



1.

OBSERVATIONS OF THE AUDITOR GENERAL



- 
- An aerial photograph of a city skyline, featuring several tall skyscrapers and a body of water in the background. A large, semi-transparent blue rectangular box is overlaid on the lower half of the image, containing a list of sections in white, bold, uppercase text.
- 1.1. STRATEGIC PLANNING**
 - 1.2. RISK MATRIX**
 - 1.3. IMPACT OF NEW LEGISLATION**
 - 1.4. SPECIAL REQUESTS**
 - 1.5. SUMMARY OF 2018 AUDIT WORK**
 - 1.6. ACKNOWLEDGEMENTS**

1. OBSERVATIONS OF THE AUDITOR GENERAL

In this chapter, I will discuss the various projects we have completed in 2018, provide some comments on topics of interest and review all the work that the Bureau du vérificateur général (the Bureau) has done in the last year and highlight the key elements.

1.1. STRATEGIC PLANNING

In 2018, we completed the reflection exercise aimed at providing the Bureau with a strategic plan to define the objectives that will guide our actions over the next five years. This plan is based on an approach taken by our organization in light of the many changes that affect both the management of Québec municipalities and the role and scope of the work performed by the offices of the Auditor General, such as ours.

Our mission is to *“provide city council and citizens with an objective and independent view of the quality of public funds management, including the economic, efficient and effective use of resources, legal and regulatory compliance, and the reliability of financial statements”*.

Our vision is to be *“a team recognized for its expertise, the quality of its work and its value-added reports”*.

Our values are independence, objectivity, respect and integrity.

The *2019-2023 Strategic Plan* is focused on the following three major guidelines:

GUIDELINES	1	<p>Increase the Added Value of our Work</p> <p>Over the next few years, the Bureau du vérificateur général will take various steps to reassure elected officials and citizens that public funds are being managed economically, efficiently and effectively.</p>
	2	<p>Introduce Innovative Practices to Produce High-quality Work</p> <p>The Bureau du vérificateur général will implement best practices to ensure audit quality and to incorporate sustainable management principles.</p>
	3	<p>Ensure the Sustainability of the Teams' Skills</p> <p>In the coming years, the Bureau du vérificateur général will attract appropriate talent to meet its needs and maintain the expertise developed to date. It will also give them a stimulating work environment with opportunities to grow professionally.</p>

We have set objectives for each goal with indicators and targets.

Reports on the fulfillment of commitments in this plan will be produced and included in the annual report starting next year.

The *2019-2023 Strategic Plan* is presented in Chapter 8 of this report.

1.2. RISK MATRIX

We are working with a new risk matrix to guide us in planning value-added audit engagements. This tool will be updated annually to reflect, among other things, the results of our audit work, any changes in the administrative structure of the Ville de Montréal (the City), but also in the City's normative and legislative environment.

I would like to thank the various stakeholders from the 25 departments and 4 boroughs that we interviewed during this project.

1.3. IMPACT OF NEW LEGISLATION

Bill 155 (PL 155) (*Act to amend various legislative provisions respecting municipal affairs*) adopted by the Assemblée nationale in the spring of 2018 has, among other things, redefined the role and scope of the Auditor General's work in cities with at least 100,000 inhabitants. The changes in the powers and responsibilities of the Auditor General introduced by this bill will require adaptations and new governance measures.

Bill 155 removes the Auditor General's obligation to perform a financial audit of the municipality and paramunicipal organizations, leaving it to the Auditor General's discretion to continue to do so if it is deemed appropriate. I had already indicated in the 2017 annual report that I considered it appropriate to pursue our financial audit work for the City and that our work for paramunicipal organizations would take related risks into account. This new provision was initially expected to be effective for financial statements ending December 31, 2019. However, we learned from a communication, issued by the Ministère des Affaires municipales et de l'Habitation on September 4, 2018, that it would apply instead to audits of financial statements as of December 31, 2018. We therefore had to quickly identify organizations for which we considered it appropriate to pursue our financial audit work, notify organizations of changes in procedures, obtain all necessary approvals from them, and coordinate our actions with the City's external auditor.

With respect to broadening the scope of the Auditor General's work to include a number of organizations now covered by sections 107.7 and 107.8 of the *Cities and Towns Act* (CTA), we continued our work to obtain clarifications on the concept of financing in order to clearly define them. As I indicated in the 2017 report, the difficulty resides in identifying these organizations and operationalizing the new provisions introduced by Bill 155. Because 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 organizations may change from year to year. If the new Bill 16 (*Act mainly to regulate building inspections and divided co-ownership, to replace the name and improve the rules of operation of the Régie du logement and to amend the Act respecting the Société d'habitation du Québec and various legislative provisions concerning municipal affairs*) is adopted, this will allow us to go back two years with respect to total revenues. It should be noted that these organizations are not only now within the scope of the Auditor General's work in auditing accounts and affairs, they are also subject to a set of new rules, including rules on the awarding and monitoring of their contracts.

Finally, we have implemented the procedures needed to respond directly to various access to information requests involving the Auditor General. These requests were previously sent to the City clerk.

1.4. SPECIAL REQUESTS

On a few occasions in 2018, I received direct requests for special mandates that did not come from municipal council. It is important to bear in mind that any request for investigation submitted to the Auditor General must come from municipal council. Section 107.12 of the CTA indicates that the "Auditor General shall, every time the council so requests, investigate and report on any matter within the competence of the Auditor General. In no case, however, may the investigation take precedence over the primary responsibilities of the Auditor General."

1.4.1. PRE-ELECTION REPORT

For more than a year, the City has raised the possibility of producing a Pre-Election report on the state of finances. However, although the City still seems to want to produce such a report, the report had not been developed at the time of this writing. In addition, municipal council's formal request to give the Auditor General a special mandate to produce the report was not forwarded to her.

Evaluating the possibility of fulfilling this type of special mandate requires significant analytical work to be able to complete it without jeopardizing our main obligations as stipulated under the CTA.

If we were to fulfill this mandate, we would need to dedicate full-time resources to it, hire specialists to support us, and obtain an additional budget.

1.5. SUMMARY OF 2018 AUDIT WORK



1.5.1. FINANCIAL AUDIT

I issued auditor's reports with no reservations for the City's consolidated financial statements as of December 31, 2017, and the breakdown of mixed expenditures. We did not consider it appropriate to continue our audit work on the aggregate taxation rate; it was audited by Deloitte.

After Bill 155 was adopted, we identified the other legal entities subject to the CTA for which, following our risk assessment, we considered it appropriate to continue to be the auditor and jointly produce an audit report on their financial statements with the external auditor appointed by the City.

At the time of this report, I had issued five reports from the independent auditor on the financial statements as of December 31, 2018 for the following organizations: Société de transport de Montréal (STM) (2 reports), Société d'habitation et de développement de Montréal, Société du parc Jean-Drapeau and Transgesco.

1.5.2. STATUTORY AND REGULATORY COMPLIANCE

LEGISLATIVE COMPLIANCE OF ORGANIZATIONS THAT RECEIVED A GRANT OF AT LEAST \$100,000 IN 2017

As of February 24, 2019, the Bureau had received the audited 2017 financial statements from 250 (98%) of the 255 organizations subject to this CTA requirement, for a total of \$187.5 million. Five organizations did not meet the requirements of the contribution agreement and the requirements of section 107.9 of the CTA because they submitted reviewed rather than audited financial statements.

I encourage the City to continue to educate organizations on the requirements of section 107.9 of the CTA and resolution CM13 1157.

1.5.3. PERFORMANCE AUDIT AND INFORMATION TECHNOLOGY AUDIT

BUSINESS INTERUNIT SERVICES

The Charter of the Ville de Montréal allows a business unit to provide services on behalf of one or more other units, usually for economic or technical reasons. Business units are looking for quality, timeliness and a fair price when they need in-house services.

Based on our audit work on interunit services, we find that existing practices are not sufficient to ensure that these services meet requester quality, timeline and cost expectations. To improve customer service and enable business units to get value for money, it would be desirable to enter into service agreements between the parties to define management arrangements. In order to determine whether the City's internal service policy is fair to all parties involved, it would be important to compare the cost of services actually rendered by service providers with what the requesters had to pay. To enable service providers to evaluate their service delivery quality, a requester survey process should be implemented. The findings should then be evaluated and an action plan developed to improve customer satisfaction.

USE OF CONTRIBUTIONS FOR PARKS PURPOSES

The *Act respecting land use planning and development* (LUPDA) (CQLR, chapter A-19.1) sets out legal provisions that allow municipalities to require proponents to pay contributions for parks, playgrounds and natural areas when they have adopted by-laws for that purpose. The City boroughs have had these types of regulations for several years.

Despite these efforts, our audit work highlighted the lack of frameworks that would enable us to confirm compliance with all provisions regarding contributions for parks. The City should develop tools to make it easier to interpret and implement the legal provisions of LUPDA, in particular, by issuing a guideline on the procedure for implementing these provisions and a checklist.

It is important that all boroughs have a good understanding of the relevant provisions of the Act in order to reduce the risk of misinterpretation or misapplication.

TRANSPORTATION ELECTRIFICATION STRATEGY

The City has adopted a 2016-2020 Transportation Electrification Strategy, which is based on 10 guidelines to be achieved by various services or partners such as the STM or CDPQ Infra. Under this *Strategy*, which is based on other City policies and action plans,

the City wants to take 250 subcompact internal combustion engine vehicles off the road and replace them with all-electric vehicles, install charging stations for these vehicles in municipal building parking lots, and develop a network of 1,000 public charging stations in the 19 boroughs. We note that the City is on track to meet its targets by 2020. However, the lack of coordination in implementing the *Strategy* is attributable to an action plan that focuses more on what has been done so far, rather than everything that needs to be done to meet the 2020 targets. This lack of coordination is also reflected in the inefficient implementation of certain action items and the failure to report to decision-makers.

While the City is still in the early stages of transportation electrification, implementation of the *Strategy* raises issues, which are still minor, related to the division of roles and responsibilities between business units, especially from an economic standpoint. We believe that the City must now review its procedures and evaluate the quality of its service offering so that the electrification of transportation—when it becomes the standard for urban travel—is thoroughly planned and economically viable for the City.

SÉCI, STOP+ AND GESOUR APPLICATION MANAGEMENT

Reporting to the Service des affaires juridiques (SAJ), the municipal court of the City is one of the most important courts in Canada. It hears cases involving civil and criminal law. Every year, 2 million cases are filed, making it the third-largest court in North America.

The SAJ uses three applications to manage tickets: the electronic ticketing system (SÉCI), the criminal offence processing system (STOP+) and the Gescour application. These applications manage a major source of revenue for the City (\$172.8 million in 2017 and \$189 million in 2018).

Although the specialized teams of the SAJ and the Service des technologies de l'information (STI) are making significant efforts to ensure that these three applications are operational, the City has to cope with technologically obsolete applications, a lack of resources and human resource succession issues. Consequently, the STOP+ and Gescour applications are very difficult to adapt and cannot meet the fine collector's enforcement of judgment needs, which makes it difficult to recover amounts due to the City. Also, work to incorporate major changes arising from the new *Code of Civil Procedure* (effective January 1, 2016) is still ongoing.

GEM APPLICATION MANAGEMENT

The Service de l'évaluation foncière's (SEF) mission is to prepare, maintain and defend the real estate assessment rolls of municipalities in the Montréal agglomeration, in accordance with the provisions of the *Act respecting municipal taxation* (ARMT).

In this regard, the Gestion de l'évaluation municipale (GEM) application is used to establish and update the City's real estate assessment rolls. GEM provides the data needed

to produce the taxation that generated \$4.2 billion in revenue in 2017 and \$4.4 billion in 2018, the City's largest source of revenue, which represents more than 77% of total unconsolidated revenues.

Although the SEF and STI team of specialists are making significant efforts to keep GEM operational, the application is obsolete and there is a lack of human resources, all of which could eventually lead to data confidentiality and corruption risks as well as risks that the application could become unavailable.

BUILDING MAINTENANCE MANAGEMENT

The City owns a large building inventory that includes 1,500 buildings. However, maintenance budgets have been underfunded for years, making it difficult to keep buildings in good repair and operational. There are no impact studies demonstrating the effect this has on the degradation of buildings and therefore on the number of maintenance requests received, the time required to correct them and, ultimately, on customer service and the City's corporate image.

Because available resources are limited, building maintenance managers will have no choice but to re-evaluate procedures and take steps to implement appropriate controls in order to manage maintenance operations in an effective and economically profitable way for the City, which will promote the well-being and safety of the people who use these buildings.

MANAGEMENT OF THE INCLUSION OF AFFORDABLE HOUSING

Development of affordable housing within the City is one of the municipal administration's guidelines. In 2005, the executive committee adopted a *Strategy for the Inclusion of Affordable Housing* in construction projects (City Strategy) and adopted amendments in 2015. Some boroughs have also adopted local strategies for the inclusion of affordable housing since 2012. More recently, the municipal administration announced its 2018-2021 Strategy to develop 12,000 social and affordable housing units.

The City must ensure that all conditions are in place to promote compliance with the strategies and achieve established targets. Management practices should be improved to ensure consistent implementation of strategies within the City. The City should also take steps to obtain commitments from proponents that meet the requirements of these strategies and not make regulatory changes prior to obtaining these commitments. Also, to enable authorities to make informed decisions, a report should be produced on the results of the City Strategy and local strategies since their adoption, and a discussion must be initiated on the use of the financial contribution fund. Lastly, permanent mechanisms for reporting on the creation of affordable housing should be implemented to ensure that the objectives set out in the 2018-2021 Strategy to develop 12,000 social and affordable housing units are met.

SUPPLIER AND CONTRACTOR PERFORMANCE ASSESSMENT

After Bill 8 was adopted, the city's municipal council adopted a resolution calling for the assessment of the quality of contractor and supplier work. Subsequently, a "Supplier performance assessment guideline" was developed to guide these assessments and ensure that all business units follow it.

Although efforts have been made, implementation of provisions of the guideline for all contracts and the controls to ensure their implementation remain incomplete, which creates risks for the City and suppliers and contractors. The City must review certain provisions of its guideline to avoid any ambiguity in their interpretation. It must also refine its mechanisms and ensure that it thoroughly documents the whole performance assessment process. The City must make every effort to ensure compliance with the Act, and more specifically, the deadlines set out in the CTA and the guideline concerning the stages of the unsatisfactory performance assessment process.

Because the City has chosen to use this performance assessment process, it is important that all contracts covered by the guideline undergo a performance assessment to confirm compliance with its provisions, but also to provide decision-makers with reassurance on the qualification of firms that are awarded contracts for numerous work projects requested by the City.

MUNICIPAL BUILDING SECURITY MANAGEMENT

Legal provisions govern various aspects of municipal building security. The City is therefore required to implement a set of prevention, protection, response and emergency measures that respond to the risks characterizing each building, in accordance with previously established City policies designed to ensure the security of users, property and as well as the continuity of operations

In 2014, the City adopted the first policy (the Policy) regarding "Municipal building security". Through this Policy, the City recognizes that it is important to ensure the security of employees, citizens and visitors who use its facilities and to protect its critical infrastructure. In fact, the City says this is a strategic issue. However, the City's business units have essentially failed to implement this Policy, and many aspects of municipal building security should be re-evaluated or even strengthened.

Under the circumstances, we believe it is essential that the municipal administration establish the security policies it deems appropriate in order to better define the level of security it intends to put forward, and implement them by taking concrete steps to mitigate the risks in City buildings.

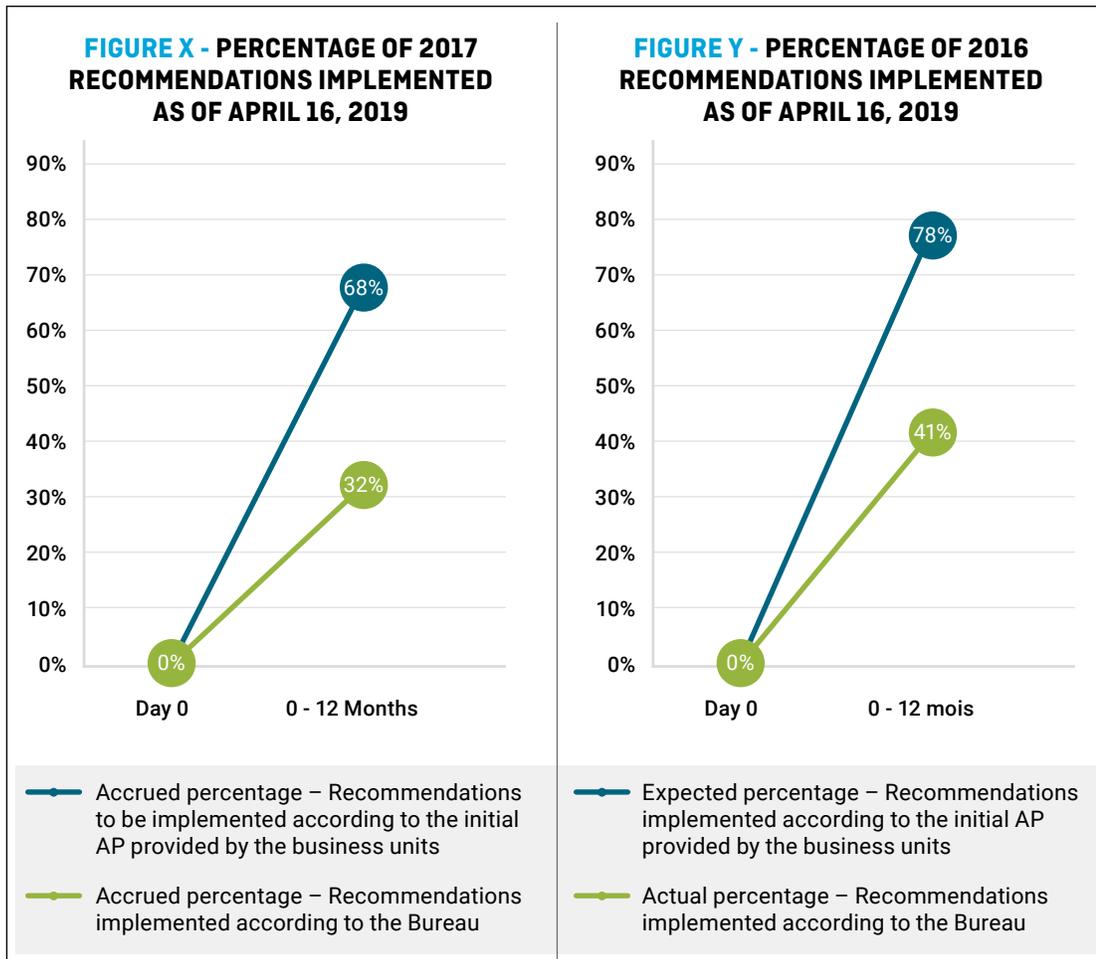
The municipal administration must report on the status of security in its municipal buildings, define the expected level of security within its facilities, and establish an action plan to make the necessary adjustments to existing security measures. It is also necessary to

clarify the division of roles and responsibilities and reassess the operational management of the various aspects of building security in order to optimize operational processes, related technological tools and the interrelation between stakeholders.

1.5.4 IMPLEMENTATION OF THE BUREAU DU VÉRIFICATEUR GÉNÉRAL'S RECOMMENDATIONS

Monitoring the implementation of recommendations made to the City's various business units is an important part of the Bureau's annual work plan. Recommendations made by the Bureau in performance audits, information technology (IT) audits or financial statement audits are intended to help the municipal administration fulfill its responsibilities, improve business processes and make better use of resources.

A standard part of the performance audit process for each engagement performed by the Bureau is to submit the draft report to the business units in order to validate the content and particularly the recommendations. Subsequently, they are asked to send us an action plan and an implementation deadline for each recommendation concerning them. It is safe to say that, overall, the audited business units follow almost all of the Bureau's recommendations. Nevertheless, I find that once again this year the percentage of recommendations that are implemented has continued to drop. With respect to performance audit and IT audit recommendations, since 2016, my annual report has presented the results of an exercise comparing the percentage of recommendations that the Bureau considered implemented with the percentage of recommendations that should have been implemented according to the action plans initially provided by the business units. However, again this year, I find that the business units do not meet the deadlines shown in the action plans they send us. This finding is reflected in Figures X and Y below for recommendations made in 2017 and 2016.



For recommendations made in 2017, I note that the status of a greater number of recommendations, i.e., 31 out of 210 recommendations (15%) versus 6 out of 100 recommendations in 2016 (6%)—for which the initial implementation deadline has expired—is still listed as “to be undertaken,” which indicates that the business units have not followed up on them. In addition, 9% of all “active” recommendations made in 2016 and 2017 were considered implemented by the business units, whereas the Bureau did not consider them implemented.

With respect to recommendations in financial statement audits, I note the same situation in which the percentage of recommendations that had been implemented when they were reviewed one year later decreased considerably.

I believe this situation deserves special attention. In this regard, I welcome the Direction générale’s decision to implement a process for implementing recommendations, including the recent recommendation to recruit a resource reporting to the general controller, who will monitor the implementation of recommendations addressed to the City’s business units. I also want to reiterate that the municipal administration should implement reporting mechanisms that support the implementation of recommendations in accordance with

the action plans submitted by the business units. The municipal administration should also establish performance indicators to measure the implementation rate of recommendations issued by the Bureau.

1.6. ACKNOWLEDGEMENTS

The 2018 report was produced by a competent multidisciplinary team that performs high-quality work. I would like to thank all the members of the Bureau's team for their excellent and support.

1. | OBSERVATIONS OF THE AUDITOR GENERAL