



1.

Observations of the Auditor General

2019 Annual Report

Auditor General of the Ville de Montréal



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1. OBSERVATIONS OF THE AUDITOR GENERAL

At the time of drafting my observations for the 2019 Annual Report, Montréal was in the throes of the COVID-19 crisis and the situation required major readjustments to complete our audit work remotely and thus reassure you regarding the management of public funds. We adapted our processes while complying with the safety guidelines and used a great deal of flexibility in the requests we made to the municipal administration.

In the past, I always ended this chapter on my observations by thanking my team for their excellent work. I will break with tradition for this 2019 report by starting off with thanks to my team for their flexibility, dedication and adaptability in these exceptional circumstances as well as for their commitment to delivering value-added audits in compliance with our standards and within our timelines.

It is obvious that this crisis will have an impact on our ways of working as well as on our choices of future mandates we undertake.

1.1. Follow-Up – 2019–2023 Strategic Planning

2019 represents the first year of implementation of our *2019–2023 Strategic Plan*, which defines the objectives that will guide our actions for the next five years.

The *2019–2023 Strategic Plan* is structured around three main themes:

- 1.** Increasing the added value of the interventions;
- 2.** Implementing innovative quality assurance practices;
- 3.** Ensuring the sustainability of the team's competencies.

We aligned our audit and administrative work to enable us to meet the targets we set for 2019 in our *2019–2023 Strategic Plan*. In addition, in order to achieve some of the objectives while mobilizing the various audit teams, we set up four working committees in 2019 that set out findings and possible solutions to enable the management committee to take informed decisions on the best ways to achieve the objectives we had set for ourselves.

Overall, all the 2019 targets were met, with the exception of those regarding the objective of facilitating understanding of our role by elected officials and other stakeholders. That objective has been postponed to 2020.

Detailed reporting on the *2019–2023 Strategic Plan* can be found in Chapter 8 of this report.

1.2. Legislative Environment

Since January 1, 2019, following the adoption of Bill 155 (*An Act to amend various legislative provisions concerning municipal affairs and the Société d'habitation du Québec*), the potential scope of intervention of the Auditor General as defined in Section 107.7 of the *Cities and Towns Act* (CTA) extends, in particular, to any body for which more than half of its funding is provided by financial assistance from a municipality and if its annual revenues are equal to or greater than \$1,000,000. During 2019, we were able to clarify concepts that will allow us to better determine the bodies concerned by these legislative amendments and operationalize these legal provisions.

Thus, we completed our work to define the concept of funding in 2019, allowing us to better determine the bodies that meet the criteria set out in the amendments to the CTA.

The adoption on December 11, 2019, of Bill 16 (*An 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*) brought clarifications and offers the opportunity to look back over two years.

Excerpt from Bill 16:

"It is a non-profit body that meets the following conditions on 1 January of a year:

- (a) its revenues for at least one of the last two years were equal to or greater than \$1,000,000; and*
- (b) it received, during the year in which its revenues were equal to or greater than \$1,000,000, financial assistance from a municipality in an amount equal to or greater than half of its revenues for that year."*

These new provisions affect about 20 bodies, for which we will be able to complete financial, compliance and performance audits. One of the working committees created as part of the implementation of our *2019–2023 Strategic Plan* examined the potential avenues for the Bureau du vérificateur général de la Ville de Montréal (BVG) to intervene with respect to these bodies.

It should also be noted that these bodies are not only now part of the scope of the Auditor General's intervention in account and business audits, but that they are also subject to a set of new rules—including with respect to the awarding and monitoring of their contracts.

1.3. Pre-Election Report

On August 20, 2019, city council adopted resolution CM19 0930, which mandates, first, the Service des finances to produce a pre-election report no later than June 30, 2021, and second, the Auditor General to audit the pre-election report and submit her own report no later than September 23, 2021.

As indicated in the context of the 2020 budget, the *"pre-election report will be a new tool for budget transparency that will be added to the 2021–2022 budget process,"* and *"this audited report, tabled before the elections, shall allow the municipal political parties to present programs that are in line with the financial situation of the Ville de Montréal (the City)."*

However, the audit of this new budget transparency tool, which will hopefully be conducted for the next municipal democratic exercise, requires that we take all necessary precautions to ensure that, as prescribed by the CTA, this mandate does not contravene the fulfillment of my main obligations, while maintaining my independence. It is also important to remember that all assurance work performed by the BVG is carried out in accordance with the Canadian Standards for Assurance Engagements (CSAE) set out by CPA Canada's Auditing and Assurance Standards Board.

These standards establish the *"preconditions for completing an audit".* These conditions require consideration of such matters as the appropriateness of the engagement's subject matter, the availability of valid criteria and the ability to procure the necessary evidence. Thus, this report, which will inform elected officials from all political parties about the City's financial situation, must be useful and must meet city council's request. To this end, we consider that the template for this report should be presented by the Service des finances to city council for approval.

It was at the beginning of January 2018 that the municipal administration first publicly declared its wish to have a pre-election report. At that time, we indicated the important impacts associated with producing a certification report on this pre-election report. In February 2020, I filed a follow-up report to city council on this issue, expressing my concern about the progress of this file. Subsequently, we received a schedule for this file as well as a detailed table of contents. According to the schedule received, a first complete model of the report should be produced in June 2020. A follow-up report was submitted to city council in March 2020 outlining these elements.

At the same time, in the summer of 2019, we began the audit of important budgetary processes. We are continuing our analytical work on this file in order to properly evaluate the extent of the resources we will need to assign to this mandate, which is a first in the municipal sector, by ensuring that we can carry it out in accordance with CPA Canada's CSAE, while being aware that we now have less than 18 months to do so.

Chapter 6 of the report deals with this file's history.

1.4. Accountability

Good and timely accountability provides a better vision of operations, allows for more informed decision making and, as a result, allows the City to take the necessary corrective measures to meet its commitments to citizens and reassure them about how public funds are being managed.

Yet, over the past four years, we have made recommendations in several of our performance audit reports aimed at improving accountability. We have made 34 recommendations in 22 out of a total of 37 reports, or nearly 60% of the reports tabled between 2016 and 2019.

Table 1 - Accountability – Statistic Over 4 Years

YEAR	ACCOUNTABILITY		TOTAL NUMBER OF PERFORMANCE AUDIT REPORTS TABLED	
	NUMBER			
	REPORTS	RECOMMENDATIONS		
2016	5	7	7	
2017	5	9	9	
2018	5	7	11	
2019	7	11	10	
TOTAL	22	34	37	

Accountability provides information on the municipality's objectives and measures the results achieved. It makes it possible to take stock of the City's strategic commitments, disclose relevant information and thus adequately inform all elected officials and citizens. It is an essential transparency tool for efficient decision-making.

1.5. Summary of the Audits Conducted in 2019



1.5.1. Financial Audit

I issued unqualified audit reports on the City's consolidated financial statements as of December 31, 2019, as well as on the mixed expense breakdown table. We did not consider it appropriate to audit the overall tax rate, which was audited by Deloitte.

Following the adoption of Bill 155 in 2018, we had identified the other legal entities covered by the CTA for which, following our risk assessment, we deemed it appropriate to remain as auditor and to jointly produce an audit report on their financial statements with the external auditor appointed by the City. We maintained this approach in 2019.

Thus, at the time this report was produced, I had tabled six independent audit reports on the financial statements as of December 31, 2019, of the following bodies: the Société de transport de Montréal (2 reports), the Société d'habitation et de développement de Montréal, the Société du parc Jean-Drapeau, the Société en commandite Stationnement de Montréal and Transgesco.

A detailed summary of the financial audit work performed can be found in Chapter 2.

1.5.2. Compliance with the Laws and Regulations

Legislative Compliance of the Bodies Having Received a Subsidy of \$100,000 or More in 2018

In 2018, the City paid out a total of \$139.8 million in subsidies to bodies. Of this amount, \$112.8 million (80.7%) were paid to 235 bodies that received subsidies totalling at least \$100,000.

As of November 12, 2019, the BVG had received audited financial statements for 2018 from 225 (95.7%) of the 235 bodies concerned by this requirement of the CTA, for a total of \$111.1 million. Ten bodies had not met the obligations of the contribution agreement and the requirements of Section 107.9 of the CTA, as they did not submit audited financial statements, including one body that did not comply with this requirement for the third consecutive year.

I encourage the City to continue its work to make bodies aware of the requirements of Section 107.9 of the CTA and resolution CM13 1157.

Chapter 3 deals with the work carried out by the BVG to ensure bodies' legislative compliance.

1.5.3. Performance and Information Technology Audit

The full reports of the performance and information technology audits presented below can be found in Chapter 4 of this report.

Compliance and Safety Management of Petroleum Storage Tanks

As the owner of petroleum storage tanks, whether for the refuelling of its fleet of vehicles or to supply emergency generators in administrative buildings or strategic buildings, such as a drinking water production plant, a pumping station or a fire station, the City is required to comply with the *Building Act* and, more specifically, with the *Construction Code* and the related *Safety Code*. Depending on the capacity of the reservoir, its location and the type of petroleum products it contains, a reservoir may be classified as high-risk, in which case it is subject to more stringent inspection requirements by the Régie du bâtiment du Québec (RBQ).

Although several actions are being taken by the City to comply with this legislation and the codes' various requirements, we identified various gaps in obtaining permits and renewing certificates, including the absence of documents demonstrating that routine tests and verifications were conducted at the frequency required by the regulations. We also noted that the reports obtained from experts recognized by the RBQ to certify the conformity of high-risk tanks vary widely from one expert to another, making it difficult for the City to demonstrate, on the basis of these reports, that all compliance requirements were reviewed prior to issuing the certificate.

In addition, although some tanks have reached their design life, the City has been slow to replace them, despite repeated advice from RBQ's recognized experts. We also noted the absence of a management plan for the obsolescence of tanks under the responsibility of several business units. Since there is no such thing as zero risk, it seems essential to us that the City must be able to demonstrate, in the event of an issue or incident related to its petroleum storage tanks that it has acted as a responsible owner of its petroleum storage tanks.

Protection of Natural Environments

Montréal's land use and development plan, which applies to the entire territory of the urban agglomeration, aims to protect 10% of the terrestrial territory in the form of natural environments. As of October 2019, 6.1% of the territory was protected as such. At the time of our audit, the City was making a few major land acquisitions, mainly in the West Island, to increase this percentage and thus achieve the protection target it has set for itself.

Although we were shown that the investments authorized by the City will make it possible to carry out the acquisitions planned by the Service des grands parcs, du Mont-Royal et des sports, the boroughs audited are not aware of the City's strategy and know neither what the City expects of them nor how they can contribute to achieving this 10% target for the protection of natural environments.

As early as 2009, the City established a directory of protected natural environments with specific criteria to be met, including the development of an ecological management plan and the assignment of a conservation status to the site. Although 6.1% of the terrestrial territory is considered protected by the City, as of the date of our audit, only one site under the responsibility of a borough met all of these criteria and was included in the directory.

Finally, in terms of regular physical maintenance of protected natural environments, we were unable to find evidence that, in past years, the City has used a sufficient budget to maintain their ecological value.

Management of the *Climate Change Adaptation Plan*

In order to deal with the impacts of climate change, in December 2015, the Montréal urban agglomeration council adopted the *Climate Change Adaptation Plan (2015–2020)* (hereinafter the *Adaptation Plan*). This plan includes adaptation measures to be implemented by the City's departments and boroughs as well as related cities.

Our audit work, however, raised a number of issues and shortcomings with respect to the implementation of adaptation measures. In light of the only official report that was produced in October 2019, it is difficult to have an overview of the global picture and to establish precisely the degree to which adaptation measures and commitments have been implemented. Our audit work leads us to conclude that the management of the *Adaptation Plan* should be improved in a number of areas, including clarification of the jurisdictions of the authorities involved, planning for the implementation of adaptation measures and commitments (e.g., methodology, evaluation of effectiveness, prioritization, targets and indicators), follow-up, knowledge development monitoring and accountability.

The *Adaptation Plan* is coming to an end soon, and the issue of the impacts of climate change is increasingly present. The City is currently working to develop the next *Climate Plan* to replace the *Adaptation Plan*. It is important that this next plan allow for the planning and implementation of concrete and structuring adaptation measures to produce results that will need to be measurable. It is also essential that the next plan be developed in such a way as to take into consideration the importance of the role of each authority in the adaptation process, but also the involvement of all the authorities concerned for collective action on this critical issue.

Given that this is a complex issue and in order to foster an effective adaptation process, the municipal administration should consider establishing governance at the territorial scale of the Montréal urban agglomeration to enable the exercise of local and global management.

Management of Rolling Stock

Since January 1, 2017, the various activities related to the lifecycles of vehicles and equipment have been grouped under a single entity, pursuant to Section 85.5 of the *Charter of Ville de Montréal*. An Investment Strategy was approved by the director general in early 2018. It establishes the investment needs for the next ten years to make up for the accumulated obsolescence gap over four years (from 2018 to 2021) while replacing vehicles that have reached the end of their useful life and maintaining the vehicle inventory in terms of numbers and value.

Our audit leads us to conclude that the management practices in place are not sufficient to ensure that the objectives are met by the Investment Strategy and to meet users' needs. Considering the size of the fleet of vehicles and equipment (close to 8,700 vehicles at the time of our audit), the City should first ensure that the vehicle inventories in the various databases are consistent with those actually in the field. The City should also, as soon as possible, improve the availability and quality of the data collected for the entire fleet of vehicles and equipment. We further believe that the City should put in place, according to best practices, mechanisms to identify vehicles that are due to be replaced, taking into account their use, all associated costs and their purpose, in order to make the best possible management decisions..

Finally, in order for the City to achieve the objectives set out in the strategy, it must globally evaluate the implementation of the strategy, in line with the planned schedule, and report on it periodically.

Human Resources Succession Management

The City is facing major workforce issues, since 25% of its employees will be eligible for retirement over the next five years and voluntary departures and turnover rates are on the rise. These issues are of major importance, especially since filling positions is laborious, particularly given the competitiveness and scarcity of labour in certain sectors.

Between 2008 and 2014, various steps were initiated by the City to have business units prepare workforce plans in order to fill positions and implement identified measures. While these steps should have been maintained, efforts have rather lost momentum. In January 2019, a “Gestion prévisionnelle des ressources humaines” approach was introduced and is currently being deployed. We note, however, that improvements must be made in terms of formal communication of roles and responsibilities with respect to succession management, availability and access to relevant data and indicators, identification of vulnerabilities and training adapted to the needs of the stakeholders involved. In addition, the City must establish action plans in which measures will have been prioritized. Objectives must also be defined in measurable terms to evaluate the achievement of the expected benefits, and accountability mechanisms must be put in place.

Finally, to ensure the sustainability of this approach and the continued delivery of services to citizens, succession management must be carried out in a forward-looking and strategic rather than reactive manner by all stakeholders. To this end, the City must ensure that its *Politique de dotation et de gestion de la main-d'œuvre* reflects all aspects of succession management.

Management of the Municipal Housing Programs Stemming from the “Montréal Reflex” Framework Agreement

The special status of metropolis, granted by the Québec government, gives the City greater autonomy and powers in the area of housing, as set out in the sectoral agreement between the City and the Société d'habitation du Québec (SHQ). The SHQ has modified its intervention framework by transferring responsibility of budgets to the City to enable it to manage according to criteria adapted to its reality and government orientations for the AccèsLogis program, the Renovation Québec program and the Residential Adaptation Assistance program. In this context, the City has adopted or is in the process of adopting by-laws for the three housing programs. In addition, the City has taken on a major responsibility, as it is now able to independently grant a loan guarantee to bodies under its AccèsLogis Montréal program.

Improvements must be made to how projects are analyzed under the AccèsLogis Montréal program; a systematic evaluation of bodies' financial soundness must be conducted upon receipt through analysis of their financial statements and obtaining information on their past ability to carry out other projects under the AccèsLogis Québec program, where applicable. In order to mitigate financial risks and ensure the sustainability of projects that will eventually be operational, the City must ensure that its resources have the required financial and property management expertise. In addition, project management could be improved by making projects subject to the City's governance framework for projects and municipal asset programs.

Because of the social housing crisis, the City needs to clarify aspects of its sectoral agreement with the SHQ, particularly its degree of participation in government orientations and objectives, as well as the use of the allocated budgets. Also, since the 2019–2020 budget did not allocate funds to the AccèsLogis Montréal program, the City must reiterate its request to the government to obtain funding.

Finally, since the City has identified expected benefits with respect to the transfer of budgets and responsibilities, it must assess the extent to which these are achieved and promote the creation of 12,000 affordable housing units.

Logical Access Management (SIMON, PAIE, OASIS)

In order to adequately manage logical access to information systems, sound industry practices recommend, among other things, that:

- access be granted on the basis of user needs;
- strong passwords be used;
- user accesses be reviewed periodically;
- a limited number of high-privilege accounts be used and user accesses do not permit the performance of incompatible tasks.

We found that logical access is adequately managed in the three main applications that host the City's financial information, namely SIMON (accounting and procurement – 28,000 users), PAIE (payroll management for approximately 23,000 employees, or approximately \$1.9 billion for the 2019 budget) and OASIS (\$4.8 billion in revenues in 2019).

However, with respect to users with conflicting rights duly authorized in the SIMON application (e.g., creation of purchase orders and receipt of goods and services), business unit managers do not systematically follow up ex post facto to confirm the absence of unauthorized transactions. The City should review and update the frameworks to include certain logical access management principles.

Management of the Bureau de Projets

Reporting to the Service des technologies de l'information (STI), the Bureau de projets (BdP) is responsible for the sound management of projects under the responsibility of the STI. It must also ensure that quality frameworks and review activities are in place, apply effective capacity and compliance management, develop appropriate ongoing training and, finally, carry out governance and accountability activities for Information technology (IT) projects.

A total of 99 projects are planned in the 2020–2022 Three-year capital expenditures program (TCEP), with a budget ranging from \$83 million to \$89 million for each of these three years. Of the 41 IT projects budgeted for in the 2019–2021 and 2020–2022 TCEPs, we note that approximately 50% have had their schedules extended by two years or more. Similarly, 13 of the 28 prioritized IT projects were postponed two years or more in the last TCEP.

We found that the BdP's activities are not adequately supported by comprehensive, up-to-date and approved documentation that is distributed to the stakeholders. Without this adequate documentation, we also observed that the quality of project deliverables varies greatly from one project to another. This increases the risk that projects will not meet needs, will have significant cost overruns and will be delivered late in relation to initial timelines.

Thus, improvements are required with respect to roles and responsibilities, project management methodology, training, accountability, and processes related to project planning and capacity management.

Shadow IT Management

The concept of Shadow IT extends to, but is not limited to, the use of tools or applications unknown to the City's Service des technologies de l'information (STI). A 2016 Microsoft study reported that more than 80% of employees in the organizations surveyed admitted to using Shadow IT without notifying their Information Technology (IT) department. The use of Shadow IT is generally symptomatic of users' tendency to believe that their IT department does not adequately meet their needs.

We found that the City does not have control mechanisms in place to ensure sound Shadow IT management. In the absence of governance for the management of Shadow IT or a detection process, the City has only partial knowledge of its use by the business units. These findings, combined with the fact that the City is behind in the delivery of its IT projects, increase the likelihood that business units will opt for Shadow IT solutions. In this regard, five of the six business units sampled are using this type of application without, however, implementing sound practices expected for this use.

Misuse of Shadow IT by the business units could, among other things, run the risk of a security breach impacting the confidentiality of sensitive data.

Several improvements are required in terms of governance for Shadow IT management, the Shadow IT awareness and training strategy and the detection process.

1.6. Follow-Up of the Implementation of the Recommendations of the Bureau du vérificateur général

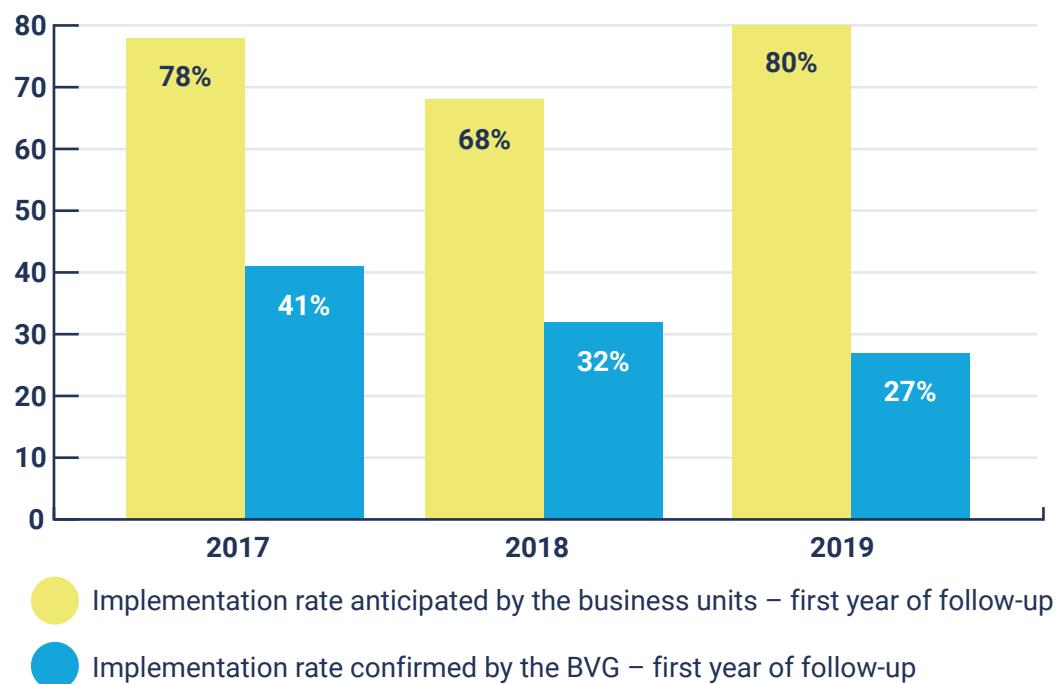
The annual monitoring of the implementation of recommendations made to the City's various business units is an integral part of the BVG's work plan. Whether the audits concern performance, information technology or financial statements, the objective of these recommendations made by the BVG is to help the municipal administration fully carry out its responsibilities and contribute to improving business processes while promoting a better use of resources.

During the fiscal year 2019, mechanisms for following up on recommendations were put in place by the Comptroller general and the City's audit committee, aimed at monitoring the actions taken by the business units to promote the implementation of action plans as quickly as possible. Other mechanisms have yet to be implemented in 2020.

Results:

In performance and information technology audits, the proportion of recommendations implemented according to the BVG versus the proportion of those that should have been implemented based on action plans initially provided by business units decreased from 41% for 2016 to 32% for 2017 and 27% for 2018. This year, I note once again that business units are for the most part not meeting the deadlines set out in their action plans. This finding is reflected in the graph below.

Comparison between Recommendations Expected to be Completed In the First Year of Follow-Up and Those Actually Completed



With respect to the recommendations made in 2018, 21 out of 209 recommendations (10%) for which the originally planned implementation date has passed, compared with 31 out of 210 recommendations (15%) in 2017, are still “to be undertaken,” a status that indicates that they have not been followed up by the business units concerned. That is nevertheless an improvement. In addition, 34 recommendations made in 2018, which is the first year of follow-up, were considered as implemented by the business units, even though, in the BVG’s opinion, they were not, either because evidence of the measures implemented could not be produced or because the measures implemented did not address the recommendations. We made the same finding for 31 recommendations made in 2017 in our follow-up from the previous fiscal year.

With regard to the recommendations arising from the audit of the financial statements, I note the same situation, namely that the rate of implementation of recommendations that were settled at the end of their first year of follow-up has dropped considerably.

Although the new process is not fully operational and the results observed are not satisfactory, the actions taken to date by the municipal administration and those to be taken in the coming year to promote the implementation of the recommendations lead me to believe that the situation is bound to improve.

The detailed results regarding the follow-up on the recommendations can be found in Chapter 5.

1.7. Situation of the Bureau du vérificateur général

Chapter 7 provides the BVG's accountability for administrative management for 2019. The BVG's 2019 statement of expenditures and the independent auditor's report are appended to this chapter..