program structure	HIGH	HIGH	MODERATE	HIGH
Crisis management structure	CRITICAL	HIGH	LOW	LOW
Business impact analysis and business continuity strategies	HIGH	HIGH	LOW	HIGH
Business continuity plans and procedures	CRITICAL	CRITICAL	LOW	HIGH
Business continuity training	HIGH	HIGH	LOW	HIGH
Business continuity exercise programs	CRITICAL	CRITICAL	LOW	HIGH
Updating business continuity documentation	HIGH	HIGH	MODERATE	HIGH

4.10. Collection and Transportation of Recyclable Materials by Direct Labour

Introduction and Purpose of the Audit

Introduction

- Boroughs can choose either to handle the collection of recyclable materials internally by direct labour or to contract out the work. Since 2009, four boroughs have chosen to do this work internally

Purpose of the Audit

- To ensure that the boroughs' decisions to handle recyclable materials collection by direct labour are supported by rigorous, conclusive analyses
- To consult the 15 other boroughs to determine why they choose to contract out residual materials collection

Main Findings

Analyses supporting the decision to transfer recyclable materials collection to direct labour

- Ahuntsic-Cartierville borough conducted a study based on labour and social security costs for blue collar workers as well as equipment and fuel costs. **This analysis is incomplete.** The costs of handling this type of collection by direct labour rose by 64%
- Le Plateau Mont-Royal borough produced an **incomplete cost analysis** (omitting equipment maintenance, fuel, overtime). From 2008 to 2010, costs dropped by 5%, **but not all associated costs were taken into account**
- For Le Sud-Ouest borough, costs associated with collection by direct labour rose by 60% from 2008 to 2009. A change in the mode of operation was made in 2012, but the results are **difficult to compare**
- Villeray–Saint-Michel–Parc-Extension borough saw its collection costs decrease from \$1.8 million to \$1.7 million from 2008 to 2009

Main Findings

Operational Performance and Evaluation Mechanisms and Accountability Reporting Mechanisms

- For boroughs that have decided to handle collection by direct labour, no mechanisms have been established to monitor **changes in performance resulting** from this switch. **Actual costs** are not taken into account and **no performance monitoring criteria** were defined. No comprehensive accountability reporting mechanism was defined

Conclusion

The decision to handle recyclable materials collection by direct labour was not based on an **exhaustive analysis** of all the factors to be considered (OHS, qualitative factors). For two boroughs, spending decreased. For two other boroughs, costs increased but we have no assurance that all **relevant costs** were taken into account

We also contacted the other 15 boroughs and, in their opinion, **it would be more expensive to handle this work internally** than to contract it out

4.11. Technoparc Montréal

Introduction and Purpose of the Audit

Introduction

- Technoparc Montréal (TM) is a major industrial park whose mission is to ensure real estate development by attracting high-tech companies
- Special zoning was enacted for the R&D mission
- The city makes an annual contribution of \$2.6 million

Purpose of the Audit

- To ensure compliance with the terms and conditions of the management contract between the city and TM for the payment of the annual contribution
- To examine the management frameworks regulating TM's activities

Main Findings

Follow-Up on the Management Contract and Accountability

- The city has **not designated a person responsible** for monitoring compliance with the contract and the communications that TM must transmit
- No accountability mechanisms are in place to enable the city to monitor TM's performance (economic benefits)

Compliance of the Composition of TM's Board of Directors (BD)

- The composition of the BD is not compliant with the letters patent: only one representative is appointed by the city as an administrator
- **One elected official sits on the BD** (potential conflict of interest)

Compliance with Rules of Ethics and Professional Conduct

- Three situations were identified in connection with these rules
 - The chair of the BD was remunerated for establishing the responsibilities of oversight committees
 - A contract was awarded to an administrator's law firm
 - The BD awarded the CEO (who sits on the BD) a commission on land sales

Mains Findings

Staff Expenses

- Several expense reports submitted by the CEO or Vice-President of Finance did not include any evidence that the expense was approved, or they were approved by someone other than the person authorized
- Some cheques were signed by one person instead of two
- Supporting documents provided were inadequate or missing

Work Contract of the CEO

- The CEO's annual base salary was \$200,000 plus several benefits such as commissions on land sales
- The CEO's car allowance was generous (\$15,000/year)

Main Findings

Land Sales

- From 2012 to 2014, five lots were sold, including three to the same real estate promoter
- Sale prices must be between the minimum price and the “desired” or asking price. The lots sold to the promoter were close to the **minimum price**. In addition, we found no documentation to establish sale prices or to validate hypotheses used to increase fair market values
- The three sales made to the promoter **were concluded without including the mandatory** six-month building clause historically included in deeds of sale
- The city is not consulted regarding the sale price

Conclusion

The city does not monitor TM’s activities properly. Our audit also raised questions in the areas of sound governance and adequate thoroughness

4.12. Management of Financial Contributions

Introduction and Purpose of the Audit

Introduction

- The financial contributions allocated by the city to organizations other than the AMT, the CMM, CLDs, CDECs and municipal organizations audited by the Auditor General totalled \$99 million in 2013
- The city also supports organizations' activities through non-monetary contributions
- An agreement is usually signed

Purpose of the Audit

- To ascertain the extent to which the contributions made had been monitored to ensure that the organizations complied with the law and that the allocated sums had been used for the intended purposes

Main Findings

Compliance with Section 107.9 of the *Cities and Towns Act* (CTA)

- 12% of the organizations (6 out of 49) did not comply with Section 107.9 requiring organizations receiving \$100,000 or more to produce audited financial statements and provide a copy to the auditor general
- The city has **no monitoring mechanism to this effect**

Contributions of Goods and Services

- The value of non-monetary contributions must be **estimated and added to the value of the monetary contributions**. This is currently not the case

Business Units' Management of Financial Contributions

- **No agreement** existed for 6 of the 54 contributions audited (nature of the support, terms and organization's obligations)
- **Measurable objectives** making it possible to determine how the sums were used by the organizations had been set for only 22 contributions out of the 54

Main Findings

Business Units' Management of Financial Contributions (cont'd)

- Several organizations were under no obligation to meet **appropriate accounting obligations**
- In several cases, there are no provisions describing **the nature of the reports** required by the city
- In several cases, sums are allocated **upon signing** of the agreement, before any of the expected outcomes have been achieved
- In most cases, the city is not able to obtain the assurance that the contributions made **are used for the intended purposes**. Monitoring mechanisms for this purpose are **ineffective or lacking**
- Elected officials and city employees sit on BDs

Conclusion

In light of the shortcomings identified, the city is not able to obtain the assurance that contributions made are used for the intended purposes

4.13. Maintenance of Fire Hydrants

Introduction and Purpose of the Audit

Introduction

- 31,000 hydrants are located on the territory of the agglomeration
- The Service de l'eau (SE) handles fire hydrant maintenance
- According to information provided by boroughs, the SIM must know which hydrants **are operational and which hydrants are not operational**

Purpose of the Audit

- To ensure that the SE has an accurate overall picture of fire hydrant maintenance so that it can show that boroughs are complying with both current standards and those established by the city
- To ensure that the Service de sécurité incendie de Montréal (SIM) has reliable information on the condition of fire hydrants and their available flow
- Four boroughs were covered by the audit:
 - LaSalle
 - Rivière-des-Prairies–Pointe-aux-Trembles (RDP-PAT)
 - Ville-Marie
 - Villeray–Saint-Michel–Parc-Extension (VSMPE)

Main Findings

Fire Hydrant Maintenance Standards

- Boroughs do not have **specific objectives** for fire hydrant repair and replacement
- The use of **standard inspection sheets** (deficiencies, restoration priority) is not required, and no precise definition of categories of restoration priorities is given
- Difficulties in determining **out-of-service hydrants**
- The SIM is at risk of not having an accurate profile of operational and out-of-service fire hydrants

Planned Fire Hydrant Inspections

- Ville-Marie borough conducted only **5% of the complete inspections** required in 2013
- RDP-PAT has no objectives for partial inspections
- With such results, it is not possible for the SIM to have an **accurate profile** of the condition of fire hydrants

Main Findings

Corrective Maintenance of Fire Hydrants

- The categories of priorities for correcting deficiencies detected are not used in the same way from one borough to the next
- **Repair times** following the discovery of a deficiency are **troubling**:
 - Between 26 and 72 days, depending on the borough
 - 40% of fire hydrants that were out of service in 2013 were repaired in 2013
 - In Ville-Marie borough, some hydrants have been out of service since 2012
 - 30% of the repairs carried out were not entered in the AMM application
- Considering the importance of emergency responses, these findings are troubling, and they mystify us

Staff Qualifications

- There is no proof that all employees performing maintenance or repair work on fire hydrants have the **required skills**

Main Findings

Profile of the Condition of Fire Hydrants Available to the SE

- Because of deficiencies in the areas of inspection activities and entry of repair data in the AMM application, the SE does not **have an up-to-date profile** of the condition of fire hydrants
- There are **troubling discrepancies** between the repair data available to the boroughs and the repair data entered in the AMM application
 - 32 hydrants known to be out of service by 4 boroughs were not known by the SE
 - The SE identified 33 out-of-service hydrants not recognized as such by boroughs

Profile of the Condition of Fire Hydrants Available to the SIM

- **Significant discrepancies** were identified between the information on out-of-service hydrants available to the four boroughs and the SIM's information:
 - The boroughs detected 56 out-of-service hydrants, whereas the number of out-of-service hydrants known to the SIM was 72
 - Only 12 hydrants were recognized as out of service by both parties
- This situation **compromises** response time and efficiency

Main Findings

Profile of the Condition of Fire Hydrants Available to the SIM

- Hydrants must provide a flow rate of 1,500 L/min for 30 minutes
- The SIM does not have comprehensive, **up-to-date information in this area**. Of note, Ville-Marie borough has not taken any pressure measurements since 2011, which is very troubling, given the borough's strategic situation
- The SIM does not have a **comprehensive profile** of the condition of hydrants in related municipalities or private fire hydrants

Accountability

- **There is no accountability reporting** between boroughs and the SE and between the SE and the SIM

Conclusion

We noted serious deficiencies in the inspection and repair of fire hydrants

1. Comments and Recommendations from the Auditor General

Responses of the Authorities to the Auditor General's Audit Reports

- We note that, over the past years, the Commission permanente sur les finances et l'administration (CPFA) has issued recommendations on specific topics addressed in the auditor general's annual report instead of on the audit reports as a whole
- In turn, for the years during which the executive committee (EC) issued a response to the CPFA's recommendations, we note that it did not issue opinions on the audit reports as a whole contained in the auditor general's annual report
- The councils acknowledge the CPFA's recommendations and the EC's response, but no authority actually issues an opinion on its intention to implement the auditor general's recommendations

I recommend that the Direction générale take action with the authorities to have them issue an opinion on each audit report contained in the auditor general's public annual report to reinforce the follow-up process and increase the rate of implementation of the recommendations.

Rate of Implementation of the Recommendations Issued by the BVG

- Based on my 2013 Annual Report, the CPFA issued recommendation R-1 stipulating among other things that the city's administration see to following up on the auditor general's recommendations in accordance with the new performance targets set by the Direction générale:
 - 70% of the recommendations issued must have been implemented by the end of the first year after they were issued
 - 90% of the recommendations issued must have been implemented by the end of the second year after they were issued
- In response to this recommendation filed with the councils in December 2014, the EC questioned the relevance of setting such performance targets and asked that the Direction générale implement the relevant recommendations made by the auditor general by order of priority and at a pace that would optimize city management
- I must first point out that it is exceedingly rare that business units do not follow our recommendations

Rate of Implementation of the Recommendations Issued by the BVG

- Also, priorities are already established when the business units prepare their action plans in response to our audit reports. These action plans describe the actions proposed by the business units to address the deficiencies underlying our recommendations in accordance with a timeline that takes into consideration the scope of the required measures and the risks involved
- I maintain that the targets of 70% and 90% remain valid interim indicators for the purpose of globally assessing the extent to which the municipal administration is progressing towards the implementation of 100% of the recommendations within a three-year horizon
- A result that is significantly lower than the targets indicates that the business units are not fulfilling the commitment set out in the action plans they previously provided to us
- The situation has not improved this year compared with the situation described in our 2013 Annual Report

Rate of Implementation of the Recommendations Issued by the BVG

- Indeed, the rate of implementation at the end of the first year of follow-up, as indicated in this annual report, is only 44% and was only 43% in last year's annual report, compared with the target of 70%
- Furthermore, the rate of implementation at the end of the second year of follow-up is only 65% for the recommendations made in 2012, compared with the target of 90%

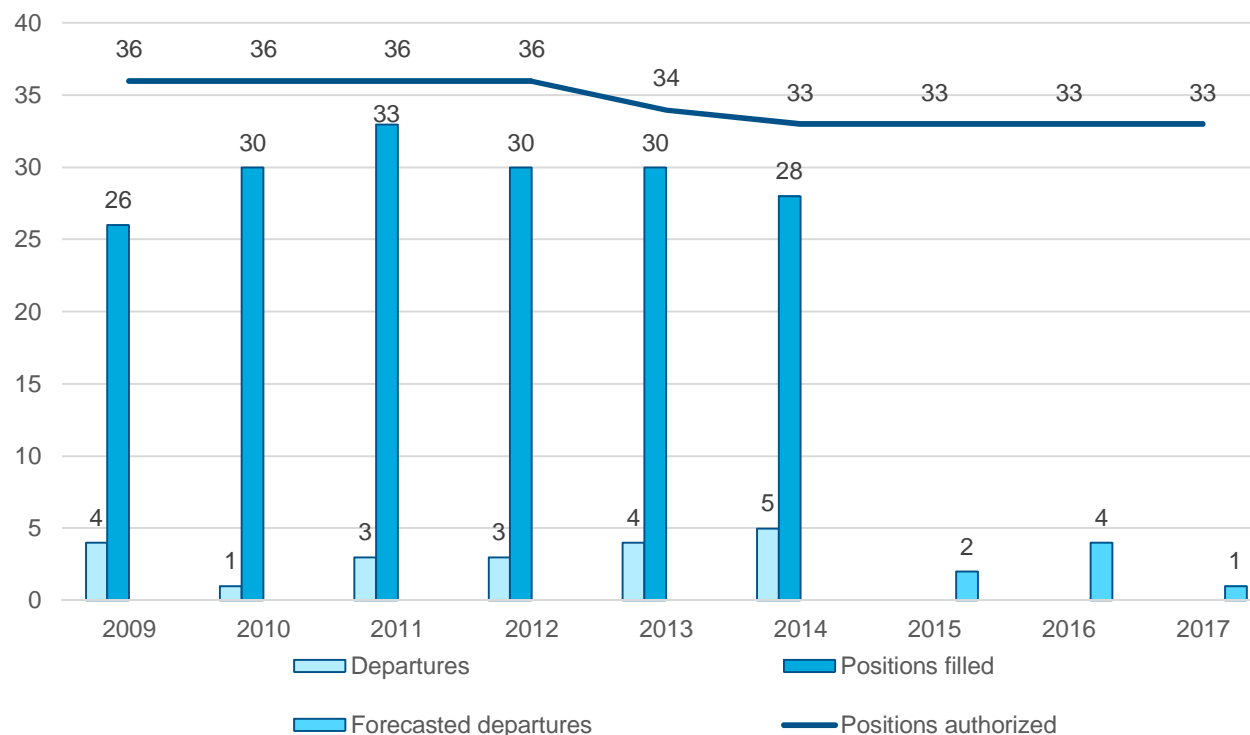
I recommend that the Direction générale:

- **Take action as required under the circumstances to ensure that the business units fulfil their commitments as described in their action plans to ensure the implementation of the auditor general's recommendations**
- **Provide the councils, in response to expressed needs, with accounts on the follow-up of the auditor general's recommendations to enable them to fulfil all of their governance responsibilities**

Maintaining the BVG's Expertise

- As repeatedly mentioned in previous annual reports, attracting and retaining competent resources is an ongoing challenge for the BVG

Evolution and Forecasting of BVG Workforce from 2009 to 2017



Maintaining the BVG's Expertise

- We note that:
 - positions were vacant at the end of 2009, 2010, 2011, 2012, 2013 and 2014;
 - five positions were vacant on December 31, 2014;
 - seven departures are planned from 2015 to 2017, including three of the four members of the BVG's management team.
- This situation seriously threatens our ability to play our role as watchdog of the city's public finances on behalf of elected officials and citizens, all the more so given that:
 - the most recent hiring campaigns produced disappointing results—even disastrous in some cases;
 - the qualified staff that my office requires is difficult to find and in high demand in the private and public sectors;
 - the overall remuneration that we are able to offer is not very competitive compared with our reference market
- **I asked for the support of the Service des ressources humaines to help my office find solutions to the complex issue of maintaining the BVG's expertise**

Internal Control Deficiency – Audit of the City’s 2014 Financial Statements

- During our audit of the city’s consolidated financial statements, we detected a significant misstatement involving the balances presented in the audited 2013 financial statements concerning a non-compliance with respect to environmental protection legislation
- The 2013 amounts presented for comparative purposes in the 2014 financial statements were adjusted by \$65 million to take into account the environmental liability and related expense
- This adjustment shed light on a flaw in the city’s financial statement closing process. The channels that ensure the communication of all of the information required to prepare reliable consolidated financial statements were not effective

This lack of internal control was the subject of a recommendation that I made to the Service des finances jointly with our joint auditor

Government Transfers

- There are diverging interpretations within the accounting profession as to the application of section PS 3410, which deals with government transfers, namely with respect to recording multiyear instalments received from the Québec government
- Following my audit of the city's financial statements, I produced an unqualified opinion whereas our joint auditor added a qualification, given our diverging interpretations as to the application of this section
- In the case of the audit of the financial statements of the STM, the opposite occurred because the STM does not record multiyear instalments as receivables.
- It would be desirable for the STM to adopt the city's accounting methods for recording transfer payments

I recommend that the Direction générale, together with the director of the Service des finances, approach STM's senior management to request that the STM adopt the city's way of recording government transfers