



1.

OBSERVATIONS OF THE AUDITOR GENERAL





1.1. A CHANGING ENVIRONMENT

1.2. OUR PRIORITIES

1.3. SUMMARY OF AUDIT WORK PERFORMED IN 2017

1.4. ACKNOWLEDGEMENTS

1. | OBSERVATIONS OF THE AUDITOR GENERAL

1. OBSERVATIONS OF THE AUDITOR GENERAL

1.1. A CHANGING ENVIRONMENT

For over 15 years, the *Cities and Towns Act* (CTA) has entrusted the Auditor General with the role of conducting the financial audit, the laws and by-laws compliance audit and performance audit for the Ville de Montréal (the city) and the paramunicipal organizations, to the extent deemed appropriate by the Auditor General. Bill 155, tabled by the Ministre des Affaires municipales et de l'Occupation du territoire (MAMOT) on December 2017 and adopted in spring 2018 by the National Assembly, makes a series of changes, in particular to the role and the scope of the Auditor General's interventions for cities with at least 100,000 inhabitants, and introduces new stakeholders for the performance audit of cities with fewer than 100,000 inhabitants.

With regard to the role of the Auditor General, Bill 155 removes the obligation to conduct a financial audit of the municipality and the paramunicipal organizations, leaving it to the Auditor General's discretion to continue to do so to the extent it is considered appropriate. I deem it appropriate to pursue our financial audit work for the city, to the same extent as before. For the paramunicipal organizations, we will pursue our financial audit work and our interventions will take the related risks into account. Furthermore, it is clear that the financial audit work is complementary to the compliance and performance audits, and that it also allows us to identify potential compliance and performance audit mandates. The expertise of the resources within the Bureau du vérificateur général de la Ville de Montréal (BVG) provides a valuable contribution to this process for the city.

We will also have to take into consideration in our audit plans (financial, compliance and performance) the expansion of the scope of the Auditor General's interventions with all the organizations now covered by *sections 107.7 and 107.8* of the CTA. Bill 155 has expanded the scope of the Auditor General's interventions with any organization for which the majority of the members of its board of directors are members of the council or are appointed by the municipality, for which its budget is adopted or approved by the municipality, that is more than 50% funded by the municipality and that has an income of \$1 million or more, that is the mandatary or agent of the municipality or that is designated by the MAMOT Minister as being subject to municipal contract rules and that has its main place of business in the territory of the municipality. The difficulty resides in identifying these organizations and operationalizing the new provisions introduced by Bill 155. Since the city will have to take variable quantitative factors into account (the dollars paid by a municipality and the total income of the organization), the list of target organization may change from year to year. This will make the Auditor General's work more complex in terms of the annual and long-term planning of its audit work, and it will complicate the city's work as well, as the organizations will now be subject to a set of new rules, in particular related to the adjudication and oversight of their contracts.

At the time of writing these observations, we had a number of questions about the interpretation and operationalization of the provisions of Bill 155. Clarifications from the authorities are required. We will have to receive answers quickly in order to take the actions required to finish planning our audit work for the years ahead. Regardless of the answers to our questions, the new provisions in Bill 155 will have a financial impact for the city and its inhabitants.

1.2. OUR PRIORITIES

In 2017, we have undertaken the development of a strategic plan to guide our actions for the next five years. This plan is centred on three main strategic directions: increasing the value-added of our interventions, ensuring the sustainability of the BVG team's competencies and implementing innovative practices to guarantee the quality of our work. We delayed the finalization of the plan to take into account the impact of Bill 155 on our planning.

In terms of human resources, we reviewed the structure of the BVG and took steps to recruit three senior auditors. In the next few months, we will begin hiring for other positions. We intend to fill the positions with competent resources whose expertise will help maintain the high quality of our work, produce value-added reports and provide to the next generation of BVG staff.

We have also undertaken a set of projects to review the way the BVG is organized, to bring us into line with the new standards and develop best practices to automate our records.

1.3. SUMMARY OF AUDIT WORK PERFORMED IN 2017

In this section I summarize the work done by the BVG in 2017 and highlight the important aspects of each file.

1.3.1. FINANCIAL AUDIT

I issued unqualified auditor's reports for the city's consolidated financial statements as at 31 December 2017, the breakdown of mixed expenditures and the city's overall tax rate.

At the time of filing this report I had issued ten independent auditor reports on the financial statements as at 31 December 2017 of the organizations for which the Auditor General acts as auditor under the provisions of section 107.7 of the CTA.

1.3 2. COMPLIANCE WITH LAWS AND BY-LAWS

LEGISLATIVE COMPLIANCE OF ORGANIZATIONS THAT RECEIVED A GRANT OF AT LEAST \$100,000 IN 2016

As at March 31, 2018, the BVG had received the audited 2016 financial statements from 206 (95.4%) of the 216 organizations subject to this CTA requirement, for a total of \$141.6 million.

The city must continue its awareness efforts with the organizations in question concerning the requirements of section 107.9 of the CTA and resolution CM 13 1157, which requires them to submit an annual report every year, among other things.

1.3.3. VALUE-FOR-MONEY AND INFORMATION TECHNOLOGY AUDIT

We completed nine mandates for the year 2017.

HOUSING SUBSIDY PROGRAMS

In October 2014, the city council adopted new by-laws supporting five housing subsidy programs, demonstrating its desire to provide financial support for property acquisition and residential renovations.

The targets established for the 2014-2017 Plan to Keep Families in Montréal, which involves the majority of the housing subsidy programs, have not been reviewed since their approval by the executive committee, despite the evidence that they will not be achieved since the withdrawal of the government's Programme de rénovation Québec.

The housing subsidy programs are not guided by objectives formulated in measurable terms, which does not allow for accountability on the results actually achieved, in order to make an informed decision about the direction the city should take with regard to housing.

The current subsidy programs budget monitoring method in the city's accounting system does not take into account the commitment of subsidies when they are approved.

It should be noted that the Government of Québec confirmed the transfer of responsibilities for housing matters and the related budgets in the *Act to increase the autonomy and powers of the Ville de Montréal* (Bill 121 – September 2017).

ORGANIC WASTE MANAGEMENT

The *Environment Quality Act* sets the guidelines for waste management and in particular stipulates that every regional municipality must establish and enforce a plan de gestion des matières résiduelles. It also states that each local municipality must take

the necessary measures to implement this waste management plan in its territory. Diverting organic waste from landfill sites is an enormous challenge for the city, given that a large part of its territory (the East sector) is made up of 15 of the 19 boroughs and that food waste represents 60% of the organic waste being generated. Unlike recycling green residues, recycling food waste could be difficult for residents to accept because of the inconveniences it creates.

Even though significant sums and efforts have been invested, it is clear that the government target is a major environmental issue and a big challenge for the city. The most recent overview on residual materials for the Montréal agglomeration revealed that the recovery rate for organic waste was 20% in 2016, far below the government target of 60% by 2025.

The city will have to review its organic waste management strategy to comply with the new government requirements and follow up on the timeframes of the various initiatives. To achieve the established goals, sustained efforts will be required to inform the residents, raise their awareness and encourage them to participate.

MANAGEMENT OF CITIZEN REQUESTS AND COMPLAINTS

Among the many organizational challenges the municipal administration has to face, the quality of the services offered to the public is a defining issue. Since the creation of the 311 service in 2007, the city has continually made changes to offer better quality service to its citizens.

Despite the efforts made, the municipal administration needs to take the further steps to ensure that all business units support the improvement of the services offered to the citizens and encourage the application of recognized service standards, no matter where the borough is located in Montréal. To facilitate this approach, the boroughs and the central departments should establish a shared citizen service agreement that specifies the level and quality of the services to be provided.

SNOW MANAGEMENT

The city removes over 13,000,000 m³ of snow from roads and sidewalks each winter. It has 28 snow disposal sites: 12 surface sites and 16 sewer chutes. In compliance with the *Regulation respecting snow elimination sites*, the city had to obtain an authorization certificate from the Government of Québec to use these sites. To this end, it undertook not to exceed certain maximum quantities of accumulated snow at the surface dump sites, to conduct environmental monitoring of groundwater and meltwater and to carry out annual maintenance work on these disposal sites.

Although the city is formulating a plan for the use of snow disposal sites, and environmental monitoring is to be carried out while the boroughs are to maintain the surface

sites, the snow disposal strategy is practically the same from year to year, with no effort to optimize total snow disposal costs and to comply with regulatory requirements. As the city is not aware of the environmental monitoring commitments related to all the authorization certificates, it cannot confirm whether the snow disposal meets their environmental requirements. The maintenance of surface sites is not documented and for almost three-quarters of the surface sites and all the sewer chutes, maintenance requirements as set out in the authorization certificates are not known.

LEAK SEARCH PROGRAM

One of the commitments of the *Politique nationale de l'eau* (2002) was to develop the *Stratégie québécoise de conservation d'eau potable* which makes all financial assistance conditional on the adoption of measures to conserve drinking water and reduce leaks.

Although several actions have been taken by the city in recent years, the potential water loss rate over the agglomeration still remains high following the adoption of the *Stratégie québécoise d'économie d'eau potable* by the government (2011) and the *Stratégie montréalaise de l'eau* by the agglomeration council (2012). The existing Leak Search Program does not optimally reduce leaks in the water network, in keeping with the requirements and chosen orientations.

The roles and responsibilities of all the units involved are not clearly defined. The leak search and location activities are not planned effectively in a way that achieves all the objectives. Located leak repair activities are not included in a work plan based on an established priority and set repair time. Furthermore, the expected benefits and performance of the *Leak Search Program* have not been evaluated.

CYCLING NETWORK MANAGEMENT

In 2008, when the *Plan de transport* was adopted, the agglomeration council made a commitment to double over seven years its cycling network, bring up to standard the existing network and develop a four-season bicycle network. A revised version of the cycling network map was adopted by the urban agglomeration council in January 2015, tripling the 2008 network to a total of 1,280 km. In September 2016, city council made a commitment to the "*VISION ZÉRO décès et blessé grave*" approach. In September 2017, the agglomeration council also adopted the *Plan-cadre vélo* with the objective of increasing the use of bicycles in metropolitan Montréal.

Since 2008, significant efforts have been made to develop the cycling network. Despite this, the new priorities that were recently approved by the authorities (*Plan-cadre vélo*) and the safety (*VISION ZÉRO décès et blessé grave* commitment), land use planning and needs of cyclists' prerogatives are not reflected in the current *Plan du réseau cyclable*, of which nearly 430 km has yet to be developed. Development and upgrade projects are selected based almost exclusively on the number of kilometres.

The people in charge do not have all the required data on the cycling network – that is, on its condition and compliance with standards, on the paths' use and on the type and number of accidents involving cyclists – making it difficult to plan development and upgrades. No minimum maintenance standards for the existing cycling network have been established and approved by the authorities.

STREET FOOD

As the fourth street food season is about to begin, we find that the activity is on the wane. In 2017, six boroughs offered sites for food trucks on their territory. For 2018, currently only three boroughs intend to take part.

If the administration's intention is to maintain or even expand the presence of food trucks in the public domain, the operating conditions and selection process will have to be re-evaluated.

PROTECTION OF PERSONAL INFORMATION – SOCIÉTÉ DE TRANSPORT DE MONTRÉAL

The Société de transport de Montréal (STM) serves over 2.9 million customers, 30,000 of whom use adapted transport, and employs 9,700 people. Through its activities, the STM collects and processes a considerable amount of personal information (PI) about its customers and employees. As such, the STM is subject to the *Act respecting Access to documents held by public bodies and the Protection of personal information*.

The STM has an adequate PI governance structure in terms of corporate and management policies, accountability and awareness of the importance of protecting PI. Although the retention, destruction and protection measures for personal information are generally satisfactory, retention rules and destruction procedures should be established for certain applications, and an anonymization process for PI in the non-production IT environments should be introduced.

FORMULA E EVENT

On July 29 and 30, 2017, electric vehicle races were held in the streets of downtown Montréal (Event). The not-for-profit organization Montréal c'est électrique (MCE), created on October 14, 2016, holds the rights to present the Event.

For the Event, the city granted non-recurring financial support of \$1.75 million to MCE and guaranteed its line of credit, to a maximum amount of \$10 million. It also carried out infrastructure work and offered technical support to the organization. Ultimately, the total expenses actually incurred by the city came to \$26 million.

The Event should have been considered as a major project by the municipal administration, given its complexity and the amounts invested, rather than as a series of one-off

interventions. Although the city adopted a complete *Cadre de gouvernance des projets et des programmes de gestion des actifs municipaux* (CGP) in 2010, clearly it was not followed for the Event. No business files were presented to the authorities, the roles and responsibilities were not defined, no project lead was formally designated and the cost monitoring and accountability reporting were deficient. Applying the CGP would have ensured transparent communications among the stakeholders, effective risk management and optimized use of the financial, material and human resources. Moreover, it would have encouraged the development of a comprehensive vision for the project and adequate accountability for the various authorities.

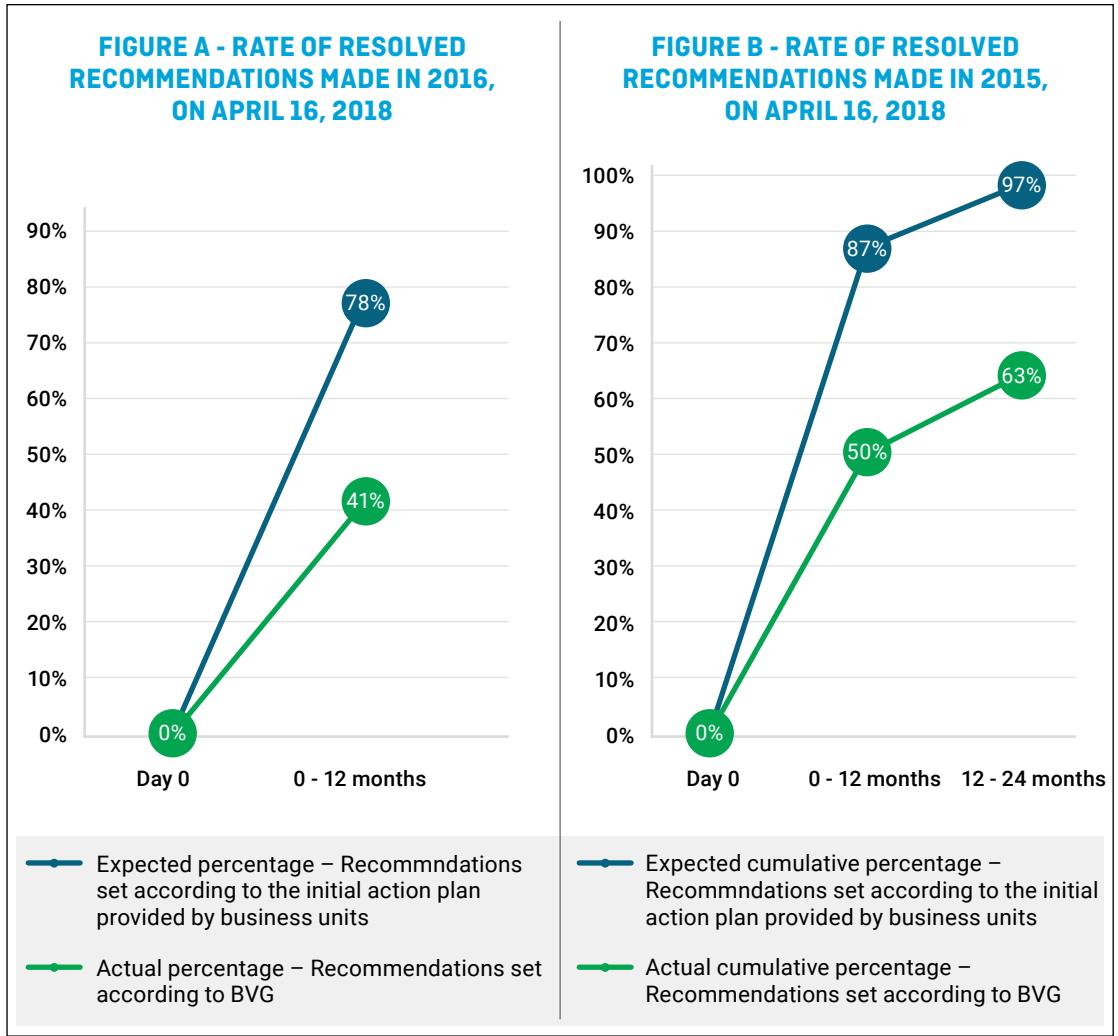
1.3.4. IMPLEMENTATION OF THE RECOMMENDATIONS ISSUED BY THE BUREAU DU VÉRIFICATEUR GÉNÉRAL

Each year, the BVG follows up on the recommendations of the prior year to determine the implementation rate of its recommendations, by central departments and boroughs.

We acknowledge that it is up to the municipal administration to decide whether or not to implement the Auditor General's recommendations.

These recommendations are made with the aim of helping the municipal administration fully carry out its responsibilities and, by extension, encouraging a better use of resources. Moreover, the validation of the audit report by each business unit involved is an integral part of our audit process.

In response to these recommendations, the business unit submits an action plan, including a timeframe for its implementation. Although in nearly all cases, the business units concur with all the recommendations issued by the BVG, a compilation of the most recent follow-up results for each action plan suggests that they are slow to implement them. In fact, just 41% of the recommendations made in 2016 were resolved by the time of our first-year follow-up, whereas according to the action plans provided by the business units, the implementation rate should have been 78% for the performance and information technology audits (see Figure A). Last year follow-up showed a 50% result and as shown in Figure B, it is practically the same for the second-year follow-up.



I am concerned since there are still business units, although fewer than last year, that have not yet made efforts to resolve some of their recommendations, even though the implementation date has issued. Furthermore, about 13% of all “active” recommendations¹ made in 2015 and 2016 were considered resolved by the business units even though, as per our review they were not.

For these reasons, I once again urge the municipal administration to encourage all the business units to fulfil the commitments included their submitted action plans , in order to encourage the implementation of the Auditor General recommendations as per established timeframes and to quickly institute a better use of resources.

I also want to reiterate that the municipal administration should establish performance indicators to measure the degree of implementation of the recommendations included in the Auditor General’s audit reports and follow up on it.

¹ All the recommendations issued in 2015 and 2016, except those that were “resolved” at the time of the follow-up in April 2017.

1.4. ACKNOWLEDGEMENTS

The 2017 report was produced by a competent multidisciplinary team that provides high-quality work. I would like to thank all the members of the BVG team for their excellent work and support.

1. | OBSERVATIONS OF THE AUDITOR GENERAL