

Bureau du  
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général

# Report of the General Auditor of the City of Montréal to the City Council and the Agglomeration Council

For the Year Ended December 31<sup>st</sup> 2009

Montréal 



**REPORT OF THE  
GENERAL AUDITOR  
OF THE CITY OF MONTRÉAL  
TO THE CITY COUNCIL AND  
THE AGGLOMERATION COUNCIL**

**For the Year**

**Ended December 31<sup>st</sup> 2009**

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May 17<sup>th</sup> 2010

Mr. Claude Dauphin  
President  
City council  
275 Notre-Dame Street East  
Suite R-134  
Montréal, Québec H2Y 1C6

**Subject: Annual report for the year ended December 31<sup>st</sup> 2009**

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Dear Sir,

Pursuant to section 107.13 of the *Cities and Towns Act* (L.R.Q., chapter C-19), I am pleased to present city council with the annual report of the general auditor of the City of Montréal for the year ended December 31<sup>st</sup> 2009.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "J. Bergeron".

Jacques Bergeron, CA, MBA, M.SC.  
General auditor of the City of Montréal

c.c.: city council members





**Bureau du vérificateur général**  
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Montréal (Québec) H3A 3P1

May 20<sup>th</sup> 2010

Mr. Claude Dauphin  
President  
Agglomeration council  
275 Notre-Dame Street East  
Suite R-134  
Montréal, Québec H2Y 1C6

**Subject: Annual report for the year ended December 31<sup>st</sup> 2009**

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Dear Sir,

Pursuant to section 107.13 of the *Cities and Towns Act* (L.R.Q., chapter C-19), I am pleased to present agglomeration council with the annual report of the general auditor of the City of Montréal for the year ended December 31<sup>st</sup> 2009.

Sincerely yours,

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Jacques Bergeron, CA, MBA, M.SC.  
General auditor of the City of Montréal

c.c.: agglomeration council members



## PREFACE

Under the provisions of the *Cities and Towns Act*, the general auditor is required to:

- provide an annual report by March 31<sup>st</sup> of each year to city council on the audit of the financial statements of the municipality as well as the statement fixing the aggregate taxation rate;
- transmit to city council, no later than August 31<sup>st</sup> each year, a report presenting the results of the audit for the fiscal year ending on the previous December 31<sup>st</sup> and indicate any fact or irregularity that he or she considers expedient to mention.

In 2009, the general auditor's office found itself in the municipal spotlight after it was entrusted by city council with two major ad hoc audits. This first audit dealt with the sales of properties to third parties by the SHDM and the second one focused on the acquisition and installation of water meters in industries, businesses and institutions (IBI) as well as the water network optimization. The SHDM audit was the continuation of two previous audits conducted by the general auditor's office for that same entity regarding its project management approach and the Contrecoeur land sale. The full-scale investigation that was launched during the audit of the water meter contract entailed a major change in scope and the extensive use of both in-house and external resources. In all, three of these audits prompted police investigations.

For the 2009 fiscal year, the general auditor's office conducted large-scale information technology (IT) and value-for-money audit assignments whose results are presented in this report. The general auditor's office, along with its joint auditor, issued an "unqualified opinion" on the financial statements of the City of Montréal. In addition, the general auditor's office audited the financial statements of the various organizations under the City's jurisdiction.

The general auditor's office completed significant achievements in 2009 and the first few months of 2010. We created a new auditor position to improve our competitive standing within our reference market and we initiated a major recruiting process to fill several vacancies in our office. Moreover, we successfully implemented an ethics hotline. The following chapters will discuss these topics in further detail.

During my first year as general auditor, I witnessed the extensive skills and the high level of professionalism exhibited by the members of my team. I would like to convey my gratitude to them for their tremendous contribution to the quality of the complex and demanding audits that we conducted together.



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# I. Comments and Recommendations of the General Auditor





## I. COMMENTS AND RECOMMENDATIONS OF THE GENERAL AUDITOR

My predecessor, Mr. Michel Doyon, made it a point over the years to include recommendations to municipal authorities in the introduction of his annual report. In keeping with this tradition, here are some topics that will be addressed in this section:

- A. Incorrect baseline for the calculation of the general auditor's budget;
- B. Distribution of contracts awarded by municipal authorities to independent contractors;
- C. Follow-up on recommendations from the March and April 2009 ad hoc reports;
- D. Follow-up on recommendations from the September 2009 water meters report.

### A. INCORRECT BASELINE FOR THE CALCULATION OF THE GENERAL AUDITOR'S BUDGET

Pursuant to section 107.7 of the *Cities and Towns Act (C.T.A.)*, "*The chief auditor shall audit the accounts and affairs:*

- (1) of the municipality;*
- (2) of every legal person in respect of which the municipality or a mandatary of the municipality holds more than 50% of the outstanding shares or voting shares or appoints more than 50% of the members of the board of directors."*

Consequently, the general auditor's responsibility extends to the following municipal organizations:

- the Société de transport de Montréal;
- the Société d'habitation et de développement de Montréal;
- Technoparc Montréal;
- the Société du parc Jean-Drapeau;
- the Conseil des arts de Montréal;
- the Conseil interculturel de Montréal;
- the Office de consultation publique de Montréal;
- the Société de gestion Nauberges de Lachine;
- Anjou 80.

With a few exceptions, my office is responsible for auditing the financial statements of these organizations. Whenever we lack the resources needed to conduct these audits, we assign them to accounting firms whose fees are paid from our current budget. We are also required to conduct value-for-money and compliance audits for these organizations.

For the years 2009 and 2010, my budget was determined by the City’s operating budget as opposed to its consolidated budget (see Table 1). In actuality, this baseline is inadequate given that my office is responsible for auditing the City’s consolidated financial statements. **Essentially, we are responsible for auditing the financial statements of these organizations without having the required funds to do so. Since a portion of our current budget is allocated to these financial audits, we are forced to cut down on the number of value-for-money audits performed for the City. In addition, the existing calculation baseline limits our funds to the extent that we can only conduct a limited number of value-for-money audits for these municipal organizations.** This is contrary to my obligation towards elected officials and the public to report on the efficiency and cost-effectiveness of the management of these organizations. Without sufficient funding, I cannot provide them with any in-depth assessment of their situation and address all of the risks involved.

**Table 1—Current Baseline for the Calculation of the General Auditor’s Budget**

<b>Baseline</b>	<b>2009 (in thousands of \$)</b>	<b>2010 (in thousands of \$)</b>
City’s operating budget	4,070,725.4	4,298,100.2
Budget allocated to the general auditor’s office pursuant to section 107.5 of the C.T.A. (0.11%)	4,686.4	4,699.0
	0.115%	0.109%

In order for our area of intervention to attain its intended scope, I must advocate that the best solution for municipal authorities would be to calculate my budget as a percentage of the City’s consolidated budget. This would encompass the budget allocated to all of the various organizations under its jurisdiction, as opposed to being limited to its operating budget. My own calculations using the City’s consolidated budget suggest that the general auditor’s budget would have been established as follows:

Table 2—Revised Baseline for the Calculation of the General Auditor’s Budget

Baseline	2009 (in thousands of \$)	2010 (in thousands of \$)
City’s consolidated budget	4,826,718.0	5,062,749.7
Budget that would be allocated to the general auditor’s office pursuant to section 107.5 of the C.T.A. (0.11%) <b>under the revised baseline scenario</b>	5,309.4	5,569.0
	0.11%	0.11%

### Recommendations

**I recommend that city council adopt a resolution requiring the calculation of the general auditor’s budget in relation to the City’s consolidated budget instead of its operating budget as a way to secure the funds needed by the general auditor to completely fulfil his mission.**

My office is aware that resources are scarce and must be used wisely, especially in these times of budgetary constraints. In order for the City to fully benefit from our audits and truly serve all Montrealers in the process, it is vital that we be granted sufficient resources to accomplish our mission. In short, we need adequate funding to trigger effective changes that will yield substantial savings for the population of Montréal.

Without this additional funding, we will never be able to provide municipal authorities and Montrealers with all the audit benefits that they rightfully deserve.

Denying this irrefutable fact will significantly limit the general auditor’s scope of intervention and the positive impacts of his work.

## **B. DISTRIBUTION OF CONTRACTS AWARDED BY MUNICIPAL AUTHORITIES TO INDEPENDENT CONTRACTORS**

Every year, the City must make major capital investments for the development, rehabilitation and replacement of facilities and infrastructure assets.

These projects are planned as part of the three-year capital program for the City’s boroughs and other business units. Their execution is generally entrusted to specialized outside contractors by either the borough councils, the executive committee, city council or the agglomeration council. Given the magnitude of these contracts, they are usually awarded following calls for public tenders.

An examination of the City's databases has enabled me to identify 21 contracting firms that were awarded a substantial portion of these contracts.

In order to look into the distribution of the contracts awarded to these independent contractors, we initially totalled their dollar value for the years 2006 to 2009.

**Table 3—Contracts Awarded by Municipal Authorities from 2006 to 2009 (21 Selected Firms)**

No.	Contractors	Number of contracts	Value of contracts awarded by borough councils	Value of contracts awarded by municipal authorities (EC, CC, AGC) <sup>1</sup>	Total
1	Const. Frank Catania	–	–	\$104,645,072.76	\$104,645,072.76
2	Construction Louisbourg	8	\$6,950,352.00	\$93,684,002.00	\$100,634,354.00
3	Entreprises Catcan	29	\$22,999,064.00	\$67,893,393.54	\$90,892,457.54
4	Const. DJL	24	\$10,110,621.00	\$60,982,498.15	\$71,093,119.15
5	Const. Garnier	19	\$16,808,806.00	\$51,405,569.36	\$68,214,375.36
6	Const. Soter	25	\$14,111,808.47	\$53,144,658.12	\$67,256,466.59
7	Const. Mivela	9	\$3,774,261.05	\$53,694,726.32	\$57,468,987.37
8	Const. Infrabec	1	\$180,450.00	\$54,952,858.96	\$55,133,308.96
9	Simard-Beaudry Const.	9	\$7,771,127.00	\$43,619,893.18	\$51,391,020.18
10	Const. Pavage CSF	19	\$11,701,836.79	\$33,581,299.77	\$45,283,136.56
11	Const. Routière Conex	1	\$375,478.68	\$38,911,032.20	\$39,286,510.88
12	B P Asphalte	16	\$10,559,276.85	\$25,264,082.53	\$35,823,359.38
13	Excavation Super	9	\$7,855,225.74	\$25,533,129.25	\$33,388,354.99
14	Const. & Pavage Jeskar	44	\$14,154,669.37	\$11,978,770.53	\$26,133,439.90
15	Sintra	10	\$6,607,900.24	\$18,720,639.08	\$25,328,539.32
16	Roxboro Excavation	5	\$4,338,792.38	\$20,778,160.53	\$25,116,952.91
17	Pavages A.T.G.	21	\$5,707,965.46	\$16,843,953.54	\$22,551,919.00
18	Aqua-Rehab.	–	–	\$21,700,654.96	\$21,700,654.96
19	Gastier M.P.	1	\$107,893.00	\$14,181,396.00	\$14,289,289.00
20	Entreprise const. T.E.Q.	3	\$9,610,757.97	–	\$9,610,757.97
21	Ciment Lavallée	13	\$5,145,152.00	\$481,129.00	\$5,626,281.00
	<b>Total</b>		<b>\$158,871,438.00</b>	<b>\$811,996,919.78</b>	<b>\$970,868,357.78</b>

<sup>1</sup> EC: executive committee; CC: city council; AGC: agglomeration council.

For the same period, I further examined the number and value of contracts awarded to these 21 firms by borough councils.

Table 4—Contracts Awarded by Borough Councils to the 21 Selected Firms

Boroughs		Area (km <sup>2</sup> )	Population	Value of contracts awarded to these 21 firms from 2006 to 2009	Total no. of contracts awarded to these 21 firms	Award of these contracts to the same contractors			
						No.	% (in no.)	% (in value)	Contractors
1	Ahuntsic-Cartierville	23.0	125,160	\$4,334,112	10	*			*
2	Côte-des-Neige-Notre-Dame-de-Grâce	20.0	164,246	\$5,089,969	7	*			*
3	Lachine	17.8	42,246	\$3,053,403	16	8	50	44	Pavage A.T.G.
						7	44	55	Sintra
4	Mercier-Hochelaga-Maisonneuve	25.2	129,110	\$5,938,805	11	4	36	65	B P Asphalte
5	Outremont	3.8	23,239	\$1,358,809	3	*			*
6	Le Plateau-Mont-Royal	8.1	101,054	\$7,202,750	18	7	39	38	Const. & Pavage Jeskar
7	Rosemont-La Petite-Patrie	14.4	13,368	\$9,763,979	10	4	40	54	Const. Pavage CSF
8	Saint-Léonard	13.5	71,730	\$8,610,874	19	3	16	51	Simard-Beaudry Const.
9	Verdun	9.8	16,781	\$22,647,666	26	26	100	100	Entreprises Catcan
10	Villeray-Saint-Michel-Parc-Extension	16.1	145,000	\$6,147,572	9	*			*
11	Anjou	13.6	40,981	\$6,235,549	5	5	100	100	Construction Louisbourg
12	L'Île-Bizard-Sainte-Geneviève	23.6	17,500	\$216,391	3	*			*
13	LaSalle	16.4	74,763	\$7,622,745	13	2	15	62	Sintra
14	Montréal-Nord	11.1	83,600	\$7,201,053	17	5	29	60	Const. Soter
15	Pierrefonds-Roxboro	27.0	65,156	\$2,766,575	10	3	30	54	Const. Soter
						4	40	39	Roxboro Excavation
16	Rivière-des-Prairies-Pointe-aux-Trembles	42.3	107,556	\$14,950,113	30	19	63	46	Const. & Pavage Jeskar
						6	20	34	Const. Soter
17	Saint-Laurent	43.0	84,833	\$24,722,450	31	16	52	65	Const. Garnier
						10	32	20	Ciment Lavallée
18	Le Sud-Ouest	15.7	69,604	\$7,156,418	12	*			*
19	Ville-Marie	16.5	78,876	\$13,852,205	16	*			*
<b>Total value of contracts awarded to the 21 selected contracting firms from 2006 to 2009.</b>				<b>\$158,871,438</b>					

\* The awarded contracts were distributed among several local contractors without any significant concentration.

These findings indicate that the proportion of contracts awarded to the same contractors during the past four years varies from one borough to another. In some boroughs, the awarding of contracts is shared among several contractors whereas in others, practically all contracts are awarded to the same contractor.

**Notwithstanding the fact that these contracts were awarded to the lowest compliant bidder, I nevertheless remain puzzled by the fact that some boroughs award a large proportion of their contracts to the same contractors.**

In 2009, my office produced two contract management audit reports:

- the report on the installation of water meters in industries, businesses and institutions (IBIs), as well as the optimization of the entire water network;
- the report on the management of professional service contracts.

We intend to follow up on these reports. Moreover, municipal authorities have indicated that they have already implemented, or are planning to implement, a series of measures to better manage and control the awarding of contracts by the City's administrative units. These measures include:

- the publication of the *Guide de conduite* that incorporate provisions for preventing collusion and fraud in call-for-tenders and instructions-to-bidders documentation for all departments and boroughs;
- the publication of guidelines that protect the name and information of potential bidders for the entire period from the planning of the call for tenders until the bids are opened;
- a complete review and update of all the master documents for calls for qualifications, calls for tenders and calls for proposals as well as their selection criteria;
- the publication of ethics guidelines for city employees that promote compliance with core organizational values;
- the adoption of a code of ethics and conduct for members of city council and borough councils in September 2009;
- the implementation, in December 2009, of an ethics hotline administered by the office of the general auditor to prevent fraud and waste;
- the creation, in December 2009, of the new Service des affaires juridiques that reports directly to the Direction générale to ensure its independence from other city departments;
- the recent adoption, in April 2010, of a governance framework for projects and programs pertaining to the management of municipal assets that provides municipal and para-municipal stakeholders with a first-class tool based on best management practices in this area.

Moreover, the City intends to adopt a new procurement policy and to create a controller's office to strengthen its internal audit structures.

Finally, the changes proposed under Bill 76 regarding contract allocation in the municipal sector will also support and strengthen those measures announced by the municipal administration.

In conclusion, the introduction of such measures should help reduce the concentration of contracts awarded to the same contractors. Although a sufficient amount of time must be allowed for these measures to take full effect, I intend to reassess the distribution of awarded contracts at the beginning of 2011. According to my findings at that time, I will then evaluate the relevance of carrying out the appropriate audits.

### Recommendations

**I encourage municipal authorities to pursue the measures undertaken and, in light of the results obtained, to introduce additional measures to counter any undesirable effects.**

## C. FOLLOW-UP ON RECOMMENDATIONS FROM THE MARCH AND APRIL 2009 AD HOC REPORTS

At the beginning of 2009, the Société d'habitation et de développement de Montréal (SHDM) was the subject of several business management studies assessing the integrity of its property sales process, the transparency of its project management method as well as compliance with administrative rules set forth by the Société and the City of Montréal.

These studies and reports included:

- the KPMG study on the actions of the Société's senior management;
- the Contrecoeur land sale and project management study conducted by Samson Bélair/Deloitte & Touche;
- the general auditor's report on the Contrecoeur land sale;
- the general auditor's project management report;
- the general auditor's report on property sales to third parties.

Some of the findings from these public reports raised questions that lead to an ongoing police investigation by the Sûreté du Québec's Marteau squad.

In the meantime, the boards of directors of the SHDM and the City initiated measures to tighten the Société's business management. Among others:

- the City elected a new board of directors to the SHDM;
- a new director general was appointed;
- the SHDM audit committee adopted a three-year audit plan whose implementation was entrusted to an independent firm in April 2010 following a call for tenders;
- the Société's delegation policy was amended;
- the board of directors created committees to be kept abreast of the Société's operations, sales and investments.

In our opinion, these actions reflect the management's determination to better protect the public property entrusted to the SHDM from this point forward. In 2010, the general auditor will continue to follow up on the recommendations of the above-mentioned reports to ascertain compliance with the legislation and administrative regulations that ensure management integrity and transparency in order to avoid any repetition of the unacceptable situations that came to light in early 2009.

In some cases, I decided to move ahead with the follow-up of certain recommendations that should have been addressed in my 2010 audit report. Here is the status of the general auditor's recommendations on the Faubourg Contrecoeur project, the SHDM project management approach and property sales.

#### The Faubourg Contrecoeur Project

For this report, we followed up on the 12 recommendations that were finally made. All but two of them have been or are being implemented. The first recommendation that was ignored focused on obtaining documentation supporting the \$16.8 M cost deduction from the sale price for soil remediation work, the construction of noise control earth berms, the acoustical design of buildings and the fees incurred by the SHDM. The other recommendation addressed compliance with certain conditions pertaining to the deed of sale of land to the SHDM. To date, there is no evidence of any action undertaken by the administrative unit to remedy the situation for these two overlooked recommendations.

#### The SHDM Project Management Approach

In this case, we noticed that the Société expended significant efforts to implement our recommendations. Out of the 31 recommendations from our audit report, 24 are "completed" and 4 others are "under way". Furthermore, the three recommendations pertaining to the Affordable Housing Québec program are no longer valid because this program has been cancelled.

The recommendations currently being implemented should be completed by December 31<sup>st</sup> 2010. They are specifically concerned with the review of the memorandum of understanding (MOU) between the Société and the City, the annual strategic plan review and the setting of new deadlines for action items identified through an initiative to improve the effectiveness of the workload (Kaisen).

#### Property Sales

Over the past few months, the SHDM has made changes to its practices. For instance, it improved the quality of information being communicated to its board of directors and created an investment decision committee that reports directly to the board. However, there is still an ongoing police investigation in this matter.

### **D. FOLLOW-UP ON RECOMMENDATIONS FROM THE SEPTEMBER 2009 WATER METERS REPORT**

Since 2008, many scandals have emerged in the construction industry and the management of public affairs. The City of Montréal has not been spared with cases and investigations such as the renovation of city hall and the Contrecoeur project.

There is also the project pertaining to the installation of water meters in IBIs and the optimization of the entire water network that is subject to an ongoing police investigation. In the spring of 2009, the general auditor was tasked by the agglomeration council to review the process that resulted in the awarding of a \$355 M contract to the GÉNleau consortium for the completion of this work. The main findings of the general auditor's report that was tabled in the fall of 2009 indicated that:

- some legislation and administrative rules had been ignored;
- city council and agglomeration council members had been ill-informed;
- the City's administrative structure no longer had the human resources needed to compete with the private sector;
- the City lacked real measures to protect itself against corruption and collusion;
- the City had no control over the costs of its projects;
- the tightness of the contract awarding process was never audited as intended;
- the project costs appeared to be excessive;
- nearly half of the water meters in IBIs would never be used for billing purposes.

In light of these findings, several recommendations were made to help improve city governance and project management. Upon publication of this report, municipal authorities brought about significant changes to the City's administrative structure, created committees to assess the merits or feasibility of my recommendations and implemented corrective measures for procurement and other areas. In addition, the Direction générale of the City presented the executive committee with a new governance framework for projects and programs pertaining to the management of municipal assets on April 19<sup>th</sup> 2010. It is too early to assess the effectiveness of these measures, but I will perform an in-depth assessment later in 2010.

As a reminder, here are some key recommendations from my report:

- *“We recommend that the City strengthen its internal expertise with respect to the development and management of complex projects to counterbalance the approaches and solutions offered by external firms*
- *We recommend reviewing governance practices in relation to project management. The following avenues of reflection could be pursued:*
  1. *Implementing and fine-tuning governance and project management structures before launching major projects.*
  2. *Ensuring there are capable in-house resources for project management and review mechanisms to facilitate their integration, support, training and mobility.*
  3. *Appointing a controller who will report directly to the executive committee and whose principal mission will be to advise City departments and organizations, mainly about major projects. This person's mandate will be to conduct risk analyses and effectiveness and efficiency studies, as well as to evaluate internal control mechanisms.*
  4. *Creating a team specializing in flat costs within the Direction de l'approvisionnement, and having this team participate in the development of benchmark proposals and the evaluation of bids during major calls for tenders.*
  5. *Changing the procedure for issuing tenders in order to specify the prices that the City intends to pay for the materials needed for the planned work.”*

I will review the status of these recommendations in further detail later in 2010. At that time, I will also examine the action plan established by the municipal authorities and the measures that were implemented to act upon my report.

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## II. Overview of the General Auditor's Office





## II.1. Current Status of the Workforce



## II. OVERVIEW OF THE GENERAL AUDITOR'S OFFICE

### II.1. CURRENT STATUS OF THE WORKFORCE

As my predecessor repeatedly pointed out in his previous reports and as the table below clearly illustrates, this office has experienced a continuous decline in the size of its workforce over the past few years.

**Table 1—Workforce Growth 2002–2009<sup>1</sup>**

<b>Year</b>	<b>Total of employees</b>
<b>2002</b>	<b>41</b>
<b>2003</b>	<b>36</b>
<b>2004</b>	<b>38</b>
<b>2005</b>	<b>37</b>
<b>2006</b>	<b>35</b>
<b>2007</b>	<b>33</b>
<b>2008</b>	<b>28</b>
<b>2009</b>	<b>26</b>

Retirements and recruitment problems are primarily responsible for this decline. A number of recruiting drives were organized between 2006 and 2008, but they did not result in the expected outcomes. The salary structure for professional staff was lower than that in the equivalent market, which is chiefly made up of public accountants.

As we are able to note, the constant decline in the workforce is already jeopardizing the ability of the general auditor's office to fulfil its mission. In 2012, we expect that we will only have 20 employees remaining if nothing is done about this situation.

Among the measures taken to remedy this problem, I have secured the creation of professional positions at a higher pay scale than what we have been able to offer in the past. I hope that with the creation of these new positions we will be able to fill the vacancies. At the time these lines were being written, our office was on a recruitment drive.

If this drive proves to be unsuccessful, I intend to report the situation to city council.

---

<sup>1</sup> Workforce figures for 2008 and 2009 do not include two audit professionals who were released full-time for union activities.



## II.2. Performance Indicators



## II.2. PERFORMANCE INDICATORS

During the course of our audits, we often observe the absence of appropriate performance indicators enabling thorough administrative follow-up and suitable reporting.

Like my predecessor, I feel it is appropriate to present the indicators that seem to me the most relevant in order to enable the reader to form an opinion about the performance of the general auditor's office.

These indicators are:

- Number of reports issued;
- Rate of application of recommendations;
- Time utilization;
- Equal access to employment; and
- Financial results.

### NUMBER OF REPORTS ISSUED

Table 1—Number of Reports Issued from 2005 to 2009

Reference year	Financial audit			Value-for-money and management audit
	Total	Current year	Previous year	
2005	36	21	15	12
2006	27	11	16	9
2007	15	10	5	10
2008	17	12	5	8
2009	13	11	2	7

The difference in the number of financial audit reports issued in 2009 compared to 2008 can be explained mainly by the number of reports that are no longer required for this type of audit.

## RATE OF APPLICATION OF RECOMMENDATIONS

Table 2—Rate of Application of Recommendations Stemming from the Value-for-money Audit—City

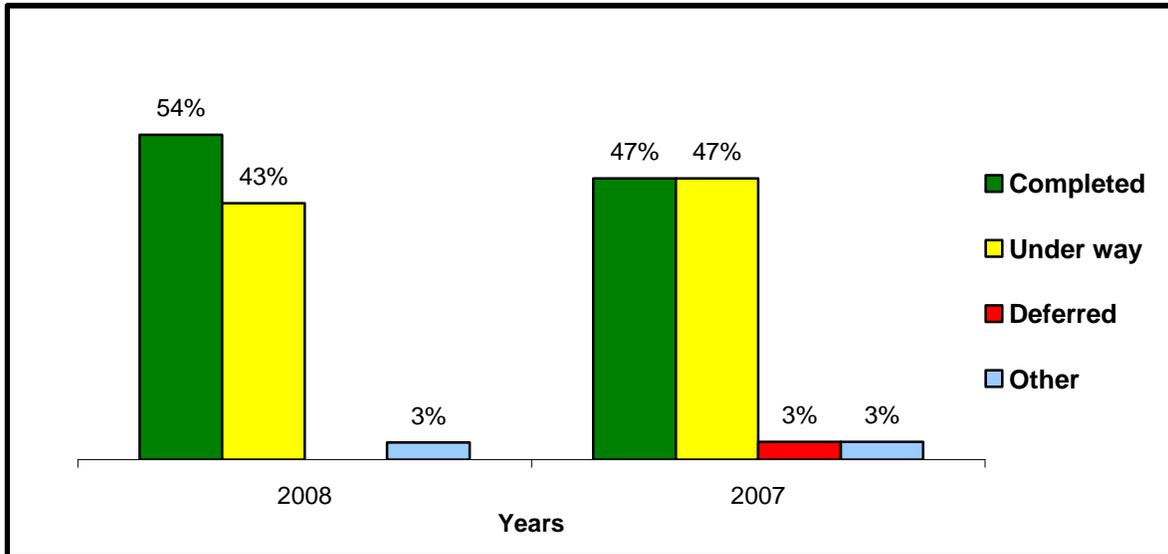
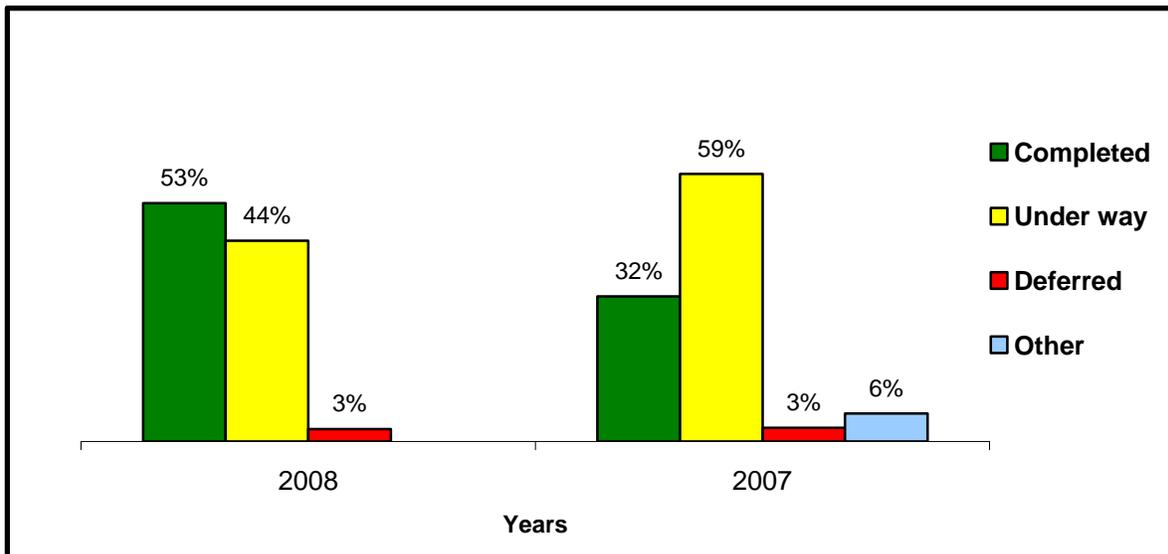
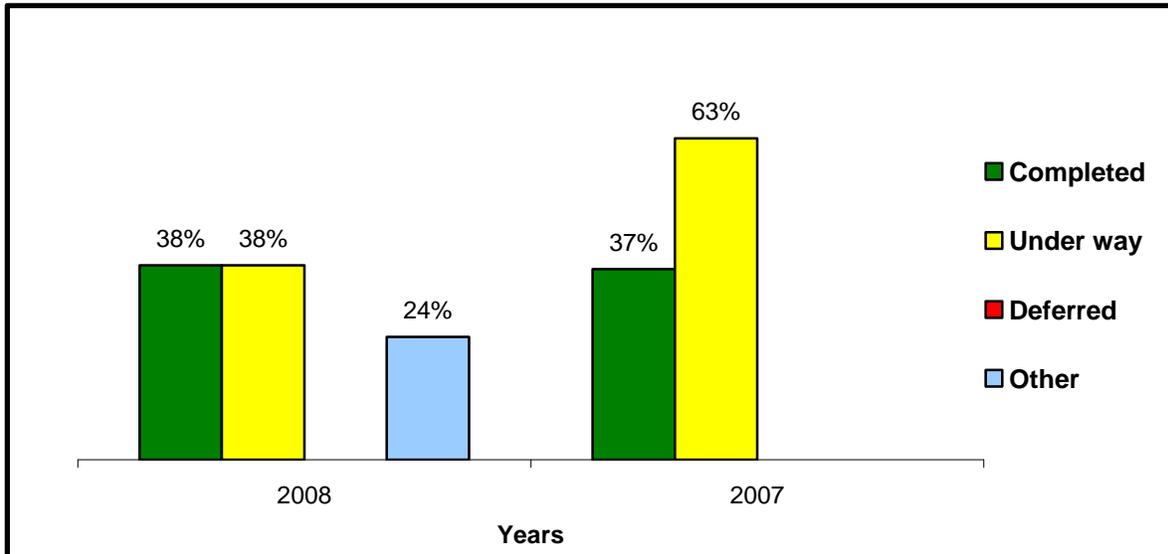


Table 3—Rate of Application of Recommendations Stemming from the Information Technology Audit—City



**Table 4—Rate of Application of Recommendations Stemming from the Financial Audit—City**

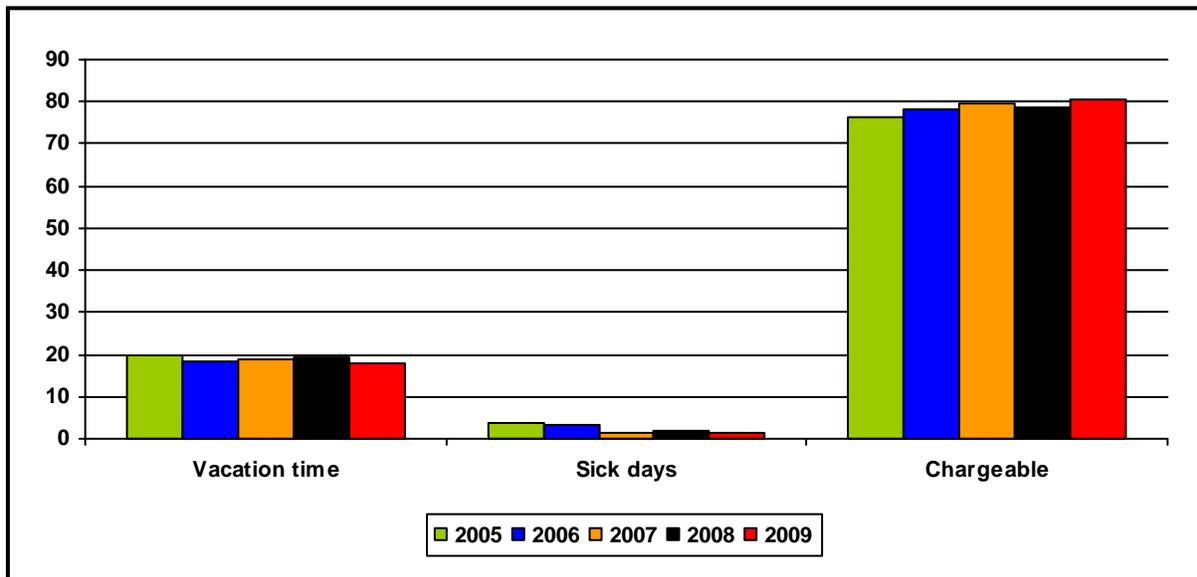


In my opinion, this indicator is particularly important, since it enables evaluation of the appropriateness and realistic nature of the recommendations made by the general auditor's office.

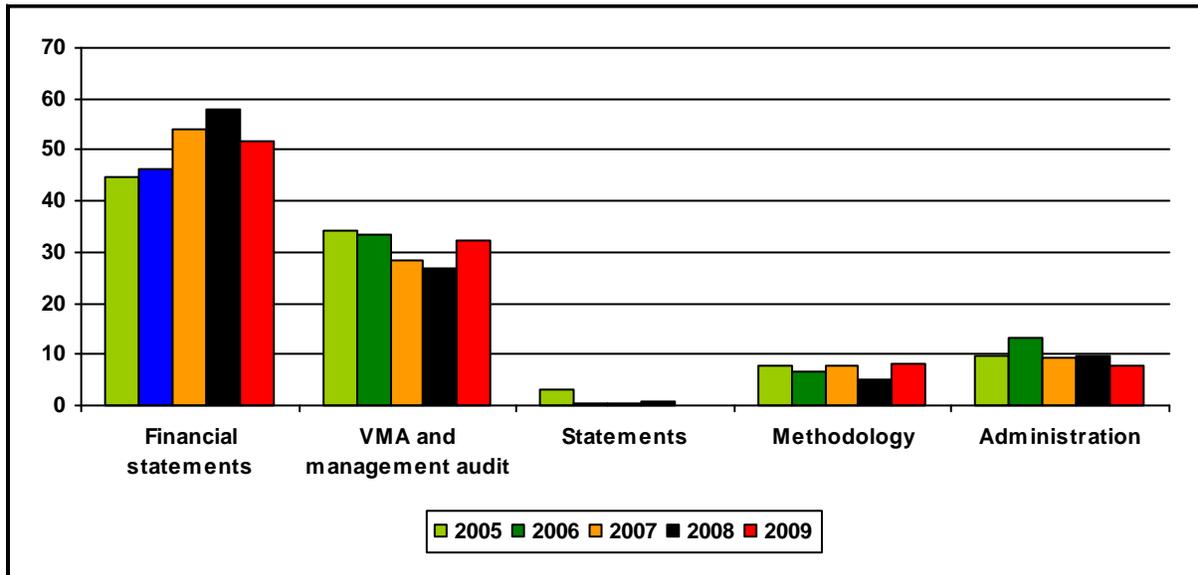
Overall, I feel that it demonstrates good performance, especially in terms of the information technology (IT) and value-for-money audit.

### TIME UTILIZATION

**Table 5—Breakdown of Total Hours in %**



**Table 6—Breakdown of Chargeable Hours in %**



VMA: Value-for-money audit.  
Methodology: Includes accounting research, quality control and training.

The data on time utilization illustrate that the decrease in time devoted to value-for-money and management audits in the past few years because of the increased effort devoted to the audit of the financial statements resulting from the creation of the agglomeration and the adoption of new accounting standards corrected itself in 2009. This situation can be explained by the steps taken by the Office to review the sharing of effort required for the audit of the financial statements with the external auditor.

**Table 7—Other Indicators Regarding Time Utilization**

	Results	
	2009	2008
1. Rate of audit staff turnover	16%	11%
2. Rate of absenteeism (audit professionals)	1.5%	1.9%
3. Number of hours of training	1,257	952
4. Average number of hours of training per employee	49	38
5. Ratio of training costs/payroll expenditures in accordance with Bill 90. The objective for all City operations is 1%.	4.0%	2.9%

Our rate of staff turnover can basically be explained by departures due to retirement. We have also continued to invest in updating and developing our skills.

## EQUAL ACCESS TO EMPLOYMENT

Like the City of Montréal, the general auditor's office pays particular attention to issues of equal access to employment.

On the one hand, as at December 31<sup>st</sup> of the last three years, the breakdown of the representation of groups targeted by the *Act respecting equal access to employment in public bodies* was as follows:

**Table 8—Representation of Targeted Groups**

	2009	2008	2007
Men	64.3%	63.3%	60.3%
Women	35.7%	36.7%	39.7%

	2009	2008	2007
First Nations	0.0%	0.0%	0.0%
Visible minorities	3.6%	3.3%	6.1%
Ethnic minorities	0.0%	0.0%	0.0%
<b>Total</b>	<b>3.6%</b>	<b>3.3%</b>	<b>6.1%</b>

On the other hand, as at December 31<sup>st</sup> in both 2008 and 2009, the under-representation of targeted groups within the Office was as follows:

**Table 9—Under-representation of Targeted Groups**

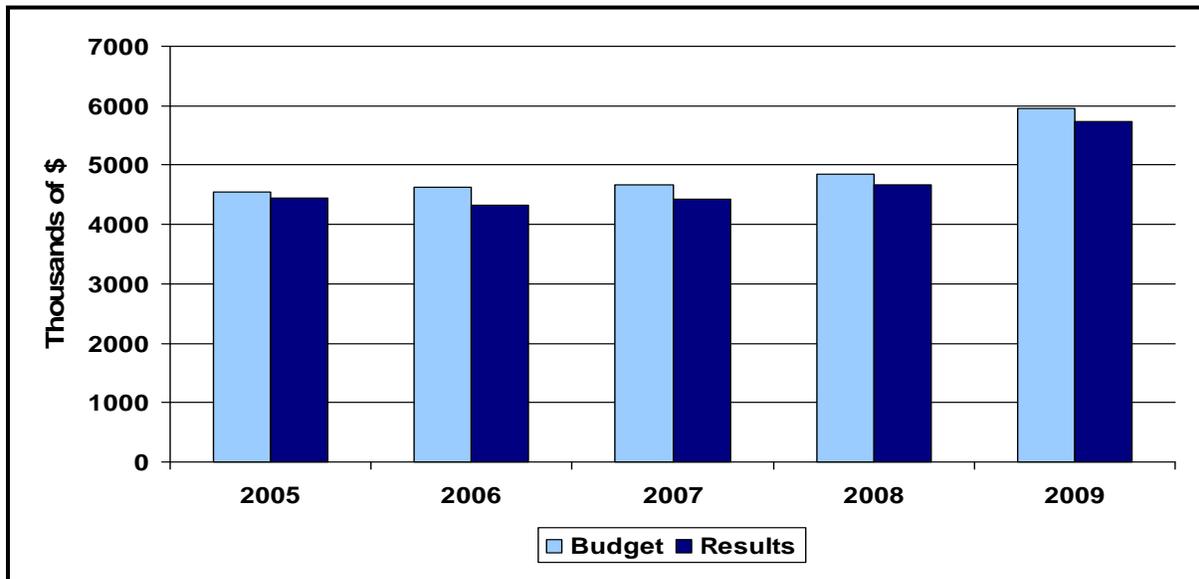
	2009		2008	
	Number	Percentage	Number	Percentage
Women	2	7.1%	2	6.7%
First Nations	0	0.0%	0	0.0%
Visible minorities	0	0.0%	1	3.3%
Ethnic minorities	1	3.6%	2	6.7%

It should be noted that under-representation of each of the targeted groups cannot be compared with previous years because the calculation method used by the Commission des droits de la personne et des droits de la jeunesse (CDPDJ) was different.

In other respects, the ability of the Office to remedy this under-representation depends on the resolution of the aforementioned problems in recruiting the staff needed to fulfil its mandate.

## FINANCIAL RESULTS

Table 10—Budget and Financial Results



The final indicator deals with the Office's financial results. We want to stress that the significant increase in our 2009 budget resulted primarily from the specific audits requested by city council with respect to the SHDM and the plan to install water meters in IBIs and optimize the water network. The increase will therefore not recur.

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## III. Accountability Report for the Ethics Hotline





### III. ACCOUNTABILITY REPORT FOR THE ETHICS HOTLINE

#### INTRODUCTION

On April 27<sup>th</sup> 2009, in keeping with the recommendation of the general auditor's 2008 annual report, city council adopted resolution CM09 0293 requesting that the office of the general auditor set up an ethics hotline to prevent fraud and waste. This same resolution asked the executive committee, pursuant to the legislation, to authorize any budgetary funds required by the general auditor to diligently execute this assignment without imposing any repercussions on his main duties, as defined by the legislation.

The general auditor's ethics hotline became operational on Monday, December 14<sup>th</sup> 2009.

#### PRINCIPLES AND GOALS OF THE ETHICS HOTLINE

The ethics hotline allows employees, elected officials, mayoral staff and suppliers to anonymously and confidentially report any instance of "observed or suspected" wrongdoing in relation to the management of city business or any activities in violation of the *Guide de conduite*. Reportable wrongdoing includes the violation of any law, regulation, contract, agreement, rule, practice or internal guideline involving the City or an agency under its control. Examples of wrongdoing that should be reported include:

- falsification or unauthorized alteration and destruction of documents;
- unauthorized manipulation of computer or other data;
- improper use of city property, facilities and files;
- embezzlement;
- acceptance of bribes or kickbacks;
- theft or vandalism of city property;
- real, potential or apparent conflict of interest;
- payment for goods not supplied or services not rendered.

The ethics hotline is designed to protect its users from any subsequent act of retaliation against them. First and foremost, tipsters remain anonymous. In addition, the existing audit and investigation process prevents the disclosure of information about any reported cases and parties who may be involved.

Essentially, the ethics hotline serves as a means of communicating with the general auditor. We already receive information on problematic situations through e-mails, letters (anonymous and signed) and even private meetings. This information comes to us from city employees, elected officials and external parties. The general auditor's office is fully committed to protecting the confidentiality of this information and the identity of those who contact us.

## MAIN FEATURES OF THE ETHICS HOTLINE

Upon adoption of the above-mentioned resolution, we undertook the measures necessary to set up the ethics hotline. Its main features are described below:

- the hotline consists of a dedicated telephone line and secure Web site, available 24 hours a day, seven days a week;
- the telephone line and Web site are managed by Clearview, an external firm that operates independently of the City of Montréal and acts as the authorized agent of the general auditor for the purpose of collecting information;
- on behalf of the general auditor, Clearview ensures the confidentiality of the information submitted and the anonymity of the ethics hotline users. It administers a system for compiling the reports after they are received. These reports are stored on a server that belongs to the firm and is not linked in any way to the city network. Clearview notifies the duly authorized representatives of the general auditor by e-mail whenever a report is received;
- these individuals then process the submitted reports, in an impartial and confidential manner, via direct access to the Clearview site, which is secured using proven encryption techniques;
- once their report is submitted, ethics hotline users receive a user ID and password that allow them to track the status of their file at any time and to respond to any requests for additional information from the general auditor.

## INFORMATION CAMPAIGN

In order to inform potential users of the availability of the ethics hotline and the manner in which it operates, an internal information campaign was carried out in the fall of 2009. This campaign included:

- meetings with union representatives;
- a presentation to the management committee of the City of Montréal;
- a meeting with the ombudsman;
- a meeting with the chairman of the city council;
- the drafting and distribution of an information brochure on the ethics hotline to all employees;
- the distribution of posters throughout the internal city network;

- the posting of general ethics hotline information on the City's intranet;
- the posting of a document entitled *Processus régissant l'utilisation de la ligne éthique du vérificateur général* on the City's intranet for on-line consultation by employees and elected officials.

At the end of 2009, we launched an information campaign targeting external stakeholders, mainly suppliers. To this end, the City incorporated a link to the general auditor's ethics hotline in the "Business" and "Directory of service providers" pages of its Web site. In addition, a press release was issued on December 15<sup>th</sup> 2009 to announce the activation of the ethics hotline.

Starting in January 2010, we approached the various central departments of the City and the boroughs and offered to deliver a presentation on the workings of the ethics hotline to their respective management committee. From our perspective, these meetings were very productive as they allowed us to resolve certain doubts and provide further details about the hotline. As of April 15<sup>th</sup> 2010, we had delivered a total of 17 presentations to the central departments and boroughs.

On March 25<sup>th</sup> 2010, an internal memo was sent to clarify certain elements and facilitate the processing of all cases reported through the ethics hotline. Periodic follow-up communications will be issued to promote the visibility of the general auditor's ethics hotline.

**Among others, we plan on extending our information campaign to all agencies under the City's jurisdiction. We will be contacting the following organizations in the near future and offer to deliver them a presentation on the ethics hotline:**

- **the Société de transport de Montréal;**
- **the Société d'habitation et de développement de Montréal;**
- **Technoparc Montréal;**
- **the Société du parc Jean-Drapeau;**
- **the Conseil des arts de Montréal;**
- **the Conseil interculturel de Montréal;**
- **the Office de consultation publique de Montréal;**
- **the Société de gestion Nauberges de Lachine;**
- **Anjou 80.**

**Ultimately, the general auditor expects all city managers and those within the various city-controlled agencies to contribute constructively to the success of the ethics hotline. They can do this by confirming to their employees that this is a legitimate service and explaining the reasons**

for its existence, i.e. to foster a healthy working environment and ensure that the City is beyond reproach in all of its business dealings.

The general auditor invites all employees, elected officials, mayoral staff, members of city council committees and suppliers to remain attentive to anything that may point to wrongdoing. Their co-operation is also essential during the investigation process.

**STATUS OF CASES REPORTED THROUGH THE ETHICS HOTLINE AS OF MARCH 31<sup>st</sup> 2010**

As of March 31<sup>st</sup> 2010, 53 cases had been reported. Table 1 provides an overview of their status.

**Table 1—Status of Cases Reported Through the Ethics Hotline as of March 31<sup>st</sup> 2010**

Case status	Number	Comments
Closed	20	Sixteen of these cases were not consistent with the purpose of the ethics hotline because they did not involve any wrongdoing, they did not involve organizations under the jurisdiction of the City, they dealt with labour relations issues that first needed to be addressed by the usual authorities, etc. Five of these reports concerned topics that may give rise to more general management audits in the normal course of our operations. As for the other four, they were groundless or insufficiently substantiated.
Awaiting information	4	We have contacted those who reported the incident through the secure Clearview system. We are waiting for further information. However, if these people do not log into the Clearview system using their user ID and password, they will not see the follow-up messages and we will probably be unable to pursue our investigation.
Under investigation	29	These reports are currently undergoing a preliminary review to identify whether there are sufficient grounds to justify an in-depth audit or investigation requiring the services of in-house or even external resources. A budget request has been submitted for these resources in order to avoid hindering our ability to execute the other aspects of our mission.

Table 2 features a breakdown, by category, of cases awaiting information and under investigation.

**Table 2—Breakdown of Ethics Hotline Reported Cases by Category**

Category	Number
Unethical conduct or conflict of interest	14
Unauthorized manipulation or falsification of data	0
Theft, embezzlement, fraud	5
Breach of laws, regulations, policies or procedures	8
Others	6

Table 3 indicates the source of the 53 reported cases.

**Table 3—Breakdown of Ethics Hotline Reported Cases by Source**

Source who reported the case	Number
Elected municipal official	1
City employees	32
City suppliers (current or potential)	1
Residents	8
Unknown (status not identified by the reporting party)	11

## BUDGET REQUEST

In March 2010, we presented the executive committee with a request to obtain an additional recurring budget of \$650,000 to cover the following expenditures:

- fixed expenses related to the ethics hotline;
- the hiring of additional resources;
- the hiring, as necessary, of external resources to provide extra support.

The operating costs of the ethics hotline include fixed and variable expenses that cannot be assumed by the general auditor's office through its current operating budget without affecting the execution of its main duties under the *Cities and Towns Act*.

We have clearly documented our needs on the basis of the anticipated number of cases to be reported in 2010. This projection is predicated primarily on the number of reported cases during the first three months that the line was in operation and the estimated workload derived from the time spent processing reported cases to date. We expect that the annual volume of reported cases will be roughly 150 to 200.

This budget is subject to an annual review based on the number of cases actually reported and the efforts required to process them. **At the time these comments were written, we still had not received a favourable response to this request from the executive committee.**

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## IV. Financial Audit





## IV.1. Financial Audit Results for the City of Montréal



## IV. FINANCIAL AUDIT

### IV.1. FINANCIAL AUDIT RESULTS FOR THE CITY OF MONTRÉAL

On March 22<sup>nd</sup> 2010, we presented the audit committee with our unqualified auditor's report on the consolidated financial statements of the City of Montréal as at December 31<sup>st</sup> 2009. At the same time, we submitted the auditor's reports concerning the apportionment of mixed expenditures and the aggregate taxation rate.

Thus, in accordance with the *Cities and Towns Act* of Québec, these reports and their related financial data will be submitted to the April 2010 meetings of the city council and agglomeration council.



## IV.2. Audit of Other Municipal Organizations



## IV.2. AUDIT OF OTHER MUNICIPAL ORGANIZATIONS

In accordance with the *Cities and Towns Act* of Québec, we must conduct financial audits of organizations controlled by the City of Montréal.

Appendix 2 of this report provides a list of the organizations for which we have issued unqualified audit reports on financial statements.



## IV.3. Follow-up on Recommendations from Previous Years



## IV.3. FOLLOW-UP ON RECOMMENDATIONS FROM PREVIOUS YEARS

Over the past few years, recommendations with regard to the City of Montréal's financial audit have been issued to those responsible for managing financial information. Generally speaking, we have found that the majority of them have resulted in corrective actions, while some are in the process of being implemented.

We would like to make it clear that none of the recommendations dealt with in this section have any material significance requiring their disclosure.



## IV.4. Findings and Recommendations Resulting from the Financial Audit of the City and Other Municipal Organizations



## IV.4. FINDINGS AND RECOMMENDATIONS RESULTING FROM THE FINANCIAL AUDIT OF THE CITY AND OTHER MUNICIPAL ORGANIZATIONS

### PRESENTATION OF THE 2009 CONSOLIDATED FINANCIAL STATEMENTS OF THE CITY AND THE SOCIÉTÉ DE TRANSPORT DE MONTRÉAL

Beginning with the 2009 fiscal year, local administrations were supposed to modify the presentation of their financial statements in order to comply with the generally accepted accounting principles (GAAP) recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Going forward, CICA standards from the following chapters will apply: PS 1000 – *Financial Statement Concepts*, PS 1100 – *Financial Statement Objectives*, PS 1200 – *Financial Statement Presentation* and PS 3150 – *Tangible Capital Assets*. Their adoption constituted the last step in the changeover to CICA standards.

In relation to these changes, the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT) revised the annual financial reporting form it provides to municipalities, which the latter must complete and send to the ministry, in accordance with section 105 of the *Cities and Towns Act*.

The City of Montréal and the Société de transport de Montréal (STM) based their 2009 financial statements on the MAMROT form. We have studied these documents with respect to both their content and their form. The general auditor of Montréal has issued an unqualified opinion on the 2009 consolidated financial statements (just as the external auditors have done). However, in our opinion, these formats for presenting financial information have some shortcomings that make their interpretation difficult, even for the knowledgeable reader.

The presentation of financial information adopted by Québec's municipal sector is intended to fulfil two objectives:

- Respecting the GAAP standards issued by the CICA;
- Providing elected officials and citizens with information about budgets and Québec's fiscal environment.

The wording of the auditor's report deals with financial statements drawn up according to the GAAP, as required by CICA standards; that being said, the presentation format adopted in Québec includes information prepared for fiscal purposes.

**FINDING**

**We have observed that this approach results in the issuing of financial statements in which the reader has difficulty in knowing precisely if the notes and tables are related to GAAP or fiscal principles. In the face of this situation, the audit committee has suggested that a working committee made up of representatives from the Service des finances, the audit committee and auditors look into this problem in order to lend greater clarity to the financial statements for the 2010 fiscal year.**

It is important to specify that fiscal information is as essential for the reader as is respect for CICA standards. Conceptually, the major differences between these approaches are to be found in the accounting treatments for the amortization of capital assets, debt repayment, employee future benefits, transfer income and surplus allocation.

**Recommendations**

**We recommend that this committee be established and meet as quickly as possible so that the solutions adopted can be implemented before the very busy period when the financial statements must be prepared and audited begins.**

**OTHER RECOMMENDATIONS WITH RESPECT TO THE 2009 FINANCIAL AUDIT**

At the time this report was being written, findings resulting from our financial audit had not been presented to those responsible for the disclosure of the City's and municipal agencies' financial information.

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## V. Information Technology (IT) and Value-for-money Audit





## V.1. Follow-up on Recommendations from Previous Years



## V. INFORMATION TECHNOLOGY (IT) AND VALUE-FOR-MONEY AUDIT

### V.1. FOLLOW-UP ON RECOMMENDATIONS FROM PREVIOUS YEARS

The percentage of the general auditor's recommendations that were the subject of concrete corrective measures is an essential indicator for ensuring that departments and boroughs apply our recommendations promptly.

The policy of the general auditor's office is to begin follow-up on recommendations the year after they appear in the annual report. The cycle of follow-ups on recommendations for a given year generally extends over a period not exceeding three years, except in very specific circumstances in which some recommendations are followed up on for an additional year.

The table below presents results of follow-ups done on the recommendations made from 2005 to 2008 (published in the annual reports of 2006 to 2009):

**Table 1—Results of Follow-ups on Recommendations**

Status of the recommendations	2005	2006	2007	2008	Total
Completed	181	216	103	38	538
Under way	1	16	68	31	116
Reported	–	–	4	1	5
Cancelled	6		1	1	8
Not completed	9	10	3	–	22
No longer valid	3	2	–	–	5
Other	–	–	3	–	3
<b>Total number of recommendations made</b>	<b>200</b>	<b>244</b>	<b>182</b>	<b>71</b>	<b>697</b>

More specifically in respect to the recommendations made in 2008, 97% are considered to have been “completed” or are “under way,” compared with a yearly objective of 80% set by the city administration.

As concerns all the recommendations made since 2005, the follow-up done in March 2010 showed that 538 were completed, including 99 during the past 12 months. On a cumulative basis (over the last four years), therefore, close to 77% of recommendations were completed, whereas 17% are under way. Overall, these are excellent results.

### General Auditor's Comments

**In spite of the results achieved, we wish to draw attention, nonetheless, to two troubling situations that have not been resolved to our satisfaction.**

#### Building Maintenance Management

In November 2005, we issued an audit report on building maintenance management. This report noted, among other things, the lack of an investment strategy aimed at stabilizing and clearing the annual deficit for maintaining the buildings that make up the City's building inventory. At that time, a cursory, conservative assessment determined the annual maintenance deficit to be \$14 million and the accumulated deficit \$301 million.

Our follow-ups in March 2010 indicate that a detailed assessment of the state of each building was carried out by a specialized firm and that the SMVTP submitted an integrated strategic building management plan for City of Montréal buildings to the executive committee on June 3<sup>rd</sup> 2009. This plan stated that, in 2008, the budget needed for annual building maintenance should have been \$82 million and that the actual expenditure was \$40 million. Thus, the annual maintenance deficit reached \$42 million and the accumulated deficit \$1 billion, which represents a 24% depreciation ratio (accumulated maintenance deficit/replacement value).

To achieve the \$42 million target, the plan proposed a cumulative increase in the annual maintenance budget of approximately \$8 million a year for the next five years. The manager responsible for the Division stratégies immobilières at the City informed us, however, that none of the additional funds needed to stabilize and clear the annual maintenance deficit were made available. If no additional amounts are allocated for building maintenance in the next few years, it can be expected that the depreciation ratio will pass the 30% mark and thus significantly increase the risk of service disruptions to the City's operations. At the time of our follow-up, no decision had yet been taken by the executive committee or city council to implement this recovery plan.

#### Fire Prevention Activities

Regarding the *Fire Prevention Activities* audit report issued in February 2008, in April 2008 the Direction générale and the Service de sécurité incendie de Montréal submitted a schedule to us that provided for implementation of the 20 recommendations it made between December 31<sup>st</sup> 2008 and March 31<sup>st</sup> 2010. During our follow-up in March 2010, we ascertained that 19 recommendations were still "under way." This situation is all the more troubling because the Service de sécurité incendie de Montréal has postponed completion of more than half of these recommendations to 2013.

It is our opinion, therefore, that these new schedules for completion are non-compliant with the action plan originally submitted to us in 2008. In accordance with our follow-up process, therefore, we will have to consider that, as of 2011, these recommendations are “not completed.”



## V.2. Life Safety and Building Security Contracts



## V.2. LIFE SAFETY AND BUILDING SECURITY CONTRACTS

### 1. INTRODUCTION

To ensure the protection of individuals, buildings and property inside the City's buildings, the various administrative units retain the services of municipal security guards or private security agencies.

The municipal security guards are grouped under the Division sécurité of the Service des immeubles et des systèmes d'information. One of this division's duties is to provide security-related consulting services, patrol services, guard services and central monitoring units to boroughs and corporate departments. Municipal security guards are responsible for providing guard services to the boroughs and corporate departments that made up the City of Montréal prior to the municipal amalgamations. They protect several buildings, including city hall, the water supply plants and the municipal court building located on Gosford Street.

As for private security agencies, they work under guard service contracts with boroughs and corporate departments. They address specific security needs in other buildings, including the headquarters of the Service de police, the wastewater treatment plant, points of service of municipal courts (with the exception of the municipal court located on Gosford Street) as well as some parks and libraries in certain boroughs.

The private security agencies are subject to the *Act Respecting Detective or Security Agencies*, its regulations and the *Decree Respecting Security Guards*. The Act and regulations provide, among other things, that security agencies and security guards must hold a valid permit that is granted only under certain specific conditions. Essentially, the Ministère de la Sécurité publique investigates all applicants and issues a permit to those who possess the required qualifications and meets the conditions prescribed by the regulations. As for the *Decree Respecting Security Guards*, it stipulates that the collective agreement entered into between the Association provinciale des agences de sécurité and the Union des agents de sécurité du Québec must apply to all guards. It also mandates, among other things, the minimum hourly rates and benefits that guards are entitled to.

Municipal contracts must be awarded pursuant to section 573 of the *Cities and Towns Act*. This section deals with the requirement to proceed by way of public tenders for contracts of \$100,000 or more and by way of written invitations to tender for contracts with a value between \$25,000

and \$100,000. It also sets out the rules concerning, in particular, the announcement of public tenders, bid submission deadlines and the opening of bids.

## 2. AUDIT SCOPE

The purpose of this audit was to ensure that contracts with private security agencies were awarded in compliance with the provisions referred to in section 573 of the *Cities and Towns Act*, that the required authorizations were obtained in due time and that the contractual terms have been respected.

Our audit was conducted in various corporate departments, including the Service de police de la Ville de Montréal (SPVM), the Service des affaires juridiques et de l'évaluation foncière (Direction des affaires pénales et criminelles) and the Service des immeubles et des systèmes d'information (Direction des immeubles). While most of our data collection was deliberately limited to 2008 and 2009, we occasionally had to include information from previous years to fulfil our mission.

## 3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

### 3.1. SERVICE DE POLICE DE LA VILLE DE MONTRÉAL

The SPVM retains the services of a security agency for the surveillance of three buildings: its headquarters at 1441 Saint-Urbain Street, the 750 De Bonsecours Street building and the 2620 Saint-Joseph Boulevard East building.

Surveillance in these buildings ensures the safety of people and property, including the SPVM's computer equipment. Moreover, in the case of 750 De Bonsecours Street, the security guards are responsible for meeting and escorting detainees to Montréal's municipal court.

Guard contracts provide for security duties, some of which must be performed around the clock. In addition to access control and metal detection, these services may include escorting detainees, frisking visitors and acting as first responders in case of alarms related to the safety of people and buildings, e.g., fire alarms. These duties must be carried out by trained individuals, and therefore can only be entrusted to security guards or police officers. Given the existing salary of police officers, these tasks are generally assigned to security guards.

The 1441 Saint-Urbain Street and 750 De Bonsecours Street buildings are the SPVM's responsibility. Accordingly, their guard service costs are provided for in this department's operating budget. However, the 2620 Saint-Joseph Boulevard East building, which houses the SPVM's equipment and computer system, is under the responsibility of the Direction des systèmes d'information (DSI) that assumes the guard service costs for that building. Invoice verification is therefore divided between the SPVM for 1441 Saint-Urbain Street and 750 De Bonsecours Street, and the DSI for 2620 Saint-Joseph Boulevard East.

### 3.1.1. 2004 TO 2007 GUARD SERVICE CONTRACT AND ONE-YEAR EXTENSION

#### 3.1.1.A. Background and Findings

On October 6<sup>th</sup> 2003, a call for tenders was issued for the renewal of the guard service contract pertaining to the surveillance of the SPVM buildings over a four-year term from January 1<sup>st</sup> 2004 to December 31<sup>st</sup> 2007. On October 23<sup>rd</sup> 2003, the received bids were opened. However, the executive committee only approved this public call for public tenders on November 12<sup>th</sup> 2003. Subsequently, the Direction de l'approvisionnement of the then Service des ressources matérielles et informatiques prepared a decision report for the purpose of awarding this guard service contract. On December 17<sup>th</sup> 2003, the City's executive committee awarded the contract for the surveillance of these buildings to Agency "A" for a period of four years (from 2004 to 2007). This contract was valued at \$2,323,219 plus taxes.

Our review of the documentation pertaining to the allocation of this guard service contract indicated that it was awarded to the lowest compliant bidder, as reported in the executive summary drafted by the Direction de l'approvisionnement.

Following the awarding of the contract, this agency carried out its security operations in the required buildings, but on August 16<sup>th</sup> 2006, it advised the Direction de l'approvisionnement that it had relinquished some of its assets and all of its guard service contracts to agency "B." This new agency was to keep the existing employees from Agency "A" on staff to provide the agreed-upon guard services in the three buildings. Agency "B" took over these guard services on September 3<sup>rd</sup> 2006.

On January 10<sup>th</sup> 2007, the executive committee of the City approved the transfer of the rights and obligations under the four-year contract signed with Agency "A" for the surveillance of buildings to Agency "B" until December 31<sup>st</sup> 2007. The resulting decision report included the recommendation of the director of the SPVM dated December 13<sup>th</sup> 2006, the decision summary prepared by the SPVM's Section gestion des immeubles as well as the input from the Direction

du contentieux of the Service des affaires corporatives (at the time). This department indicated that the transfer could be made by virtue of section 11 of the document entitled *Instructions au soumissionnaire et clauses générales d'appel d'offres*.

Section 11 mentions that the successful bidder cannot transfer its rights and duties under the contract without the prior written consent of the director. According to section 1 of these instructions, the term "director" refers to the director of the Service des ressources matérielles et informatiques of the City (in 2003, this department included the Direction de l'approvisionnement) or his/her representative.

**FINDING**

**It should be noted that the only written document from a director regarding the transfer of the rights and obligations under the contract that we found was the recommendation from the director of the SPVM as part of the executive summary, which was dated December 13<sup>th</sup> 2006, more than three months after Agency "B" took over.**

In addition, this contract stipulated that its duration could be extended by one year (for 2008) with the authorization of the successful bidder and the executive committee. In other words, this extension had to be approved by the executive committee. In the event that the City opted to extend this contract by one year, giving the original contract a term of five years, the bidder had indicated in its bid that it would increase its hourly rates by 2.75%.

On December 6<sup>th</sup> 2007, Agency "B" informed the Section gestion des immeubles of the SPVM that it would implement a 2.75% increase in its hourly rates beginning January 1<sup>st</sup> 2008 since it had not received any information as to the status of the contract. On February 19<sup>th</sup> 2008, the head of this section indicated to this agency that the contract extension was accepted. Thus, in 2008, Agency "B" continued its operations, and the proposed 2.75% increase in the hourly rates was applied.

**FINDING**

**We did not find any executive summary supporting the approval of the contract extension from January 1<sup>st</sup> to December 31<sup>st</sup> 2008 by the executive committee.**

This approval process should be revisited in light of the current legal framework of the City that provides for the existence of the agglomeration council since 2006.

The total guard services fees for the year 2008 were \$833,118 broken down as follows: \$667,846 for 1441 Saint-Urbain Street and 750 De Bonsecours Street, and \$165,272 for 2620 Saint-Joseph Boulevard East.

### 3.1.1.B. Recommendations

We recommend that the Direction de l'approvisionnement implement a mechanism to pre-authorize the transfer of the contractual rights and obligations of successful bidders as a way to clearly demonstrate its consent and ensure that these transfers comply with the initial contractual conditions.

We recommend that the Section gestion des immeubles of the SPVM prepare, in due time, an executive summary to help municipal authorities decide whether contract extensions under consideration should be approved.

### 3.1.1.C. Action Plan for the Business Unit Involved

- **DIRECTION DE L'APPROVISIONNEMENT**

*[Translation] "As part of the ongoing initiative for the harmonization of call-for-tender documentation at the Direction de l'approvisionnement, some new provisions have been drafted to eliminate any ambiguities. Our recommendations are currently awaiting the endorsement of the Direction du contentieux. These provisions will be included in call-for-tender documentation following the approval of the Direction du contentieux." (Planned completion: June 2010)*

- **SERVICE DE POLICE**

*[Translation] "We will involve the Direction de l'approvisionnement in our decision-making process for contract extensions to ensure that all of the procurement parameters are carefully considered."*

*The Section gestion des immeubles will monitor contract expiry dates with an information system that will issue reminders nine months prior to their expiration. This will provide sufficient time for drafting GDD documents and obtaining any required input." (Planned completion: March 2010)*

### 3.1.2. GUARD SERVICE CONTRACT RENEWAL

#### 3.1.2.A. Background and Findings

When a contract due for renewal, steps must be taken in due time to allow for all of the contract awarding stages to be completed. This includes obtaining the required authorizations prior to the expiry date of the original contract.

#### **FINDING**

**The option for extending the guard service contract pertaining to the SPVM buildings ended on December 31<sup>st</sup> 2008. However, the executive committee did not authorize the solicitation of bids until April 29<sup>th</sup> 2009 and the agglomeration council actually awarded the contract on September 24<sup>th</sup> 2009, more than nine months after the end of the contract extension option.**

Here is the sequence of events that led to the awarding of this contract by the agglomeration council in September 2009:

- Authorization by the executive committee to solicit bids ..... April 29<sup>th</sup> 2009
- Launch of the call for tenders ..... May 11<sup>th</sup> 2009
- Opening of the bids..... May 27<sup>th</sup> 2009
- SPVM's decision summary ..... July 23<sup>rd</sup> 2009
- Recommendation of the SPVM's director.....September 3<sup>rd</sup> 2009
- Recommendation of the executive committee ..... September 16<sup>th</sup> 2009
- Decision of the city council ..... September 21<sup>st</sup> 2009
- Awarding of the contract by the agglomeration council..... September 24<sup>th</sup> 2009

According to the people we interviewed at the Direction de l'approvisionnement and the Section gestion des immeubles of the SPVM, contract renewal discussions began in February 2008. **However, these individuals did not seem to agree on the unfolding of events thereafter. As a result, we could not precisely ascertain why the call for tenders was not launched earlier and the contract was not awarded before the end of December 2008. Moreover, the executive summary that was prepared to obtain the executive committee's authorization to solicit bids does not shed any light on this matter.**

**FINDING**

**We found the wording of the subject of the executive summary and the agglomeration council's resolution for the awarding of this contract to be misleading as it referred to the awarding of a two-year contract valued approximately at \$1,751,990, including taxes. In reality, this amount included the costs of a one-year contract extension. The cost breakdown, including taxes, was \$1,169,557 for the two-year contract and \$582,433 for an optional year.**

Our review of the minutes of the opening of bids indicated that the contract was in fact awarded to the lowest bidder.

Following the awarding of the contract by the agglomeration council, the procurement officer responsible for this file at the Direction de l'approvisionnement tried to arrange a meeting with the selected agency in order to plan the start of operations. During discussions that were held to schedule this meeting, the agency is said to have indicated (on October 29<sup>th</sup> 2009) that it could not abide by the conditions of its bid. However, it never formally advised the City about this. Following several attempts to obtain a written confirmation from the agency, the Direction de l'approvisionnement considered its failure to respond as a withdrawal and took the necessary steps to cancel the awarding of the contract to this bidder. It subsequently recommended awarding the contract to the second lowest compliant bidder for an amount of \$1,825,798, including taxes, for the two-year contract plus one optional year. As of February 2010, this executive summary was still awaiting its submission to the agglomeration council for approval.

Section 4 of the *Instructions au soumissionnaire et clauses générales d'appel d'offres* states that the City shall seize the bid guarantee when the bidder refuses to carry out the contracts or is unable to supply, within the allotted timeframe, the documentation or the information requested in the tender documents or by the director. This guarantee is used to pay the difference between the amount of the winning bid submitted by the lowest bidder and the amount of the contract that the City must sign with another supplier as well as any damages resulting from the bidder's withdrawal or the bid rejection, depending on the circumstances. The bid guarantee requested for this contract was equivalent to 2% of the bid value.

Meanwhile, Agency "B" agreed to continue providing guard services in the SPVM buildings until the new contract was awarded.

**FINDING**

**This agency had agreed to provide interim services under the same conditions that prevailed in 2008. However, this was a verbal agreement without any official documentation.**

Consequently, no executive summary was prepared for obtaining the approval of the executive committee, city council or agglomeration council. In 2009, the guard service costs for these buildings totalled \$926,987 (\$690,235 for 1441 Saint-Urbain Street, \$63,109 for 750 De Bonsecours Street and \$173,643 for 2620 Saint-Joseph Boulevard East).

Moreover, the lack of any written agreement prevented us from assessing the relevance of an hourly rate increase due to a change in the *Decree Respecting Security Guards*. On June 30<sup>th</sup> 2009, the hourly rates for security guards were increased by \$0.80. As a result, Agency “B” increased its hourly rate by \$1.12, which included the basic \$0.80 increase in the hourly rate of security guards, the costs of employee benefits as well as administrative and other fees. The SPVM and the DSI agreed to pay this rate increase.

In a nutshell, major expenses were incurred in 2009 for building guard services without any call for tenders being issued, without any written agreement clearly specifying the contract terms and payment conditions and without any authorization from the executive committee, city council or agglomeration council.

It should be noted that the rates submitted by the second-lowest compliant bidder for the 2009–2011 contract are, in some cases, lower than those currently being paid (as of December 31<sup>st</sup> 2009).

**Table 1—Comparison between the 2009 Hourly Rates and Those of the Second Lowest Compliant Bidder**

Buildings	Positions	Hourly rates paid		Hourly rates of the 2 <sup>nd</sup> lowest compliant bidder	
		2009-01-01 to 2009-06-30	2009-06-30 to 2009-12-31	Anticipated for 2010–2011	Anticipated for 2012
1441 Saint-Urbain Street and 750 De Bonsecours Street	Guard	\$20.57	\$21.69	\$20.26	\$20.68
	Officer	\$20.87	\$21.99	\$20.59	\$21.01
	Captain	\$26.93	\$28.05	\$27.04	\$27.46
2620 Saint-Joseph Boulevard East	Guard	\$17.52	\$18.64	\$20.26	\$20.68

**FINDING**

Our audit of the bid form (2009–2011) revealed that the number of hours allocated to the 1441 Saint-Urbain Street building for the two years of the contract totalled 36,992 hours, or 18,496 hours per year. Given that this building requires three security guards for the formation of the fire brigade as per municipal regulations, the number of hours to be allocated annually should have been 26,280. In short, there was an annual deficit of 7,784 hours in meeting the municipal requirements.

**FINDING**

Finally, we should mention that the individuals we interviewed at the Direction de l'approvisionnement and the SPVM had diverging opinions about their responsibilities in terms of initiating the bidding process and negotiating the 2009 agreement with the supplier.

In fact, according to the Direction de l'approvisionnement, this responsibility is incumbent upon the SPVM in its capacity as the requesting party, whereas the SPVM feels that it is the responsibility of the Direction de l'approvisionnement, given its expertise in this field. This situation clearly demonstrates that the administrators involved should be informed of their responsibilities as far as initiating calls for tenders and negotiating agreements.

**3.1.2.B. Recommendations**

We recommend that the Section gestion des immeubles of the SPVM properly reflect the contractual provisions in the wording of the subject of the executive summaries being prepared for the purpose of awarding contracts so that the municipal authorities have the correct information to make informed decisions.

We recommend that the Section gestion des immeubles of the SPVM, together with the Direction de l'approvisionnement, take the steps required to conclude a timely renewal of the guard service contract. This will ensure that it can be awarded before the end of the existing contract and that the selected bidder can begin its operations on the prescribed date.

Where, for exceptional reasons, the bidding process cannot be initiated in due time and special measures must be taken, we recommend that the Section gestion des immeubles of the SPVM take the necessary measures to reach a written agreement, specifying the contract execution and payment terms. This agreement should be the subject of an executive summary that explains the reasons for this situation with a view towards having it approved by the appropriate authorities.

We recommend that the Section gestion des immeubles of the SPVM, together with the Direction de l'approvisionnement, take the appropriate steps to collect, where applicable, the guarantee deposit provided for in the contract in order to minimize the costs associated with the withdrawal of the bidder.

We recommend that the Section gestion des immeubles of the SPVM review the impacts of underestimating the number of hours of guard services at 1441 Saint-Urbain Street on the awarding of the contract to ensure compliance with the regulations in force.

We recommend that the Section gestion des immeubles of the SPVM and the Direction de l'approvisionnement inform the administrators involved of their respective responsibilities with regard to the steps to be taken when issuing calls for tenders and negotiating agreements so as to ensure they will be undertaken in due time.

#### 3.1.2.C. Action Plan for the Business Unit Involved

- 1) *[Translation] "The Section gestion des immeubles will ensure consistency in the drafting of all decision report documents. That obviously includes the wording of the subject. (Planned completion: March 2010)*
- 2) *We will establish a contract monitoring committee comprised of representatives from the Section gestion des immeubles of the SPVM and the Direction de l'approvisionnement. Among others, this committee will be responsible for planning the renewal of agreements, establishing implementation schedules and determining the roles and responsibilities of the various stakeholders. Moreover, under the present circumstances, we will initiate contract renewal steps in the nine months preceding the end of an agreement to achieve a smoother transition. (Planned completion: June 30<sup>th</sup> 2010)*

- 3) *The establishment of the contract monitoring committee will prevent the re-occurrence of this scenario.*

*The Section gestion des immeubles will draft an agreement in accordance with the recommendations and guidelines of the Direction de l'approvisionnement in the event that special measures have to be initiated. (Planned completion: March 2010)*

- 4) *The Section gestion des immeubles has already asked the Direction de l'approvisionnement to take the measures necessary for cashing the guarantee deposit stipulated in the contract. (Planned completion: February 2010)*

*Steps to this effect have already been taken concerning the current contract. The Direction de l'approvisionnement is waiting for the official response from the surety company. Moreover, our current practices have been adapted in agreement with the Direction du contentieux in order to comply with recent jurisprudence. (Planned completion: May 2010)*

- 5) *The Section gestion des immeubles has already assessed the actual hours anticipated for 1441 Saint-Urbain Street and has requested a provision in the unit's own budget to compensate for the undervaluation and ensure compliance with the regulations in force. (Planned completion: February 2010)*

- 6) *We will establish a contract monitoring committee comprised of representatives from the Section gestion des immeubles of the SPVM and the Direction de l'approvisionnement. Among others, this committee will be responsible for planning the renewal of agreements, establishing implementation schedules and determining the roles and responsibilities of the various stakeholders. Moreover, under the present circumstances, we will initiate contract renewal steps in the nine months preceding the end of an agreement to achieve a smoother transition." (Planned completion: June 30<sup>th</sup> 2010)*

### 3.1.3. BACKGROUND INVESTIGATIONS

#### 3.1.3.A. Background and Findings

In order to become security guards, individuals must possess a security guard permit issued by the Ministère de la Sécurité publique. In this regard, they must complete a form and send it to that ministry who will perform an investigation to determine whether the applicants possess the

required qualifications and meet the conditions prescribed by the regulations. The guard permit is valid for one year or less (depending on the regulations) and must be renewed.

Even though the Ministère de la Sécurité publique conducts an investigation, the SPVM feels it must conduct its own investigation based on the information in its possession. Consequently, one of the special clauses in the call for tenders for the surveillance of the SPVM buildings stipulates that, for any contract over 12 months in duration, active employees of the successful bidder will be investigated every 12 months from the anniversary date of their previous background investigation and that the successful bidder must hire the staff already assigned to these buildings as long as they possess the required qualifications to perform the work described in the specifications. In our opinion, it is definitely important that investigations be conducted whenever security guards are assigned to the SPVM buildings and that these investigations be conducted at regular intervals to ensure that nothing has changed in the situation of these guards and that they still meet all of the criteria established by the SPVM.

We have conducted several audits to ensure that the required background investigations were actually carried out as planned in regard to the security guards employed in January 2010 in the SPVM buildings. **These audits revealed that a background investigation had been carried out for each of these guards and for the agency's administrator.** These investigations were conducted from 2003 to 2009 (two investigations in 2003, ten in 2004, three in 2005, one in 2006, one in 2007, two in 2008 and four in 2009). A file was prepared for each security guard, including information needed to determine his/her reliability, and a letter was sent to the person who requested the investigation indicating that the individual was recommended. We should mention that the investigation form provides for the verification of completed forms by a third party.

**FINDING**

**In the majority of the cases we examined, this third-party verification was not performed. In our opinion, this verification is particularly important since the elements of the investigation can be subject to interpretation. It should be noted that, at the present time, there are no guidelines on conducting background investigations.**

Among others, these guidelines could explain the steps to take and the required authorizations to obtain, depending on whether it is an initial investigation or an annual investigation review.

The individuals who passed the background investigation receive an access card providing access rights to one or several buildings and their name is recorded on a list along with an

investigation review date set for one year later. Approximately two months prior to this date, the Section des normes professionnelles of the SPVM sends the list of people for whom a background investigation has been requested to the Section gestion des immeubles of the SPVM to determine whether they can maintain their current building access rights.

**FINDING**

If the answer is yes, the review date is deferred to the following year without any background investigation being conducted despite specific provisions to this effect in the call for tenders.

**3.1.3.B. Recommendations**

We recommend that the Section des normes professionnelles of the SPVM develop guidelines for investigating suppliers. These guidelines should explain the steps that need to be taken and the authorizations to be obtained, depending on whether it is an initial investigation or an investigation review.

We recommend that the Section gestion des immeubles of the SPVM request background investigations to be conducted as scheduled (every 12 months) on the employees of the security agency assigned to guard duties at the SPVM buildings as stipulated in the specific provisions of the call for tenders. This will ensure that employees and administrators meet the predetermined security criteria.

We recommend that the Section des normes professionnelles of the SPVM have all completed background investigation forms reviewed by a third party to ensure that all pertinent elements have been considered and that the investigation findings are accurate.

**3.1.3.C. Action Plan for the Business Unit Involved**

- 1) *[Translation] "Further explanations will be provided through the wording of the specifications and the call-for-tender documentation. Ensuing changes to the requirements will be communicated to the contract monitoring committee as well as the Direction de l'approvisionnement."*

*The Service des normes professionnelles et des affaires internes of the SPVM will draft a procedure with regard to our suppliers' background investigations under Procedure Number 419-14. (Planned completion: September 2010)*

- 2) *Further explanations will be provided through the wording of the specifications and the call-for-tender documentation. Ensuing changes to the requirements will be communicated to the contract monitoring committee as well as the Direction de l'approvisionnement.*

*The Section gestion des immeubles will have to change certain provisions in the calls for tenders:*

- *remove the stipulated 12-month frequency for background investigations of security agency personnel. Such investigations will be carried out at the time of hiring or when we are informed of any allegation concerning an employee or an administrator;*
- *note that a security agent permit is renewable every year, and criminal records are checked prior to such a permit being issued by the Sûreté du Québec;*
- *add a special provision in the calls for tenders requiring the administrator and majority shareholder of the company to undergo a background investigation and to advise the SPVM (Section gestion des immeubles) of any change in the management of the said company (sale, new partner or partners) as these new managers will also be subject to a background investigation. (Planned completion: September 2010)*

- 3) *Further explanations will be provided through the wording of the specifications and the call-for-tender documentation. Ensuing changes to the requirements will be communicated to the contract monitoring committee as well as the Direction de l'approvisionnement.*

*The organization of background investigations will be changed by appointing a supervisor to the review of each background investigation file." (Planned completion: June 2010)*

### **3.1.4. SECURITY BRIGADE**

#### **3.1.4.A. Background and Findings**

Invoices are authorized by the Section gestion des immeubles of the SPVM for the 1441 Saint-Urbain Street and 750 De Bonsecours Street buildings, and by the DSI for the 2620 Saint-Joseph Boulevard East building.

The accounts payable clerks must ensure that the hours billed correspond to the hours actually worked. They must also ascertain that the number of hours and the hourly rates match those set out in the contract.

The security agency prepares a weekly invoice for the hours worked by its staff during the week. This invoice is accompanied by a time sheet showing the names of the employees as well as the hours worked and the total of these hours for each day of the week. This time sheet is signed by an authorized agency representative. The invoice and the time sheet are sent by e-mail to the Section gestion des immeubles of the SPVM or to the DSI, as the case may be, for approval. Once approved, they are sent to the Service des finances for payment.

The contract stipulated that the hourly rates were to remain the same as those indicated in the bid for the years 2004 to 2007, and that they would be raised by 2.75% in 2008. For 2009, according to the information and documentation we consulted, Agency “B” agreed to continue its operations under the same terms as 2008. However, we found no written agreement to this effect. Consequently, we were unable to determine whether the negotiated conditions included the increases set out in the *Decree Respecting Security Guards*.

The table below outlines the number of hours and rates indicated in the bid of the agency that won the contract for 2004 to 2007:

**Table 2—Number of Hours and Rates Indicated in the Winning Bid**

Buildings	Positions	Number of hours per week	Hourly rates
1441 Saint-Urbain Street	Guard	268	\$16.65
	Sergeant	128	\$16.90
	Captain	40	\$21.90
750 De Bonsecours Street	Guard	50	\$16.65
2620 Saint-Joseph Boulevard East	Guard	168	\$16.65

It should be noted that for 1441 Saint-Urbain Street, the number of hours per week for security guards was changed in 2006. Indeed, a notice of non-compliance issued by the Service de sécurité incendie on May 11<sup>th</sup> 2006 indicated that there had to be three security guards at all times for compliance with the regulations regarding the formation of a fire brigade. This situation entailed supplementary costs under the guard service contract for this building as there were only two guards assigned to certain shifts. The rationale for requiring an additional security guard was to eliminate the need to evacuate the building immediately following an alarm. Essentially, the presence of a fire brigade allows for the validation of every alarm through the dispatch of two

guards to the location of the alarm to determine whether an immediate building evacuation must be ordered.

#### **FINDING**

At that time, the cost of adding one extra guard was determined to be \$108,800 per year. This sum represented approximately 18.7% of the annual budget set out in the contract. Following the addition of one person, the number of hours billed increased in September 2006 from approximately 268 hours per week to approximately 360 hours per week. Our audit revealed that no executive summary was drafted in regard to this change for approval by the executive committee.

#### **3.1.4.B. Recommendations**

We recommend that the Section gestion des immeubles of the SPVM obtain approval for significant cost increases that arise during the term of a contract. The intent is to obtain the required authorization and to allow for better monitoring of the expenses related to the contract execution.

#### **3.1.4.C. Action Plan for the Business Unit Involved**

*[Translation] "The Section gestion des immeubles will ensure that any change with respect to cost that may occur during the course of the contract is submitted to the appropriate authorities for approval.*

*Following a major change or when a new contract is awarded with the approval of municipal authorities, the Direction de l'approvisionnement will draft an agreement promptly to keep track of the SPVM's commitments in relation to this contract." (Planned completion: March 2010)*

### **3.1.5. HOURLY RATE**

#### **3.1.5.A. Background and Findings**

The special provisions in the call for tenders for the contract awarded in December 2003 stated, in section 1.1, that the prices listed in the bid were to be firm for the entire duration of the four-year contract (from 2004 to 2007). As for section 1.2.1, it provided for an optional clause for bidders to indicate their percentage of increase of the hourly rates in the event that the City opted to extend the contract by one year (2008). For this fifth optional year, the winning bidder proposed an increase of 2.75%.

**FINDING**

Under section 1.4, potential bidders had to consider the fact that the quoted prices were firm for the entire duration of the four-year contract, regardless of increases brought on by the *Decree Respecting Security Guards*. However, our audit revealed that the hourly rates billed exceeded those indicated in the contract.

To ascertain the hourly rates that were set out in the bid and those that were billed, we reviewed the bid from the agency that obtained the contract for the years 2004 to 2007 as well as its invoices and those sent by the agency that took over the contract.

In the following tables, we have recorded the hourly rates indicated in the bid from the winning agency as well as the hourly rates cited on its invoices and those from the agency that took over the contract beginning in September 2006.

**Table 3—Hourly Rates Billed for the 1441 Saint-Urbain Street and 750 De Bonsecours Street Buildings**

Positions	Hourly rates indicated in the 2003 bid	Hourly rates indicated on the invoices					
		2004	2005 <sup>1</sup>	2006-03-01 15% <sup>2</sup>	2007-07-01 \$0.40 <sup>3</sup>	2008-01-01 2.75% <sup>4</sup>	2009-06-30 \$1.12 <sup>5</sup>
Guard	\$16.65	\$16.65	\$17.06	\$19.62	\$20.02	\$20.57	\$21.69
Officer	\$16.90	\$16.90	\$17.31	\$19.91	\$20.31	\$20.87	\$21.99
Captain	\$21.90	\$21.90	\$22.44	\$25.81	\$26.21	\$26.93	\$28.05

**Table 4—Hourly Rates Billed for the 2620 Saint-Joseph Boulevard East Building**

Position	Hourly rate indicated in the bid	Hourly rates indicated on the invoices					
		2004	2005	2006	2007-07-01 \$0.40 <sup>3</sup>	2008-01-01 2.75% <sup>4</sup>	2009-06-30 \$1.12 <sup>5</sup>
Guard	\$16.65	\$16.65	\$16.65	\$16.65	\$17.05	\$17.52	\$18.64

<sup>1</sup> In 2005, we observed an increase of \$0.41 in the rates for the guards and the officer and \$0.54 for the captain's rate. However, we were not able to obtain any justification for this increase.

<sup>2</sup> The March 13<sup>th</sup> 2006 invoice includes a note stating that a 15% hourly rate increase had been authorized as of March 1<sup>st</sup> 2006, following an agreement. According to the information we obtained, there was no written agreement to this effect and this increase was granted following discussions between representatives of the Section gestion des immeubles of the SPVM and the Direction de l'approvisionnement at the time.

<sup>3</sup> The September 20<sup>th</sup> 2007 invoice includes a note stating that, for the period beginning July 1<sup>st</sup>, there is an adjustment reflecting the increase in the Decree of July 1<sup>st</sup> 2007.

<sup>4</sup> The contract stated that there would be an increase of 2.75% in the rates for the optional year.

<sup>5</sup> A letter from the agency providing services, dated July 9<sup>th</sup> 2009, reports an increase of \$1.12 in the hourly rate in view of the changes to the *Decree Respecting Security Guards* that came into effect on June 30<sup>th</sup> 2009.

Following our examination of the invoices from 2004 to 2008, we noticed that the hourly rates varied for the three buildings, even though the contract applied to all of these three buildings.

For the 1441 Saint-Urbain Street and 750 De Bonsecours Street buildings, with the exception of the 2.75% adjustment in hourly rates, the preceding increases were granted even though the contractual provisions stated that the quoted prices were firm. According to the information we obtained, it appears that the administrators at the time were unaware that the increases resulting from the decree were included in the price of the contract and that they did not have to grant an increase of 15% in the hourly rates. Moreover, we found correspondence (dated November 5<sup>th</sup> 2007) from the Direction de l'approvisionnement to the Section gestion des immeubles of the SPVM about the adjustment in the hourly rates following the modification of the Decree that occurred in July 2007. Essentially, this document indicated that there was no problem in paying the invoices that included an increase in hourly rates.

With respect to the 2620 Saint-Joseph Boulevard East building, only one increase was made to the hourly rate, that being the one following the July 2007 amendment to the *Decree Respecting Security Guards*. However, as in the case of the other SPVM buildings, the contract prices were firm and that increase should not have been granted.

As for the 2009 increase of \$1.12 in the hourly rate, we are unable to ascertain its relevance given the lack of any written agreement on the contract execution terms.

A major portion of the increases in hourly rates was granted before September 2006, the time when the contract was transferred from Agency "A" to Agency "B". The executive committee approved this transfer in January 2007 based on the executive summary prepared by the Section gestion des immeubles of the SPVM. This summary included a statement from the Direction de l'approvisionnement indicating, among other things, that Agency "B" would abide by the terms of the contract, as well as the same hourly rates agreed upon with Agency "A". The Direction de l'approvisionnement attached to its statement a note from Agency "B" stating that Agency "B" would comply with the terms of the contract and the current hourly rates (referring in this case to the July 2006 invoices from Agency "A").

**FINDING**

This statement and the executive summary did not include any clear acknowledgement that the hourly rates in the July 2006 invoices had already been increased in comparison with the hourly rates indicated in the original contract. Essentially, the executive committee had no way of knowing that the hourly rates had been increased.

When considering the additional disbursements made with regard to the contract awarded in November 2003 by the executive committee for the period from January 1<sup>st</sup> 2004 to December 31<sup>st</sup> 2008, and those made during the course of 2009 (without taking into consideration the increase of the Decree of June 30<sup>th</sup> 2009), we estimate that the additional fees for the security guard services from 2004 to 2009 amounts to \$665,000, as detailed below:

- \$656,100 for 1441 Saint-Urbain Street and 750 De Bonsecours Street buildings.  
Of this sum, an amount of \$332,200 is attributable to the changes in the hourly rates in 2005, 2006 and 2007, whereas the remaining \$322,900 is attributable to the formation of the security brigade as of September 3<sup>rd</sup> 2006.
- \$8,900 for the 2620 Saint-Joseph Boulevard East building.  
This amount results from the increase in hourly rates in 2007.

**FINDING**

We observed that no one at Section gestion des immeubles verified the accuracy of the hours billed by the security guards.

In fact, all of the security guard time sheets are authorized by an officer of the agency executing the contract and it is assumed that they are accurate. We decided to perform a random check of the arrival and departure times of employees working in buildings equipped with a key card access system that records the time they use their card to enter and leave the building. Our review revealed that the hours indicated on the time sheets were accurate.

**3.1.5.B. Recommendations**

We recommend that the Section gestion des immeubles of the SPVM, together with the Direction de l'approvisionnement, indicate in executive summaries all of the key elements that could impact the cost of contracts so that municipal authorities can make informed decisions while considering all of the relevant factors.

We recommend that the Section gestion des immeubles of the SPVM and the Direction des systèmes information determine the exact costs brought about by the increases in hourly rates not stipulated in the contract and examine the possibility of recovering these costs, thereby ensuring that only the amounts stated in the contract are paid.

We recommend that the Section gestion des immeubles of the SPVM and the Direction des systèmes d'information verify that the hourly rates invoiced correspond with the established hourly rates. It should also perform random checks to verify that the arrival and departure hours of the security guards are consistent with the established schedules and accurate.

#### 3.1.5.C. Action Plan for the Business Unit Involved

1) [Translation] "The awarding of the new contract will be based on the tender price for the duration of the contract. Call for tenders 09-10995 does not allow for changes in price, since prices are firm for the first two years of the contract. Should the Section gestion des immeubles of the SPVM wish to avail itself of the option for the third year as set out in the call for tenders, the costs for that year are already known since they have been stipulated in the bid schedule. We must also be clear and plan for the variations stipulated in the Decree, as well as the overlap in agreements when issuing calls for tenders." **(Planned completion: June 30<sup>th</sup> 2010)**

#### 2a) SERVICE DE POLICE

[Translation] "The SPVM will meet with the Service des affaires juridiques et de l'évaluation foncière of the City of Montréal to examine the possibility and pertinence of taking steps for recovering the amounts (\$0.40 per hour) from Agency "B" for the period beginning July 1<sup>st</sup> 2007 and terminating at the end of the contract on December 31<sup>st</sup> 2008." **(Planned completion: June 30, 2010)**

#### 2b) DIRECTION DES SYSTÈMES D'INFORMATION

- [Translation] "We will collect all of the invoices issued during the period from July 2007 to 2009 to compile the number of hours affected by the application of the increase in the Decree, which represents \$0.40 per hour;
- We will calculate the repercussions of this rate increase on the 2008 and 2009 payments;
- Given that the portion to be recovered by the DSI from the supplier represents only about 1.3% of the total amount, evaluated at \$665,000 in this report, we will send all of

*the information to the Section gestion des immeubles of the SPVM so that the collection file can be presented in its entirety to the supplier.” (Planned completion: April 15<sup>th</sup> 2010)*

**3a) SERVICE DE POLICE**

*[Translation] “The Section gestion des immeubles will attach a copy of the hourly rates set out in the agreement to the file so that the administrative assistant in charge of paying invoices ensures that the invoiced rates correspond to the agreement. Moreover, we will draft an internal procedure for sampling the hours invoiced on a sporadic basis and the actual hours agency employees were on site as recorded by the access control system. (Planned completions: March and September 2010)*

*Verification of the hourly rates invoiced: As part of the budget tracking exercise on August 31<sup>st</sup> of each year and in the results analysis on December 31<sup>st</sup> of each year, the Division de la planification, suivi budgétaire et approvisionnement will study all the acknowledgements of receipt issued by the Section gestion des immeubles of the SPVM for services rendered and will verify the hourly rates noted on the acknowledgement of receipt to ensure that the rates were those authorized by municipal authorities.” (Planned completion: May 2010)*

**3b) DIRECTION DES SYSTÈMES D’INFORMATION**

*[Translation] “Given the current situation described in this report in respect to the contract extension and the awarding of the next contract, the DSI ought to inquire, through written confirmation from the holder of the file, about the rate currently in effect before paying the invoices received up to now in 2010.” (Planned completion: April 15<sup>th</sup> 2010)*

**3.2. SERVICE DES AFFAIRES JURIDIQUES ET DE L’ÉVALUATION FONCIÈRE**

As part of its daily operations, the municipal court must ensure the security of judges during hearings, the administrative staff and the clientele that frequent its establishments, as well as the buildings and property under its responsibility. Currently, the security of the municipal court located at 775 Gosford Street (main courthouse) is provided by municipal security guards and the security at other points of service is provided by private agencies whose services are retained by the City.

Therefore, a master agreement was concluded to supply, upon request, the services of security guards at four of the municipal court’s points of service, excluding the main courthouse.

The Direction de l'approvisionnement of the Service des affaires corporatives (at the time) prepared the executive summary for the purpose of awarding this guard service contract. On October 28<sup>th</sup> 2008, the agglomeration council authorized the conclusion of a master agreement ending on October 31<sup>st</sup> 2012, for the supply, upon request, of the services of security guards in the municipal court's points of service, excluding the main courthouse. This contract was awarded for an amount of \$1,687,929, taxes included.

Our review of the documentation pertaining to the allocation of this guard service contract allowed us to observe that a call for public tenders was made and that the contract was awarded to the lowest compliant bidder. Moreover, the executive summary prepared by the Direction de l'approvisionnement testifies to this.

### 3.2.1. GUARD SERVICE CONTRACTS FROM 2008 TO 2012

#### 3.2.1.A. Background and Findings

The accounts payable clerks must ensure that the hours billed correspond to the hours actually worked. They must also ascertain that the number of hours and the hourly rates match those set out in the contract.

The security agency prepares a weekly invoice for the hours worked by its staff during the week. This invoice is accompanied by a time sheet on which the names of the employees, the hours worked and the total of these hours are recorded. This time sheet and the invoice are forwarded to the Service des affaires juridiques et de l'évaluation foncière, which verifies the accuracy of the hours worked and the rates billed. Finally, the invoices are approved by this department and sent to the Service des finances for payment.

**Our audit revealed that the number of hours indicated on the time sheets corresponded to the number of hours billed.**

Section 11 of the special provisions of the call for tenders provides for an adjustment in hourly rates. In fact, section 11.2 states that *[Translation] "any variation in the hourly rate, change in the decree or change ordered (as an increase or decrease) by the provincial or federal government, as well as under certain contractual provisions of the City, will directly affect by the same percentage the hourly rates submitted by the successful bidder."* Section 11.3 also mentions that the percentage for administrative fees and profit shall remain the same for the duration of the contract.

At the beginning of the contract, the agency billed at the hourly rate set out in its bid. Afterwards, in June 2009, the hourly rates were changed subsequent to a new *Decree Respecting Security Guards* and the agency changed its hourly rates accordingly. The Service des affaires juridiques et de l'évaluation foncière made sure that this change properly corresponded to the percentage increase set out in the Decree and approved the payment. **We examined the calculations carried out by this department and we observed that they did in fact correspond to the percentage increase set out in the Decree.**

**FINDING**

**In our opinion, the wording of section 11.2 is ambiguous. It mentions that the variation in the hourly rate can be affected by three elements: changes to the Decree, changes ordered by the provincial or federal government and certain contractual provisions by the City. However, there is no indication as to whether these changes are cumulative or if one of these elements must be prioritized.**

The Service des immeubles et des systèmes d'information, which also awards a contract to a security agency and whose specifications include a comparable section (section 4), dealt with the adjustments to the hourly rate in a different manner. For the agency's security officers, it considered the salary increases granted by the City to its managerial personnel. For a comparable section dealing with adjustments to the hourly rate, one department took the *Decree Respecting Security Guards* into account whereas another took salary increases granted by the City into consideration. Thus, the wording of this section should be clarified to allow administrators to apply the provisions set out in this respect in a uniform manner.

**3.2.1.B. Recommendations**

**We recommend that the Direction de l'approvisionnement, in conjunction with the administrative unit involved, clarify the wording of the section dealing with the adjustment to the hourly rate of security guards to avoid any misinterpretation and promote its consistent application.**

**3.2.1.C. Action Plan for the Business Unit Involved**

*[Translation] "We will specify the interpretation of the rate adjustment provisions in current contracts with the departments concerned."*

*To avoid any ambiguity and eliminate the need to interpret price adjustment provisions, these contracts will be renewed on the basis of a fixed term and the firm prices indicated on the bid schedule.” (Planned completion: May 2010)*

### **3.3. SERVICE DES IMMEUBLES ET DES SYSTÈMES D’INFORMATION**

Security guard duties on the territory of the former City of Montréal are currently performed by unionized blue-collar employees from the Division sécurité. As part of its daily operations, this division must occasionally resort to a private agency when its staff is unable to meet the demand or during exceptional circumstances, such as a labour dispute. This contract allows the Division de sécurité to take all the necessary steps to ensure the safety of people, buildings and property under its responsibility.

The Service de la mise en valeur du territoire et du patrimoine prepared an executive summary for the purpose of awarding a guard service contract to meet its needs and those of boroughs who may request the services of security guards.

On October 25<sup>th</sup> 2007, the agglomeration council authorized a five-year master agreement ending on October 31<sup>st</sup> 2012 with respect to supplying on-demand security guard services. It also authorized to grant the contract to the bidder with the highest final score for a maximum amount of \$1,084,217, taxes included.

Our examination of the documentation surrounding the awarding of the guard service contract revealed that an evaluation grid was developed for the purpose of awarding this contract and that it had been approved by the executive committee when the call for tenders was issued in July 2007. Moreover, a selection committee was appointed and completed the established evaluation grid. Our audit of the evaluation grid summary revealed that the contract had been awarded to the bidder who obtained the highest score.

#### **3.3.1. GUARD SERVICE CONTRACT FROM 2007 TO 2012**

##### **3.3.1.A. Background and Findings**

The accounts payable clerks must ensure that the hours billed correspond to the hours actually worked. They must also ascertain that the number of hours and the hourly rates match those set out in the contract.

The security agency prepares a weekly invoice for the hours worked by its staff during the week. This invoice is accompanied by a time sheet on which employee names, hours worked, the total number of these hours and the signature of an authorized agency representative are recorded. The invoice and the time sheet are sent to an authorized representative from the Division sécurité, who verifies the accuracy of the hours and the hourly rates indicated and approves the invoices. These documents are then sent to the Service des finances for payment.

**Our audit revealed that the number of hours indicated on the time sheets corresponded to the number of hours billed.**

Section 4 of the specifications of the call for tenders provides for an adjustment of the hourly rates comparable to that in section 11 of the special provisions of the call for tenders for the contract of the Service des affaires juridiques et de l'évaluation foncière. At the beginning of the contract, the agency billed the hourly rate indicated in its bid. Afterwards, at the beginning of 2008 and 2009, the Division sécurité adjusted the hourly rate of the security agency officers to take into account salary increases granted to managerial personnel.

**FINDING**

**We observed that the Service des affaires juridiques et de l'évaluation foncière modified the hourly rates on the basis of the new Decree instead. The wording of the section dealing with the adjustment of hourly rates should be clarified to allow administrators to apply these provisions in a uniform manner.**

**3.3.1.B. Recommendations**

**We recommend that the Direction de l'approvisionnement, together with the administrative unit involved, clarify the wording of the section dealing with the adjustment of security officers' hourly rates to avoid any misinterpretation and promote its consistent application.**

**3.3.1.C. Action Plan for the Business Unit Involved**

*[Translation] "We will specify the interpretation of the rate adjustment provisions in the current contracts with the departments concerned." (Planned completion: May 2010)*



## V.3. Management of Professional Service Contracts



## V.3. MANAGEMENT OF PROFESSIONAL SERVICE CONTRACTS

### 1. INTRODUCTION

In order to achieve success in their daily operations and various projects, business units from the City of Montréal (the City) occasionally need to call upon external consulting experts (e.g., accountants, attorneys, engineers, architects and other specialists). This is often the case when business units are short-staffed due to a work overload or when the required skill sets are not readily available in-house.

Outside consulting firms are often retained to conduct studies (e.g., opportunity or preliminary studies, geotechnical investigations or environmental site assessments), to prepare drawings and specifications, to solicit and evaluate bids from potential contractors, to supervise work sites and even to manage projects.

To this end, the City employs two different types of contracts. Project-specific contracts are individual and clearly defined in scope (e.g., a contract pertaining to a single park development project) while open contracts are more complex (e.g., a contract for preparing drawings and specifications as well as supervising work sites related to various park development projects).

City officials must authorize the type of services and assets involved under project-specific contracts, their forecasted budget and their implementation schedule. A separate authorization must be obtained when soliciting bids and awarding contracts.

Open contracts are also subject to a contract award process that requires the approval of city authorities. In this case, however, contracts usually deal with various engagements that are assigned to selected firms to meet the needs of business units without exceeding the maximum amount allowable for each contract awarded. These contracts are generally spread out over a period of one year or more. Consequently, the exact nature of services and assets involved and the implementation timeframe cannot be determined until the business units actually define their needs and assign official engagements to the selected firms.

The advantage of this approach is that it reduces administrative lead times for the business units since they do not have to launch a new contract award process and obtain the required authorizations each time an engagement is being assigned. However, this highly-flexible

approach requires the implementation of stringent in-house rules to ensure strict control over the budget allocated to each contract.

For the purpose of our audit, we selected a sample of 11 contracts (see Appendix A), some of which incurred requests for additional funding, to verify the planning and subsequent monitoring of the work performed under these contracts. We deliberately chose some open contracts to ascertain the management rules that were implemented to ensure effective budget control. Our sample of 11 professional service contracts was comprised of six project-specific contracts and five open contracts with a value ranging from \$60,000 to \$3.4 M, all of which were awarded by city authorities subsequent to calls for proposals or invitations to tender. With the exception of one project management contract, all of the other contracts dealt primarily with engineering or architecture services.

The financial data that we collected for the past few years indicates that the City's spending on professional fees is constantly increasing. Business units can fund these professional services under their three-year capital program or their operating budget, depending on whether or not the contracted services pertain to the development, construction or renovation of tangible assets. The total spending on professional fees for 2006, 2007 and 2008 was respectively \$79.8 M, \$102.4 M and \$125.8 M.

Given the magnitude of these amounts, we believe that the business units require suitable management frameworks and tools to ensure the proper planning of any professional services entrusted to external firms. Other tools and guidelines are also required to better monitor and control the provision of these services, their costs and their implementation schedules.

From the outset, we wish to stress that our current audit was initiated long before the major program launched by the Direction générale after the general auditor submitted his *Water Meters Report* in September 2009.

## 2. AUDIT SCOPE

Our audit of the management of professional service contracts consisted primarily in ensuring that contract terms were monitored in respect to the provision of services, their costs and their deadlines. We also reviewed other contract management elements, i.e. the planning of required services, the contract approval mechanisms, the sharing of roles and responsibilities for the management of awarded contracts and the reporting mechanisms on the status of contracted services.

Our audit focused on the central departments that incurred more than 80% of the City's professional fee expenses over the past few years. To ensure that we reviewed contracts for which work was nearly completed, we selected a sample of 11 contracts that were awarded in 2006, 2007 and 2008 within the following three central departments: the Service des infrastructures, transport et environnement (SITE), the Service de la mise en valeur du territoire et du patrimoine (SMVTP) and the Service du développement culturel, de la qualité du milieu de vie et de la diversité ethnoculturelle (SDCQMVDE) (see Appendix A).

Although our audit was not intended to assess compliance with the rules for awarding professional service contracts under section 573 of the *Cities and Towns Act* (CTA) (see Appendix B), our findings occasionally forced us to refer to these rules.

### **3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS**

#### **3.1. PLANNING OF PROFESSIONAL SERVICES**

##### **3.1.A. Background and Findings**

The decision to outsource professional services is generally determined by the nature of the work to be performed, the project size and the availability of in-house resources.

Depending on the type of services required, their costs can be estimated from the approximate number of hours needed to perform the task at hand (e.g., project manager). In other areas such as engineering or architecture (preparation of drawings and specifications, work site supervision, etc.), service cost estimates are generally calculated as a percentage of the project cost estimates (e.g., the costs of developing a park or building, rehabilitating or replacing certain infrastructure assets).

Since the costs of professional services and projects are so intertwined, any shortcomings in the initial definition of project requirements, objectives or risks will most likely result in underestimated project costs, thereby leading to underestimated professional fees and schedule overruns.

Our audit focused on verifying how business units determine the nature and scope of professional services. To this end, we interviewed key stakeholders and examined supporting documentation on file.

During our audit of project-specific professional service contracts, we primarily reviewed executive summaries<sup>1</sup> and tender documents (i.e. technical specifications, terms of reference and preliminary work schedules) to ascertain the approach through which business units define and delineate projects prior to implementation. We observed a thinking process and various steps whose outcomes included:

- a description of the project, its background and its goals;
- the results of any preliminary studies that were performed when necessary;
- a definition of the required services and related deliverables;
- a description of current issues;
- cost estimates for the project and the professional fees;
- the planned project schedule.

Four of the six project-specific contracts within our sample required additional budgetary funds of \$25,000, \$46,650, \$100,000 and \$480,000 after these contracts had been awarded (see Appendix A – sample items 4, 1, 2 and 5). Consequently, we felt compelled to assess the thoroughness of the project planning stage in these cases. Our findings are outlined below.

**FINDING**

**For one of these project-specific contracts (see Appendix A – sample item 2), additional funding became necessary as a result of an incomplete project assessment that did not include all the preliminary studies required to clearly delineate the project scope.**

In fact, when determining the type of work to be performed as part of this swimming pool upgrade project, nobody considered the new requirements under the *Regulation Respecting Water Quality in Swimming Pools and Other Artificial Pools* (c. Q-2, r.18). Among others, this regulation provides for specific architectural details pertaining to the filtration system (pipe dimension, number of bottom drains and skimmers, etc.). Failure to incorporate this regulatory environment had a significant impact on the project scope and its estimated costs. As a result, the initial \$90,000 professional service contract that dealt primarily with preparing the drawings and specifications and supervising the work had to be raised by \$100,000, representing an increase of 110%.

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<sup>1</sup> These executive summaries were prepared to authorize calls for tenders and approve contracts.

**FINDING**

**As for the other three cases, we discovered that additional budgetary funds were allocated following the expansion of the original professional service contracts awarded to these firms.**

These costs were incurred through requests to contemplate other development scenarios, perform additional studies or address new requirements. These three projects received additional funds of \$25,000, \$46,650 and \$480,042, representing respectively an increase of 7%, 10% and 42% above the original winning bids of \$337,170, \$466,504 and \$1,130,521 (see Appendix A – sample items 4, 1 and 5).

When officials authorized these calls for tenders, they assumed that the cost estimates submitted to them were accurate and expected the ensuing projects to be completed on budget. However, under the circumstances described above, it is no wonder that there were budget overruns and that project-related professional fees increased as well.

**FINDING**

**Moreover, any failure to properly plan and determine the project scope and costs from the get-go might create situations where business units use the wrong tender format.**

In fact, this particular situation applies to the same professional service contract pertaining to the swimming pool upgrade project that required additional funds (see Appendix A – sample item 2). In this case, the professional service fees (\$75,000) were estimated as a percentage of the approximate total project cost (\$600,000) despite the fact that its scope had not been delineated precisely enough. As a result, those in charge proceeded with an invitation to tender (for services valued below \$100,000) rather than a call for proposals (for services valued above \$100,000). This limited competitive bidding might have prevented the City from obtaining better prices for the required services.

Our sample also included five open contracts for professional services (see Appendix A – sample items 7, 8, 9, 10 and 11). According to the information we obtained, the budget allocated to this type of contract is an approximate amount calculated as a percentage of the total budget available to the business unit under its three-year capital program.

When it comes to open contracts, authorities initially approve professional service agreements with selected firms that stipulate the maximum amount of allowable fees. Business units can then call upon these firms on an as-needed basis to perform various assignments (studies, preparation of drawings and specifications, work site supervision, etc.) within the approved budget. Correspondingly, service planning is a major component of every assignment that falls under open contracts.

These contracts provide added flexibility to business units from an administrative standpoint and expedite the launch of projects. Essentially, engagements can be assigned to any selected firm without resorting to another contract awarding process and re-obtaining the required authorizations from the appropriate officials. Nonetheless, in this scenario, the various business units involved must have clear guidelines for planning assignments. In our opinion, these guidelines should include mechanisms for documenting the steps taken to specify every engagement to be assigned. Among others, it is important to describe the overall project, its background and goals, the issues at hand, the type of engagement to be assigned to the selected firm, the estimated costs of the required services and their implementation schedule. Ultimately, this planning exercise should lead to a formal written service request to the selected firm.

To ascertain the approach used by business units involved in the management of open contracts within our sample, we reviewed nine engagements that were assigned under these contracts.

**FINDING**

**We observed that there was no consistent approach, whether it be from one business unit to the next or within a single business unit, and that the planning and written description of assignments were not addressed with the same level of thoroughness across the board.**

**Specifically, we noticed that certain administrative units have adopted an internal planning procedure whereby they perform a thinking process leading to a written service request intended for the selected firm.** Those contracts that were managed using good practices were sample items 9, 10 and 11 as evidenced by their service request that generally included:

- the scope and goals of the assignment;
- a background description (e.g., the issues at stake);
- supporting documentation (e.g., drawings, pictures, sketches and previous study reports);

- a description of the assignment;
- the target schedule.

**FINDING**

**However, for other administrative units (see Appendix A – sample items 7 and 8), there was no evidence indicating any attempt to plan the engagement assigned to the selected firm. In fact, no formal service request was ever submitted to the firm. Instead, the required services were requested informally during a telephone conversation with its representative.**

In our opinion, this approach does not allow for proper control over a budget that was previously approved by the authorities and makes it difficult to substantiate whether the firm's proposal fully addresses the requirements set forth by the administrative unit.

Although the adoption of internal planning rules helps to exert better control over the use of funds, the flexibility inherent in open contracts facilitates the financing of cost overruns through the overall budget allocated to the related professional service agreement or to other professional service agreements altogether.

One of the open contracts we reviewed is a clear example of this situation (see Appendix A – sample item 7). In this case, the entire authorized budget (\$625,000) was allocated to an assignment for supervising the reconstruction of a bridge. Subsequently, additional funds of \$275,000 were approved by the appropriate authorities.

Our audit revealed that the business unit responsible for assigning engagements had deliberately used the entire open contract budget (\$625,000) to cover cost overruns incurred under a different professional service contract reached in 2004 with another firm to prepare drawings and specifications and to supervise the work pertaining to the same bridge.

**FINDING**

**This budget shortfall occurred because leaders failed to perform preliminary studies that would have clearly delineated the nature and scope of the work required for rebuilding the bridge during the preparation of their initial cost estimates. Instead, they used data from a similar past project even though it was not identical in every respect. In doing so, they disregarded the particular needs of the various project stakeholders, including the central departments and boroughs.**

As it turned out, the open contract budget of \$625,000 would not have covered all of the fees for the required supervision services. Consequently, this business unit asked the authorities to approve additional funding of \$275,000, bringing the extra budget allocated to the supervision of the bridge reconstruction to \$900,000. The initial professional service contract of \$315,356 awarded in 2004 for the preparation of the drawings and specifications as well as work site supervision was increased by an additional \$134,644 in 2006. When the time came to assign the \$625,000 supervision engagement to a second firm, the first firm had to be given a new \$143,000 engagement to provide supervision support services.

**FINDING**

**Overall, the professional fees associated with this project will likely cost an additional \$1,177,644 (i.e. \$134,644 + \$900,000 + \$143,000) in comparison with the initial estimate of \$315,356, representing a 373% increase. As a result of a poorly-defined work scope for this bridge, reconstruction costs and, consequently, professional fees were significantly underestimated.**

In another vein, we also reviewed the efforts expended to estimate the costs of professional services during the planning stage. Essentially, we identified a need to better document estimates.

During our audit of project-specific contracts, we noticed that the overall estimated costs of professional services were included in the executive summary for the purpose of obtaining an authorization to solicit bids. However, in none of these cases, neither the detailed estimates nor the underlying assumptions used in their calculation were properly documented.

As for the nine engagements assigned under the open contracts within our sample, we did not find any cost estimates for the services required. According to the stakeholders we interviewed,

cost estimates for professional services are often derived from knowledge gained in past experiences or prices that applied to previous, similar engagements. When needed, we were told to refer to the *[Translation] Tariff of Fees for Professional Services Provided to the Government by Engineers* that was made by order of the Gouvernement du Québec (D. 1235-87). Among others, this regulation establishes the percentage of professional fees applicable to the estimated costs of the engineering work to be performed in accordance with its category and scope. Using category III<sup>2</sup> as an example, this means 8.2% when the estimated costs of work falls between \$150,000 and \$300,000, 7% when the estimated costs of work ranges from \$300 000 to \$600,000 and 6.2% when the estimated costs of work is between \$600,000 and \$1.6 M. In general, this type of assessment is rarely documented.

**FINDING**

**We believe that the various stakeholders involved in either project-specific contracts or engagements assigned under open contracts would benefit from a better recording and documentation of all estimates for professional fees that are associated with any required services. Ultimately, this data would allow for a more objective assessment of bids, help explain discrepancies and protect the City from firms that might attempt to take advantage of the leeway available in open contracts to boost their fees.**

**FINDING**

**When planning assignments or projects, business units should document their assessment of the various possible scenarios, i.e. performing all the work in-house, calling upon external firms to complete all the work or combining both approaches by using internal and external resources. None of the contracts we examined showed evidence supporting this type of assessment. Only 7 of the 11 cases under audit included a brief justification to this effect in the executive summary submitted to authorities for approval of the corresponding professional service contracts.**

We understand that business units are sometimes forced to award professional service contracts when they are understaffed, when the task at hand is too complex for their employees or when the required skill sets are not readily available in-house. Nonetheless, they should adopt mechanisms to document their analysis and the selected scenario in order to help authorities in making enlightened decisions. This is particularly important as the business units have been relying heavily on external firms over the past few years.

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<sup>2</sup> According to order 1235 from the Gouvernement du Québec, this general engineering work category encompasses pumping stations and water filtration plants.

In light of the various findings outlined in this section, the unavoidable conclusion is that the different business units within the City of Montréal would all benefit from a common methodology based on best practices to better delineate the scope of their future projects and avoid jeopardizing other planned initiatives.

To this effect, we were informed that some administrative departments within the business units targeted by this audit have already adopted (or have started to establish) a project management approach. For instance, the Direction des grands parcs de la nature en ville of the SDCQMVDE implemented a project management methodology in 2006. However, we were unable to assess how this methodology is being applied since, as explained by the managers that we interviewed, it was not fully operational when the sample contracts were awarded. The SMVTP also has its own project management methodology, but it was irrelevant to the smaller contracts that we reviewed. For its part, the SITE created the Direction du bureau des projets to manage some larger projects. Although the Direction des transports of the SITE created the Division des projets Notre-Dame/Tramway/CDN-Remembrance, its project management tools were not ready at the time of our audit. Consequently, none of the SITE contracts that we reviewed was subjected to any project management methodology.

### 3.1.B. Recommendations

**To promote consistent practices among the various municipal departments and help them delineate the scope of their future projects with greater precision, we recommend that the Direction générale of the City take any required measures to develop and subsequently disseminate a common methodology with guidelines, among others, on how to document:**

- **the results of assessments that help determine such things as:**
  - **the needs and goals,**
  - **the type of work to be performed and the required services,**
  - **any relevant preliminary studies or analyses,**
  - **the risks and constraints associated with the project (e.g., legal or regulatory requirements),**
  - **the target schedule;**
- **cost estimates for professional fees;**
- **the analysis that supports the recommendation to call upon external service providers.**

### 3.2. APPROVAL OF PROFESSIONAL SERVICE CONTRACTS BY THE AUTHORITIES AND OTHER RELATED DECISIONS

When business units elect to call upon external service providers, city officials must first approve the calls for tenders and any ensuing professional service contracts (see Appendix C). Other project-related decisions that pertain in particular to engineering or architecture services might be required from authorities when soliciting bids or awarding contracts to service providers, among others. These decisions sometimes increase the costs of the professional services under the contracts involved. While projects are underway, authorities might also have to approve additional professional fees in the event that unforeseen delays result in project extensions, unplanned additional work is needed from contractors or when project costs were originally underestimated.

Regardless of the type of decision that needs to be made, authorities must have all the information needed to fully understand the scope of the professional service contracts and their related projects, including the contents, costs and schedules as well as any issues at stake and their potential impacts. Our audit consisted in verifying the information available to authorities during their decision-making process and determining whether this information was sufficient.

#### 3.2.1. AUTHORIZATION TO SOLICIT BIDS

##### 3.2.1.A. Background and Findings

City departments cannot solicit bids without proper authorization. However, this is merely an administrative practice and is not mandatory under section 573 of the CTA. In September 2005, the director general approved city-wide guidelines entitled *[Translation] Planning and Approval of Calls for Tenders for the Provision of Professional Services* that applied to every contract under our review.

According to this document, the executive committee must approve the tendering schedule for professional services and the corresponding bid assessment grids. These guidelines also empower the director general to authorize the solicitation of bids. In addition, this document indicates that any calls for tenders that are excluded from the pre-approved provisional schedule must be submitted to the executive committee for authorization.

Some of the calls for tenders pertaining to the contracts within our sample were included in the provisional schedule approved by the executive committee. The director general subsequently authorized these calls for tenders in compliance with the above guidelines. As for the remaining

contracts, the authorization to solicit bids was granted by the executive committee since these calls for tenders were not part of the provisional schedule.

Executive summaries are prepared to support the authorization process. For the authorization of a provisional tendering schedule, the executive summary includes a list of cases requiring calls for tenders over the next quarter, the tendering timeframe and the estimated costs of the professional service contracts.

An executive summary that is drafted to authorize a tendering process by either the executive committee or the director general must incorporate the following elements: a project description, the type of professional services required, the estimated professional fees, the estimated project costs and the target schedule.

In the case of obtaining an authorization for the tendering process pertaining to open contracts, the executive summary must outline the professional services required, the budget allocated to the various bidders (if applicable) and the contract duration.

**FINDING**

**In our opinion, potential bidders could exploit executive committee decisions that are public knowledge to obtain privileged information on the estimated costs of professional fees or overall projects.**

Executive summaries that were prepared to support the authorization of provisional tendering schedules from the end of 2008 to spring 2009 presented the cost estimates for professional fees in a separate, confidential document. However, there are confidentiality issues when it comes to calls for tenders that do not fall under any provisional tendering schedule. To make matters worse, the guidelines that were approved by the director general in 2005 were no longer applied after April 2009. Consequently, all authorization requests for tendering processes from that time and December 31<sup>st</sup> 2009 were submitted to the executive committee for approval, thereby making these decisions public knowledge.

Given that the requirement to authorize calls for tenders is dictated by an administrative practice as opposed to a regulatory obligation, we question the relevance of disclosing cost estimates for professional fees or entire projects to the public.

**FINDING**

**We also have reservations about the common inclusion of project cost estimates in tender documents produced by business units that are soliciting bids for professional service contracts.**

In our opinion, this practice works to the detriment of the City in efforts to obtain the best possible price for the requested services, as does the public disclosure of cost estimates for professional fees and entire projects when seeking authorization to solicit bids.

**3.2.1.B. Recommendations**

**To ensure that the City receives the best quotes for any required services, we recommend that the Direction générale seriously consider discontinuing the practice of disclosing privileged information that could be exploited by future bidders such as:**

- **cost estimates for professional fees and projects when seeking authorization for calls for tenders;**
- **project cost estimates in tender documents that are produced to solicit bids for professional services.**

**3.2.2. PROVISION OF INFORMATION FOR CONTRACT APPROVAL**

**3.2.2.A. Background and Findings**

Professional service contracts must be approved by the appropriate authorities or their delegates (see Appendix D). In addition, business units are required to prepare an executive summary for major contracts to be approved by officials.

Essentially, business units must provide authorities with all the information needed to help them make enlightened decisions about the merits of any contracts under consideration. When deciding on a specific contract, they must have, at the very least, a description of the required professional services and the scope of the related project, the amount of the winning bid, a list of all the bids received as well as information substantiating the comparison between the estimated costs and the winning bid.

**FINDING**

**Most executive summaries that we reviewed were complete except for the occasional absence of comparison results between the winning bid and the estimated costs of professional fees. Several of the six project-specific contracts showed discrepancies exceeding 10% (in absolute terms) for which there were no explanation provided in the corresponding executive summary as submitted to authorities (see Appendix A – sample items 1, 2, 3, 4 and 6).**

**FINDING**

**This is particularly worrisome in the case of the two contracts showing the highest discrepancies (see Appendix A – sample items 1 and 4) with respective cost variations of -\$633,496 (i.e. 58% below the estimate) and \$212,170 (i.e. 169% above the estimate).**

This situation is not conducive to helping authorities make enlightened decisions. In fact, any unexplained variation raises questions about the reliability of the initial cost estimates used for comparison purposes or the representativeness of the quoted prices vs. market prices. As it turns out, the business units involved indicated to us that these discrepancies were due to incomplete cost estimates which overlooked certain key elements.

**FINDING**

**According to the information we obtained, business units do not have any guidelines to follow when estimated costs diverge significantly from bids submitted for the requested services.**

For instance, such guidelines could serve to:

- establish an acceptable variation range between the estimated costs and the winning bids (e.g., from 0 to 20%) in support of the contract awarding process;
- plan actions to be taken whenever the discrepancy level falls beyond the acceptable range. For instance, the department involved could request an independent cost estimate from a third-party to confirm its position. Should the discrepancy remain inexplicable, the tender process might be cancelled;
- enforce the disclosure of information substantiating the comparison between estimated costs and winning bids in the executive summary.

When awarding open contracts, discrepancies between cost estimates and winning bids are unlikely since the maximum amount allowable under these contracts is pre-established. However, variations could occur when assigning engagements to selected bidders. This matter will be discussed in a later section of this report.

#### 3.2.2.B. Recommendations

**We recommend that the Direction générale adopt an administrative framework for the comparison of the estimated costs of professional fees with those of the winning bids to ensure the best possible prices for the City and help authorities make enlightened decisions. Among others, this framework should provide for:**

- **an acceptable variation range between the estimated costs and the winning bids in support of the contract awarding process;**
- **actions to be taken whenever the discrepancy level falls beyond the acceptable range;**
- **the disclosure of information substantiating the comparison between estimated costs and winning bids in the executive summary.**

### 3.2.3. REQUEST FOR ADDITIONAL FUNDS

#### 3.2.3.A. Background and Findings

Once project-specific contracts have been approved, authorities might have to make other related decisions, especially when issuing calls for tenders or awarding contracts to service providers. The exact value of these awarded contracts must then be reconciled with the estimated project costs that were used to calculate the professional fees. In the event that the project costs are higher than anticipated, additional funds for the professional services would have to be requested, thereby entailing the preparation of an executive summary for approval by the appropriate authorities.

Officials might also have to make decisions pertaining to open contracts when the budget available under these contracts is insufficient to cover all of the professional services assigned to these bidders.

In the “Planning of Professional Services” section, we indicated that additional funds were authorized for 5 of the 11 contracts within our sample (see Appendix A – sample item 1: \$46,650, sample item 2: \$100,000, sample item 4: \$25,000, sample item 5: \$480,082 and sample item 7: \$275,000). **For three of these five contracts, the initial contract value**

increased by 42% (sample item 5), 44% (sample item 7) and 110% (sample item 2) as a result of this additional funding. As for the other two contracts (sample items 1 and 4), their value increased by less than 10%.

**FINDING**

**Although we did not focus specifically on verifying compliance with the contract awarding rules, we observed that the five follow-up contracts mentioned above were automatically awarded by mutual agreement with the original contractors. Given the amounts at stake and the legislation governing the rules for awarding professional service contracts (see Appendix B), we believe that we were fully justified in questioning whether these cases really represented the best contract awarding format (private agreements, calls for proposals or invitations to tender).**

We understand that the type of services involved might make it more practical and even cost-effective to simply award follow-up contracts to existing suppliers. In fact, there are exceptions under the legislation that authorize private agreements with current suppliers<sup>3</sup>. Nonetheless, we feel that each of these cases should have been analyzed by subject matter experts.

For compliance purposes, we would have expected business units that are seeking authorization for additional funds from the appropriate authorities to automatically involve the Contentieux in the decision-making process and obtain its opinion on the reasons why the recommended contract awarding format should or should not be used. In the same vein, we feel that clear guidelines should exist regarding the conditions that need to be met and the acceptable budget increase threshold (%) (when applicable) for awarding follow-up contracts through private agreements.

**FINDING**

**In fact, our audit revealed that the Contentieux was not called upon consistently during the decision-making process or that its comments on the recommended contract awarding format were not always fully explained.**

Only one of the five contracts for which the authorities were asked to approve additional funding (see Appendix A – sample item 2) involved the Contentieux and included its comments in

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<sup>3</sup> For instance, a contract can be awarded automatically to the only firm that can provide the required services or to the original designer of drawings and specifications for any adaptation, modification or supervision work that involves these drawings and specifications provided that their initial design contract resulted from a call for tenders.

support of the recommended contract awarding format. There were two cases for which the Contentieux was not consulted (see Appendix A – sample items 1 and 7) and two others where it provided an opinion without any justification to validate the relevance of the recommended contract awarding format (see Appendix A – sample items 4 and 5). This occurred despite the fact that the additional funds constituted, in some cases, a significant portion of the initial contract value.

**FINDING**

**According to the information we obtained, there are currently no guidelines on the conditions to be met and the maximum acceptable threshold for awarding follow-up contracts to the same firm through private agreement without initiating a new contract award process. Apparently, there is an unwritten rule whereby it is acceptable for business units to award a follow-up contract to the same supplier (when applicable) provided that the additional funds do not exceed 20% of the initial contract value.**

To ensure compliance with the contract awarding process under section 573 of the CTA and promote enlightened decisions, we believe that the City should adopt clear guidelines with strict rules to follow when requesting additional funds for existing contracts.

Since authorities are involved throughout every project implementation stage, they need executive summaries that clearly outline the evolution of project costs from the initial estimates prior to approving any budget figures.

**FINDING**

**Our audit indicated that authorities do not always have all the facts required to help them make enlightened decisions. Actually, they are presented with executive summaries that sometimes lack key information on the evolution of estimated project costs.**

For instance, the estimated project costs associated with one of the contracts that we reviewed (see Appendix A – sample item 5) increased significantly following the addition of new requirements. However, none of the executive summaries used by authorities to approve additional funding for the required professional services and, subsequently, authorize the solicitation of bids and the awarding of the contract to the winning firm outlined the evolution of project costs over time. In fact, authorities approved a budget increase of \$480,042 for the

provision of these professional services and the awarding of a \$22.4 M contract for the project execution during a single meeting while the initial scenario was estimated at \$10 M. We understand that the addition of new requirements to the initial project would inevitably increase its costs. Nonetheless, to help them make informed decisions, authorities rightfully deserve to receive all the information on the evolution of project costs whenever their intervention is required. Without this key information, they might authorize projects that would otherwise have been refused or postponed.

#### **3.2.3.B. Recommendations**

**To ensure compliance with the contract awarding process pursuant to section 573 of the *Cities and Towns Act* when additional funds are needed to maintain the provision of the required services under an initial contract, we recommend that the Direction générale adopt guidelines specifying:**

- **the conditions to be met and the maximum threshold for additional funds that would allow business units to award professional service follow-up contracts to the same provider by private agreement;**
- **the requirement for business units to involve the Contentieux in the decision-making process and obtain its written comments on the relevance of the recommended contract awarding format.**

**To ensure that authorities have all the information needed to make informed decisions about the awarding of contracts and other related decisions, we recommend that the Direction générale provide central departments with guidelines on how to use executive summaries in order to describe the evolution of project costs, schedule and scope from the time past decisions were made.**

### **3.3. APPROVAL OF BIDS UNDER OPEN CONTRACTS**

#### **3.3.A. Background and Findings**

In the case of open contracts, authorities initially approve professional service agreements with selected firms. Thereafter, business units can call upon these firms on an as-needed basis to perform various assignments for future projects. Essentially, these contracts are approved without any pre-determination of the exact nature of projects to be performed, their estimated costs and their target schedules.

For certain open contracts (see Appendix E), authorities also approve overall expenditures (i.e. the contract value plus net taxes and any applicable incidental expenses). This scenario provides the business units with a budget that is equivalent to the contract value when engagements are assigned to the selected firms. As soon as this type of contract is awarded, the corresponding funds are allocated in the SIMON accounting system as a single purchase order with a value equivalent to that of the contract. The authorization rules are those applicable when contracts are awarded (see Appendix D).

In the case of another type of open contracts that are referred to as master contracts (see Appendix E), authorities enable civil servants to approve expenditures pursuant to the *By-law Concerning the Delegation of Powers to Officers and Employees* (RCE 02-004, section 27). When needs arise (see Appendix D), funds are allocated in the accounting system as multiple purchase orders.

Regardless of any particularities concerning the appropriate authority to approve expenses associated with open contracts and the exact time when the related funds are allocated in the accounting system, business units are required to exert strict control over the use of these contracted amounts through an official assignment authorization process. Among others, this process should entail filing a written service request with the selected service provider outlining the predetermined requirements that need to be met. Subsequently, the corresponding formal proposal should be compared with the cost estimates to verify its reasonableness. Any variation should be analyzed and actions should be initiated if any discrepancies are discovered that exceed the acceptable threshold prior to its acceptance. Finally, a written assignment authorization should be transmitted to the service provider to confirm the nature, estimated costs and target schedule of its assignment. This authorization process should confirm the allocation of a budget that is sufficient to cover the assignment.

During our audit, we selected nine assignments among the five open contracts within our sample group in order to determine whether there was a well-structured assignment authorization process and subsequent follow-up on the use of the funds allocated to these contracts.

Only one of the five open contracts under audit was a master contract (see Appendix A – sample item 9) that was subject to the authorization rules under article 27 of the by-law respecting the delegation of powers (RCE 02-004) (see Appendix D). As for the other four open contracts (see Appendix A – sample items 7, 8, 10 and 11), engagements with the selected firms were authorized following internal administrative rules as adopted by the business units concerned.

**FINDING**

**We observed that three of the five cases (see Appendix A – sample items 9, 10 and 11) incorporated a process to authorize assignments and related expenses.**

Once the official designated by the business unit approved the service request, it was sent to the selected firm. According to the information we obtained, business units relied primarily on acquired knowledge and past experience to assess the reasonableness of written proposals from these firms. Any proposal that was overpriced led to discussions with the firm in an attempt to negotiate an agreement. Very few service proposals were refused outright.

**FINDING**

**In addition, our audit did not reveal any evidence supporting the implementation of this reasonableness analysis.**

When a proposal was deemed acceptable and it was demonstrated that the funds provided for in the contract were available, the proposal was generally approved in writing by an official and the budget monitoring spreadsheet was updated accordingly.

Our audit also addressed the authority level required to approve engagements assigned to selected firms under open contracts. In the case of the only master contract within our sample (see Appendix A – sample item 9), assignments were authorized in compliance with section 27 of the *By-law Concerning the Delegation of Powers to Officers and Employees* (see Appendix D). This particular section stipulates that an officer from any level (A, B, C, D or E) is generally allowed to authorize assignment-related expenses up to the maximum allocated budget and, consequently, to the total contract value.

**FINDING**

**In other words, these officers have more signing authority than those responsible for awarding project-specific professional service contracts pursuant to section 22 of that same by-law (see Appendix D). Just prior to the completion of our audit, this situation was changed when the executive committee amended section 27 of that by-law on November 25<sup>th</sup> 2009, which set a maximum limit of \$50,000 for the authorization of professional service assignments under master contracts.**

**FINDING**

**As for the authorization of engagements assigned under the other two non-master open contracts (see Appendix A – sample items 10 and 11), we did not find any internal written rules governing authority levels according to the value of assignments.**

In the first case, we noticed that the assignment authorization rules within the Direction de la production de l'eau potable of the SITE were revised during our audit to ensure that any assignment (regardless of its value) was to be approved from now on by the project leader, the engineering team leader, the section head, the division head and even the director (see Appendix A – sample item 10). Under the previous rules, only the engineering team leader overseeing the contract management was responsible for authorizing engagements assigned to the selected firms. In the second case (i.e. sample item 11), which involved two different administrative departments, we discovered that all assignments (regardless of their value) were approved by both the designated project leader from the Direction de la réalisation des travaux of the SITE and the section head from the Direction des grands parcs de la nature en ville of the SDCQMVDE.

**FINDING**

**Essentially, authorization rules vary from one business unit to the next, even for the same category of open contracts. To minimize the risk of assignments being approved by individuals without the proper authority, we believe that standard rules should be adopted to establish the applicable threshold for authorizing expenditures, whether or not they fall under master contracts.**

**FINDING**

**As for the other two open contracts that we reviewed (see Appendix A – sample items 7, 8), there was no evidence of any formal process governing the authorization of assignments and related expenditures.**

These contracts were managed jointly by two administrative departments, one of which was overseeing the budget and the definition of work to be performed while the other was primarily responsible for assigning and managing engagements. According to the information we obtained, these engagements were assigned to the selected firms over the phone without neither any written proposals from them nor the formal authorization of the business unit responsible for

budget matters. The latter never received the spreadsheet that outlined the use of budget funds. It was only informed of assignment expenditures when the invoices were recorded in the accounting system.

**FINDING**

**We believe that the lack of any written proposals and documented cost estimates is not conducive to demonstrating the reasonableness of the proposed assignments. In addition, the business unit responsible for budget matters never received any information on the value of the engagements assigned to the selected firms, thereby making it difficult to monitor the use of funds within the available budget.**

In our opinion, it is paramount to obtain authorization for every assignment and to control the use of contract funds in order to prevent firms from maximizing their assignment fees and to ensure the proper use of budgetary funds. This would also help monitor the costs and schedules of services being rendered.

**3.3.B. Recommendations**

**To promote stricter control and more transparency over the use of contract funds, we recommend that the Direction générale establish an administrative framework to ensure that:**

- **the selected firms receive formal service requests;**
- **these firms submit written proposals;**
- **submitted proposals are compared with the initial cost estimates for professional fees and comparison results are fully documented;**
- **any required actions are undertaken when the submitted proposals and the cost estimates for professional fees vary beyond the acceptable threshold;**
- **only individuals with the proper level of authority approve assignments and related expenditures according to their maximum allowable value.**

**3.4. CONTRACT MONITORING**

Business units responsible for the budget allocated to contracts must have the organizational structure and monitoring mechanisms needed to oversee the schedules and services rendered under assignments performed by external firms. This monitoring helps ensure compliance with the professional service agreements executed between the parties.

During the examination of the contracts within our sample, our first step was to determine whether the sharing of roles and responsibilities (including the segregation of duties) was clearly defined and properly implemented by the different contract management stakeholders. We subsequently reviewed various elements, including the monitoring of services rendered, the controls for validating the accuracy of the costs incurred by the City and the mechanisms used to track their evolution. Finally, we observed the approach followed to monitor the target schedules.

### 3.4.1. SHARING OF ROLES AND RESPONSIBILITIES

#### 3.4.1.A. Background and Findings

The sharing of roles and responsibilities along with the clear segregation of duties are crucial in ensuring the proper workflow for professional service contracts. From an organizational standpoint, this element consists in:

- appointing an internal project leader who will ensure proper workflow, monitor the services rendered, their costs and their schedule as well as issue status reports;
- achieving an adequate segregation of duties by designating individuals to administrative tasks such as the authorization of invoices and other tasks pertaining to the City's SIMON management information system (MIS), including the creation and recording of purchase orders as well as the entry of invoices into the system for payment;
- entering into a professional service agreement with the contractor to specify its official role and obligations for the execution of the assignment.

We noticed that a city employee was designated to monitor every awarded contract within our sample, including the few engagements assigned under open contracts. According to our observations, this individual was generally appointed as project leader. In addition to being a liaison officer between the City and the designated contractor representatives, this person ensured proper workflow and the monitoring of costs, schedules and deliverables.

We also observed that separate employees were assigned to more administrative contract management tasks. Our review focused primarily on the creation and authorization of purchase orders in the SIMON system, the verification of invoices, their subsequent authorization by a manager with the appropriate authority level, their recording in the system and their payment. **For all of the contracts we reviewed, the segregation of tasks appeared to be adequate.**

In another vein, we reviewed the professional service agreements and their appendices to ascertain the sharing of roles and responsibilities between the parties. Our review raised questions about the roles and responsibilities assigned to the selected firms.

**FINDING**

**In our opinion, some of the responsibilities assigned to the selected firms significantly limit the City's ability to supervise its projects and help in-house resources acquire further know-how.**

**FINDING**

**For instance, we noticed that the firms selected under certain contracts (see Appendix A – sample items 2, 4, 5 and 6) were assigned tasks such as preparing work cost estimates, participating in the tender preparation (e.g., drafting the specifications) and bid solicitation, evaluating bids and ultimately recommending a particular contractor.**

**Another contract was concerned with retaining the services of a project manager to supervise the rehabilitation of a municipal building on behalf of the City (see Appendix A – sample item 3). In addition to serving as liaison officer between the City and external stakeholders (e.g., architects and engineers), this individual was responsible for planning, coordinating, controlling and supervising the project execution phase, including the deadlines, the programs and the actual job site. Although this project manager was reporting to a designated SMVTP representative, we were puzzled by this approach.**

According to the managers we interviewed, various long-term trends have produced a shortage of qualified staff within business units, thereby making it difficult for them to manage their projects internally. These trends include the creation of the new amalgamated city following the 2002 municipal mergers and the subsequent municipal reorganization, which partly contributed to the disintegration of many expert teams within the previous administrative departments of the City of Montréal. Our interview subjects also blamed a 2006 decision from the City's executive committee to order a hiring freeze in boroughs and central departments as a result of RASOP, a vast review of activities, services, operations and programs undertaken at that time. In general, they are of the opinion that this decision was a major contributor to the current state of affairs. We understand these allegations.

**FINDING**

However, we believe that having external firms fulfil the roles and responsibilities of the City increases its risk of overpaying for the goods and services requested. Since professional fees are often calculated as a percentage of the estimated project costs, the selected firms might be tempted to propose more expansive project scenarios or prepare estimates that are not necessarily cost-effective for the City (by proposing to use, for example, pricier materials).

**FINDING**

In this respect, we believe that all of the City's business units should review their practices for assigning responsibilities to external firms in order to regain control. In particular, during the preparation of cost estimates, we advocate that City stakeholders should have the option to call upon an independent team of cost estimate experts whenever it is warranted.

**FINDING**

In addition, we noticed that most engineering and architecture firms that were retained to prepare drawings and specifications were later asked to supervise subsequent work related to these drawings and specifications.

This practice might seem logical as these firms have in-depth knowledge of the work to be done. However, we wonder whether the City would benefit from dissociating these two tasks and assigning them to different firms.

**FINDING**

Finally, our audit revealed that professional service agreements do not generally comprise a clause requiring selected firms to submit regular progress reports to City representatives. This shortcoming deprives municipal authorities of valuable insight into the status of activities being performed and severely limits their ability to determine whether projects are on time and on budget.

Although city-appointed project leaders remain ultimately accountable for all supervision aspects, these reports would be extremely useful and relevant to them. In addition to promoting tighter supervision, this measure would provide additional information to help project leaders fulfil their

responsibilities in ensuring that assignments are successfully conducted and any corrective actions are taken in the event that projects are not unfolding as planned.

#### **3.4.1.B. Recommendations**

**In order for the City to exercise full control over its projects, we recommend that the Direction générale:**

- **analyze and reconsider current practices for assigning roles and responsibilities to external firms, thereby ensuring that key tasks are entrusted with city representatives;**
- **contemplate the possibility of assembling a team of independent cost estimate experts to make sure that the City always obtains the best prices for requested services.**

**We recommend that the Direction générale examine other scenarios for awarding project supervision contracts and assess their benefits in light of the City's objectives.**

**To help monitor engagements assigned to external firms more closely, we recommend that the Direction générale amend professional service agreements with a clause requiring selected firms to submit regular progress reports to City representatives. These reports would give insight into the status of activities being performed and help determine whether projects are on time and on budget.**

### **3.4.2. MONITORING OF SERVICE PROVISION**

#### **3.4.2.A. Background and Findings**

Professional services must be monitored to ensure that they are satisfactorily provided and that deliverables are produced in compliance with the corresponding professional service agreements.

The services rendered under the contracts within our sample consisted primarily in conducting feasibility studies, preparing drawings and specifications for calls for tenders, drafting tender documents, analyzing bids, supervising job sites or providing technical expertise during projects. They lead to various deliverables, including reports, drafts or final drawings and specifications as

well as certificates confirming the completion of the work in compliance with the laws, the codes and the regulations in force and the readiness of the structure for its intended use.

Our audit focused on the mechanisms used to ensure that the selected firms performed the services for which they were retained in accordance with their contract.

**In general, we noticed follow-up mechanisms to ensure that professional services were provided as planned.** Our interview subjects indicated that they were in constant communication with the consulting firms to follow up on their services or comment on their deliverables. We found e-mails between city-appointed project leaders and those of the consulting firms to corroborate these interactions. We were also informed that city-appointed project leaders participated in the coordination or site meetings to ensure that work was being performed as planned. To this effect, most consulting firms provided the minutes of meetings that listed city-appointed project leaders in attendance.

**FINDING**

**However, for sample item 6 (see Appendix A), we noticed that some meeting minutes had not been forwarded to the City despite a provision to this effect in the professional service agreement. In addition, our review of sample item 1 (see Appendix A) revealed that meeting minutes were never requested from the firm since there was no provision for this in the agreement.**

In our opinion, it is important that the City receives all the minutes of meetings to substantiate its monitoring activities, the type of required services agreed upon by the parties and decisions that were made. In the event that a dispute arises or that rendered services are deemed to be non-compliant, the City could refer to this evidence, thus the importance of keeping it on file. To this effect, all professional service agreements should include a provision for the systematic reporting of meeting minutes by the selected firms.

According to the information we obtained, the monitoring of professional site supervision services entails impromptu site inspections from city-appointed project leaders as representatives of the “project owner”. During these visits, they ensure that contractors are on-site and that any major work such as the pouring of concrete is performed in accordance with the specifications. They are obligated to report any irregularity or non-compliance to the consulting firm in charge of site supervision.

**FINDING**

**Our audit of contracts involving supervision services from consulting firms revealed that project leaders did not consistently report their observations in a log to provide evidence of their monitoring activities.**

For the two contracts pertaining to the Direction des grands parcs de la nature en ville of the SDCQMVDE (see Appendix A – sample items 4 and 6), we found a log with the observations of the technical officer assigned to the supervision of active job sites. However, there was no log for the other contracts that we reviewed (see Appendix A – sample items 7 and 8).

**FINDING**

**In addition, our review of professional service agreements indicated that there was no standard provision for the filing of site supervision reports from the consulting firms.**

In some cases, they had to produce weekly reports. In others, they only produced reports upon request from the city-appointed representatives.

For the contracts pertaining to the Direction des grands parcs de la nature en ville of the SDCQMVDE (see Appendix A – sample items 4 and 6), we noticed that daily supervision reports were produced by the consulting firm and forwarded regularly to the City throughout the execution of the work. According to the information we obtained, these reports were kept on file in the event of any dispute, but were never used to monitor the supervision of services being provided.

**FINDING**

**As for the other contracts involving supervision services (see Appendix A – sample items 2, 5, 7, 8, 9, 10 and 11), our audit revealed that the selected firms were not always required to submit supervision reports.**

However, we believe that these reports along with impromptu site visits would have allowed for the effective monitoring of the services provided by these firms while pressuring them to fulfil their responsibilities adequately. In fact, these types of reports could be used, among others, to corroborate the professional fees charged by the firms.

Most professional service agreements stipulate that city directors or their authorized representatives must approve all deliverables. Some agreements explicitly state that this authorization must be provided in writing, while others are silent on this issue.

**FINDING**

**In a nutshell, acceptance requirements are not clearly defined from one agreement to the next.**

The minutes of coordination meetings indicate that deliverables are approved during these sessions. However, we believe that deliverables should be subject to a formal approval process providing evidence that they meet the City's expectations. To this end, we think that guidelines should be established to explain the purpose and format of this formal authorization process.

**Finally, we consider that the services provided by external firms should be monitored to determine whether work is being performed as planned and certify that deliverables meet the City's expectations. This monitoring process can also be viewed as a way to control costs when invoices are received. To standardize practices and make project leaders accountable, we believe that there should be guidelines on the monitoring of professional services and the approval of deliverables.**

**3.4.2.B. Recommendations**

**To ascertain that services are being provided as planned and to help monitor them more closely, we recommend that the Direction générale provide central departments with guidelines to:**

- **specify the responsibilities of project leaders for monitoring compliance with professional service agreements and keeping supporting evidence to that effect;**
- **refine the acceptance requirements for deliverables across all professional service agreements;**
- **standardize the production of minutes for coordination or site meetings and specify the frequency of site supervision reports from consulting firms through professional service agreements.**

### 3.4.3. COST TRACKING

It is important to track the costs of any awarded contract to ensure its compliance with the initial estimates and the timely detection of budget overruns. Cost tracking is also helpful in verifying the accuracy of any amount charged for services rendered under professional service agreements.

During our audit, we examined whether controls were applied to ensure that only services rendered were actually billed in accordance with the quoted prices. We also reviewed the cost tracking mechanisms or tools available to project leaders and how they were utilized.

#### 3.4.3.1. COST CONTROLS

##### 3.4.3.1.A. Background and Findings

Under contracts awarded to selected service providers, the City agrees to pay their professional fees in exchange for services rendered and the fulfillment of their obligations. Professional fees can be calculated in one of three ways, i.e. through a percentage-based, an hourly or a fixed-price method.

When using the percentage method, professional fees are calculated as a percentage of the estimated or actual work costs depending on the current stage of the project (e.g., planning or construction). The hourly method consists in paying fees based on the actual number of hours worked by the professionals on assignment. Finally, the fixed-price method entails the payment of a pre-determined amount to professionals.

Regardless of the billing method agreed upon by the parties, business units must track the fees charged by professional firms to verify their accuracy. Essentially, project leaders must apply controls on various aspects that are inherent in each of the billing methods to ensure that these fees correspond to the actual services rendered during the project for the period covered by the professional service agreement in accordance with its provisions.

For professional services that are billed using the percentage method, controls verify elements such as the percentage of the cost of the work stipulated in the professional service agreement, the estimated or actual work cost and the degree of completion of the work in the execution stage.

Controls over professional services billed according to the hourly method involve:

- the name of the individuals who provided services to ensure that they were part of the original team proposed by the firm or that any team member substitution was pre-authorized;
- the hourly rate of these individuals to ensure that it matches the rate quoted by the firm;
- the number of hours billed to ensure that they were dedicated to services provided as part of the project.

Finally, controls pertaining to the fixed-price billing method focus primarily in assessing the reasonableness of the fees that were charged versus the progress of the work to ensure that the City only pays for the services it actually received.

Whatever billing method is chosen, project leaders must apply all the required controls to protect the City against potential errors or overbilling.

As part of our audit, we assessed whether controls were implemented to ensure service billing accuracy and compliance with fee-related provisions under professional service agreements.

**FINDING**

**The invoices we selected at random showed evidence of having been approved by project leaders and designated officials. Our review of invoices prepared using either the percentage or fixed-price method did not reveal any errors. However, we noticed that controls over the hourly billing method were not applied as thoroughly by all project leaders, whether or not they worked within the same business unit.**

Although we do not intend to generalize, here are some shortcomings we observed:

- The individual service providers whose names appeared on invoices were not reconciled systematically with the team members outlined in the corresponding winning bid even though that bid had been selected based on the proposed appointment of particular individuals and their corresponding billing rates subsequent to a formal call for tenders (see Appendix A – sample items 7 and 8);
- We did not always find written evidence that designated city representatives had pre-authorized team member substitutions (see Appendix A – sample items 5, 7, 8, 10 and 11). Nonetheless, there were several cases where the name of individuals who were not part of the proposed team from the winning bid appeared on invoices;

- Some team members were billed at an hourly rate that was different from the one indicated in the winning bid (see Appendix A – sample item 1). In this case, their services were billed at an average rate rather than the prescribed hourly rate;
- Occasionally, the billing period preceded the closing date of the professional service agreement or the assignment start date even though the agreement specifically stated that the firm could not undertake any work without prior written authorization (see Appendix A – sample items 3 and 9).

In addition to those shortcomings, the City faces increased risks of overbilling. In fact, managers and project leaders admitted to us that they have difficulty monitoring the actual hours worked by external employees. Under these circumstances, we believe that measures must be taken to strengthen controls and standardize practices.

Although invoices had evidently been approved by the appropriate authorities (i.e. project leaders, engineering team leaders, section heads and division heads) for payment processing in the SIMON system, we question the relevance of this particular authorization in light of our findings.

In this respect, the Service des finances released in October 2009 a procedure entitled *[Translation] Receipt of Goods and Services* which states that individuals receiving goods or services must ascertain their quality and quantity.

**To promote consistent practices and verify more thoroughly the validity of fees charged by professional firms, this procedure or any other guidelines should provide detailed explanations on how to perform this particular assessment**, including the type of controls to be implemented and their objectives. Individuals who approve invoices could even be required to make a statement to the effect that the services were actually provided in compliance with the applicable professional service agreement.

#### 3.4.3.1.B. Recommendations

To facilitate the assessment of professional services provided to the City in terms of quality and quantity and minimize the risks of errors or overbilling, we recommend that the Direction générale draft guidelines to:

- specify the tasks to be performed by project leaders and other managers prior to authorizing professional fee invoices;
- remind business units that work can never begin before a professional service agreement is signed with the selected firm or its assignments are duly authorized.

#### 3.4.3.2. TRACKING MECHANISMS

##### 3.4.3.2.A. Background and Findings

While the SIMON accounting system is used to record purchase orders, invoices and payments, contract costs are actually tracked through other applications.

In fact, we noticed that most project leaders tracked costs by recording received invoices in Excel spreadsheets or departmental applications such as the SIGI integrated property management system from the SMVTP. They then used this data to compare actual costs with budgeted costs.

##### **FINDING**

**For two of the contracts we reviewed (see Appendix A – sample items 7 and 8), costs were not tracked in a manner that would guarantee the performance of engagements within the allocated budget by the winning firm.**

These two open contracts primarily involved work supervision services for two administrative units within the same department. We noticed that city-appointed project leaders approved the invoices of these consulting firms even though no tracking tool was used to verify the costs associated with their assignments. However, the administrative unit overseeing the budget produced a spreadsheet that compiled all of the invoices recorded in the accounting system for each assignment. While this spreadsheet provided information on the costs incurred up to date, there was no attempt to reconcile this data with the prices quoted by these firms. This situation arose because the corresponding engagements had been assigned to them verbally by the other administrative unit involved. However, the total costs compiled in the spreadsheet were reconciled with the overall budget allocated in the contract.

**FINDING**

Although the administrative unit overseeing the budget compiled actual invoices, the current practice increases the risks of incurring costs that do not pertain to the assigned engagements and using open-contract budgets for unintended purposes such as covering cost overruns from other projects.

**3.4.3.2.B. Recommendations**

To promote better cost tracking and reporting, we recommend that the Direction générale provide guidelines for implementing mechanisms to support the ongoing reconciliation of actual costs with those approved for each engagement assigned to the selected firms.

**3.4.4. PROGRESS TRACKING**

**3.4.4.A. Background and Findings**

Schedule tracking mechanisms must be implemented to ensure that contracted work is performed within the allotted timeframe. Occasionally, there could be circumstances that delay the beginning of work as scheduled or result in the slippage of tasks (e.g., the postponing of the job site start date, the addition of new requirements or work stoppages). Such tools would allow stakeholders to promptly detect any task that may be delayed and avoid potential cost overruns due to unforeseen events. These tools should be used not only to document and monitor deadlines, but also to benchmark the actual status of projects against their anticipated progress. Ultimately, they should support stakeholders in making timely decisions regarding any potential corrective measures and facilitate the production of overall status reports.

Our audit focused on current progress tracking practices and tools.

**FINDING**

For most contracts, it appeared extremely difficult, if not impossible, to determine precisely whether deadlines were met.

We noticed several open contract engagements that were assigned verbally without any written service proposal from the selected firm. In other cases, the firm responded to a request for services with a written service proposal that did not, however, address scheduling issues.

**FINDING**

**Without a formally agreed upon work schedule drafted by the parties, one can rightfully assume that there would be no way to monitor progress thoroughly. In addition, it could become very difficult to enforce the professional service agreement in the event that the selected firm does not fulfil its responsibilities with due diligence and fails to meet its deadlines.**

**FINDING**

**As for assignments (under project-specific or open contracts) that included a service agreement complete with a work schedule, our review of the available documentation and the information we obtained from city-appointed project leaders indicated that progress is rarely tracked using a computerized tool such as MS Project.**

Yet, using this type of tool would have provided a clear picture of the situation by comparing the planned start and end dates of every assignment task with their actual start and completion dates. **Instead, assignment progress is tracked through e-mails or verbally during regular site or coordination meetings that are attended by representatives from the City and the consulting firm involved as well as any other required contractors. City representatives also perform site visits when it comes to professional services that involve work supervision.**

We believe that progress tracking is essential. It would allow city-appointed project leaders to become aware of issues with ongoing tasks and enable them to take timely action to facilitate their execution. In order to benefit from more structured and transparent progress tracking, we also promote the use of standardized tools to:

- ascertain the status of every assignment task against its anticipated progress to ensure that deadlines are met or help pinpoint the cause of any delay;
- provide project leaders who often have to monitor an overwhelming number of projects with a reliable tickler file;
- facilitate the transfer of knowledge on assignment status in the event of unforeseen changes in the composition of the monitoring staff;
- produce regular work status reports while facilitating the planning and execution of any other required tasks.

**FINDING**

**Although the various business units that we visited did not systematically use computerized project monitoring tools, we noticed that some administrative departments have initiated steps in that direction.**

The subjects that we interviewed mentioned the Direction de la production de l'eau potable as an example. In 2008, it required its project leaders to use the MS Project application to track the progress of projects under their responsibility. To further assist them with this task, an engineer specialized in project management joined the team to develop decision support and project monitoring tools.

**3.4.4.B. Recommendations**

**To help monitor assignments more thoroughly, to simplify the production of status reports and to alleviate the impact of missing target deadlines, we recommend that the Direction générale develop and disseminate guidelines to:**

- **remind stakeholders of the importance of entering into formal, documented agreements with external firms regarding their deadlines for the timely completion of any engagements assigned to them;**
- **specify the computerized status tracking tool that must be used by all city departments.**

**3.5. STATUS REPORTING**

**3.5.A. Background and Findings**

Reporting mechanisms are essential in keeping managers abreast of the progress of work performed under professional service contracts. To this end, management reports must be produced regularly and provide all the information needed to help make decisions on measures that support the target objectives.

During our audit, we reviewed the mechanisms implemented to report the progress of any work conducted under these contracts.

Project leaders are appointed by business units to monitor contracts awarded to external firms. Their responsibilities include tracking the costs, deadlines and deliverables stipulated in the professional service agreements.

**FINDING**

**For 3 of the 11 contracts within our sample, we noticed that mechanisms were used to help track and report the progress of contract-related work.**

With respect to sample item 1 (see Appendix A), we observed that the regular summary tables produced by the retained consultant assisted the project leader in reporting the progress of costs and deliverables associated with the related professional services. However, this information was never reconciled with the planned schedule. For sample items 5 and 10 (see Appendix A), contracts were monitored using a project planning spreadsheet that tracked all of the ongoing projects for the Direction de la production de l'eau potable under its three-year capital program. This spreadsheet compared budgeted costs with actual ones for professional services and overall projects. It also allowed for the monitoring of key project milestones, but could not be used for reporting the status of professional service contracts.

**FINDING**

**As for the other contracts we reviewed, there was no evidence of any tracking report or log that outlined the overall progress of work assigned under professional service contracts.**

**FINDING**

**According to the managers and project leaders we interviewed, those business units that implemented tracking tools with reporting functionalities tended to communicate information on the status and performance of projects informally during regular meetings between the various stakeholders.**

In order to provide managers with an overview of the progress of contracted work and allow them to better assess whether work is being performed on time and on budget, we believe that city-appointed project leaders should produce regular status reports (or logs) for each project under their responsibility. These reports could include information on:

- the actual costs in comparison with the allocated budget;
- the meeting of deadlines versus the original or revised schedule;
- the analysis of cost or schedule discrepancies;
- the actual work progress (i.e. the percentage of work completed) from cost and timetable perspectives;

- the main issues, risks or problems that could impact the costs, deadlines or deliverables;
- the alternatives being considered to alleviate these issues;
- the overall project status (e.g., “under control”, “ahead of schedule” or “critical”).

In addition, such information would allow managers to take timely action and make any required decisions in the event that the status reveals possible cost or schedule overruns.

Some of the managers we met during our audit indicated that steps have been taken towards the future implementation of status reports. For instance, the Direction des transports du SITE has undertaken measures to this effect.

For its part, the Direction des grands parcs de la nature en ville of the SDCQMVDE demonstrated that one of the business unit’s methodologies incorporated a status report template. Although the managers we met intended to promote the use of the methodological tools available in the short term, the status report template was not employed for any of the contracts we reviewed.

**FINDING**

**We believe that progress reports should be prepared and submitted on a timely basis to elected officials for all major projects and contracts or those that constitute priorities for municipal authorities in order to keep them abreast of the status of ongoing projects.**

### 3.5.B. Recommendations

To help make more timely and informed decisions, we recommend that the Direction générale develop and disseminate reporting guidelines for project leaders assigned to contract monitoring and require that they produce regular status reports on specific elements, including:

- the actual costs in comparison with the allocated budget;
- the meeting of deadlines versus the original or revised schedule;
- the analysis of cost or schedule discrepancies;
- the progress of work (i.e. the percentage of work completed) from a cost and timetable perspective;
- the main issues, risks or problems that could impact the costs, deadlines or deliverables;
- the alternatives being considered to alleviate these issues;
- the overall project status (e.g., “under control”, “ahead of schedule” or “critical”).

We also recommend that the Direction générale supplement these guidelines with reporting mechanisms to keep elected officials abreast of the status of prioritized or major projects and contracts.

### Action Plan for the Business Unit Involved

*[Translation] “Many of the issues raised in this report will be addressed in newly drafted or implemented documents, including specifically the:*

- [Translation] Project and Program Management Framework;
- [Translation] Action Plan and Follow-up on the Report Concerning the Water Meters in IBIs and the Optimization of the Water System;
- [Translation] Guidelines for Drafting Executive Summaries;
- [Translation] Reference Guide for Awarding and Managing Professional Service Contracts.

*Subsequent to your report on the management of professional service contracts, we referred to these documents as required for the purpose of shaping our recommended action plan into a coherent work.*

*As our action plan progresses, we will make every effort to determine the best way to deal with the more specific professional service contract management issues that were raised in this audit report.”*

APPENDIX A – SUMMARY OF THE CONTRACTS REVIEWED DURING THE AUDIT

Table 1—Project-Specific Contracts<sup>1</sup> (six in total)

Sample item number	Type of professional services	Business unit	Estimated costs of professional fees	Winning bid	Variation between the estimated costs and the winning bid	Additional funding allocated)	Project costs		
							Estimated costs <sup>2</sup>	Winning bid	Variation between the estimated costs and the winning bid
1	Professional services for assessing the quality of the City's real estate portfolio.	SMVTP (A)	\$1,100,000	\$466,504	\$633,496 -58%	\$46,650 +10%	N/A <sup>3</sup>	N/A	N/A
2	Professional services in architecture as well as electrical, mechanical and structural engineering for upgrading the swimming pool and the pool house at Jarry park.	SMVTP (B)	\$75,000	\$90,000	\$15,000 +20%	\$100,000 +110%	\$600,000	\$1,650,000	\$1,050,000 +175%
3	Management of various realty projects pertaining to the city hall building.	SMVTP (B)	\$400,000	\$450,000	\$50,000 +13%	–	\$18,000,000	\$10,670,120	-\$7,329,880 -41%
4	Professional architecture and engineering services for the design, the production of drawings and specifications and the supervision of work pertaining to the development of trails, hydrologic structures and cliffs at the Saint Michel Environmental Complex.	SDCQMVDE (C)	\$125,000	\$337,170	\$212,170 +169%	\$25,000 +7%	\$260,000	\$1,126,269	\$866,269 +333%

<sup>1</sup> This data represents the situation that we observed during our spring 2009 audit.

<sup>2</sup> These project cost estimates were established during the calls for tenders for professional services.

<sup>3</sup> Not applicable.

V. Information Technology (IT) and Value-for-Money Audit  
V.3. Management of Professional Service Contracts

Sample item number	Type of professional services	Business unit	Estimated costs of professional fees	Winning bid	Variation between the estimated costs and the winning bid	Additional funding allocated)	Project costs		
							Estimated costs <sup>2</sup>	Winning bid	Variation between the estimated costs and the winning bid
5	Professional engineering services for the preparation of drawings and specifications pertaining to the installation of an electrical utility line at the McTavish pumping station and the supervision of work for securing the power supply at the Atwater and Charles-J.-Des Bailleurs drinking water plants.	SITE (D)	\$1,165,000	\$1,130,521	\$34,479 -3%	\$480,042 42%	\$10,025,000	\$22,355,817	\$12,330,817 +123%
6	Professional architecture services for the design, the production of drawings and specifications and the supervision of work pertaining to the development of trails at Maisonneuve park (phase 2).	SDCQMVDE (C)	\$50,000	\$62,382	\$12,382 +25%	–	\$400,000	\$494,532	\$94,532 +24%

Table 2—Open Contracts<sup>4</sup> (five in total)

Sample item number	Type of professional services	Business unit	Estimated costs of professional fees	Winning bid	Variation between the estimated costs and the winning bid	Additional funding allocated
7	Professional engineering services for the preparation of drawings and specifications as well as the supervision of work pertaining to the rehabilitation, reconstruction and development of bridges and tunnels.	SITE (E)	\$625,000	\$625,000	–	\$275,000 +44%
8	Professional engineering services for the preparation of drawings and specifications as well as the supervision of work pertaining to the rehabilitation, reconstruction and development of bridges and tunnels.	SITE (E)	\$1,390,000	\$1,390,000	–	–
9	<b>(Master contract)</b> Professional engineering services for the preparation of drawings and specifications as well as the supervision of work pertaining to the rehabilitation, reconstruction and development of bridges and tunnels.	SITE (F)	\$1,820,000	\$1,820,000	–	–
10	Professional engineering services for the preparation of drawings and specifications as well as the supervision of work pertaining to the construction, the replacement or the rehabilitation of main water lines, treatment plants, water tanks and drinking water pumping stations.	SITE (D)	\$3,000,000	\$3,000,000	–	–
11	Professional engineering services for geotechnical investigations and environmental site assessments, for the preparation of drawings and specifications as well as the supervision of environmental remediation work as part of development projects for large Montréal parks.	SITE and SDCQMVDE (G)	\$375,000	\$375,000	–	–

- (A) Direction stratégies et transactions immobilières
- (B) Direction stratégies et transactions immobilières and Direction des immeubles
- (C) Direction des grands parcs de la nature en ville
- (D) Direction de la production de l'eau potable
- (E) Direction des transports and Direction de la réalisation des travaux
- (F) Direction des transports
- (G) Direction des grands parcs de la nature en ville and Direction de la réalisation des travaux

<sup>4</sup> This data represents the situation that we observed during our spring 2009 audit.

**APPENDIX B – RULES FOR AWARDING PROFESSIONAL SERVICE CONTRACTS**

**Table 3—General Rules for Awarding Professional Service Contracts  
under Section 573 of the *Cities and Towns Act***

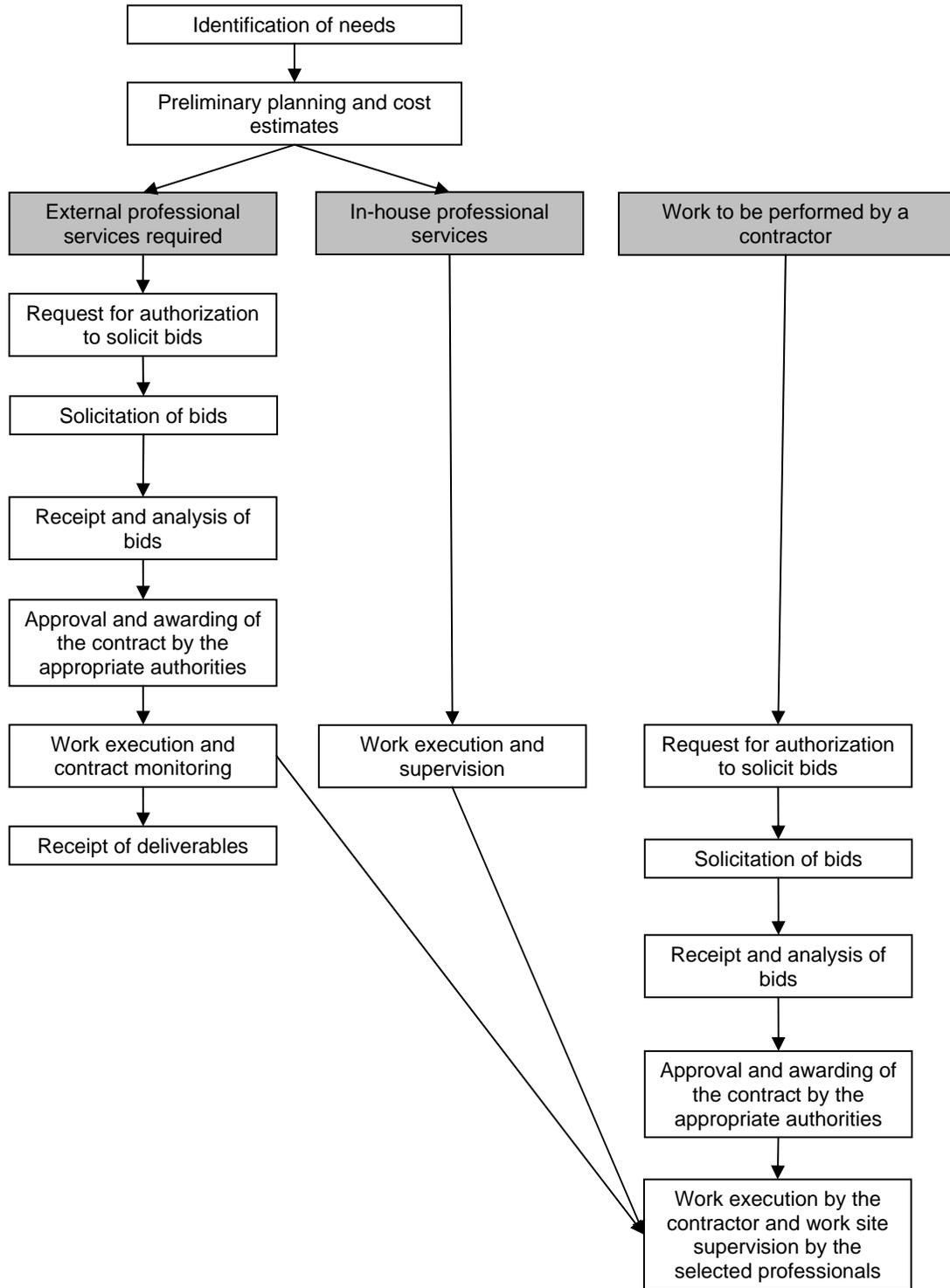
Type of contract	Contract value		
	From \$0.01 to \$24,999.99	From \$25,000.00 to \$99,999.99	\$100,000.00 or more
Provision of specialized professional services (architects, land surveyors, chartered accountants, engineers)	By private agreement	Double invitation (8-day timeframe)	Call for public tenders (15-day timeframe)
Provision of non-specialized professional services	By private agreement	Double invitation (8-day timeframe)	Call for public tenders (15-day timeframe)

Since January 1<sup>st</sup> 2002, a two-envelope bid weighting and evaluation system is mandatory for all requests for professional services (by invitation or call for public tenders).

This system is summarized below:

- The requisitioner (i.e. the City) must determine a minimum of four evaluation criteria in addition to price.
- Each of the criteria other than price must be assigned a maximum of 30 points out of a total of 100.
- Tender documents must specify all the requirements and criteria that will be used to evaluate the bids as well as the bid weighting and evaluation methods.
- A selection committee comprised of a minimum of three members must be created.
- Each committee member must evaluate the various tenders without knowing their price, which is kept in a separate, sealed envelope.
- An interim score is established for each tender prior to opening the second envelope with the price information.
- Envelopes containing the quoted price are only opened for those tenders who obtained an interim score of at least 70.
- Envelopes containing the quoted price are returned unopened to those tenders who did not obtain the minimal interim score of 70.
- The final score for each tender who obtained an interim score of at least 70 is calculated using the formula stipulated in the Act.
- The tender with the best final score is recommended to the authorities for approval.

**APPENDIX C – STEPS IN MANAGING PROFESSIONAL ARCHITECTURE OR ENGINEERING SERVICE CONTRACTS**



## APPENDIX D – APPROVAL AND AUTHORIZATION RULES

**Table 4—Rules for the Authorization of Contracts and Related Expenditures Related to Central Departments**

Authorities	Approval of all types of contracts
	Expenditure authorization
City council or agglomeration council <sup>1</sup>	Over \$500,000 Over \$100,000 with one compliant tender only
Executive committee <sup>1</sup>	Less than \$500,000 Less than \$100,000 with one compliant tender only
Delegated officers (section 22)	Approval of professional service contracts
Director general	Less than \$50,000 <sup>2,3</sup>
Level A officer	Less than \$25,000 <sup>2</sup>
Level B officer	Less than \$15,000 <sup>2</sup>
Level C officer	Less than \$5,000 <sup>2</sup>

<sup>1</sup> By virtue of decree 1229-2005 adopted on December 8<sup>th</sup> 2005, all agglomeration powers under the Charter of Ville de Montréal are exercised by the executive committee with a few exceptions, including the awarding of contracts valued at \$500,000 or more. Following a decision from the municipal authorities in January 2006, this limit also applies to all contracts valued at \$500,000 or more under the jurisdiction of the city council. In other words, non-agglomeration contracts with a value of \$500,000 or more should be approved by the city council, although the executive committee is legally authorized to award these contracts.

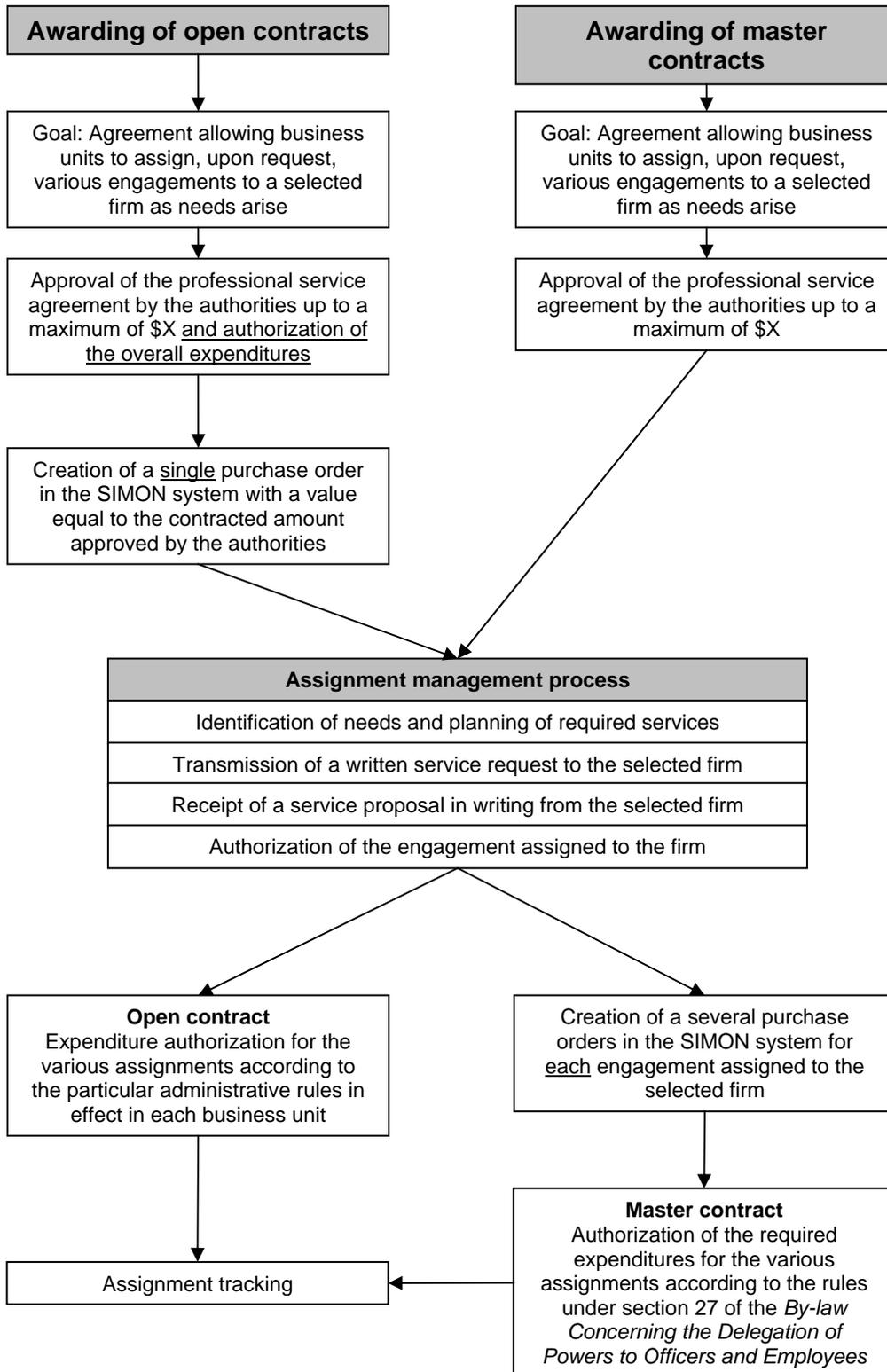
<sup>2</sup> Under section 22 of the *By-law Concerning the Delegation of Powers to Officers and Employees* – RCE 02-004, the executive committee has delegated its powers for awarding professional service contracts and authorizing related expenditures to officers and employees.

<sup>3</sup> Pursuant to section 22.1 of the by-law concerning the delegation of powers, the awarding of professional service contracts for the implementation of the new water management program approved by resolution CE03 2407 and, consequently, the authorization of any contract-related expenditures are delegated to the director general when the contract is valued at less than \$100,000.

Remarks: Section 27 of the *By-law Concerning the Delegation of Powers to Officers and Employees* (RCE 02-004) also stipulates that the authorization of service expenditures incurred under a master contract is delegated to the director general or any level A, B, C, D or E officer according to the value of the expenditures as provided in the attached by-law schedule.

At the time of our audit, the maximum limit stipulated in the by-law schedule was “According to budget” in most cases. In practice, this meant that there was no pre-established threshold limit and that individuals with budget responsibilities could authorize expenditures up to the total budget amount. However, the executive committee amended the by-law at its November 25<sup>th</sup> 2009 meeting to limit the amount of assigned engagements to \$50,000.

**APPENDIX E – OPEN CONTRACT MANAGEMENT PROCESS**



## V.4. Fleet Management



## V.4. FLEET MANAGEMENT

### V.4.1. DIRECTION DU MATÉRIEL ROULANT ET DES ATELIERS

#### 1. INTRODUCTION

The vehicle fleet of the City of Montréal is composed of light and heavy vehicles, as well as mobile equipment (generators, grass mowers, etc.). These vehicles are allocated to the boroughs and central departments for performance of various activities.

Following the municipal reform on January 1<sup>st</sup> 2002 and the changes made to the responsibilities of the Direction du matériel roulant et des ateliers in January 2006, the boroughs and central departments of the City of Montréal now manage their own vehicle fleet. Essentially, the boroughs created from the former suburban municipalities and the Service de police de la Ville de Montréal continue to oversee the management of the vehicles for which they were responsible for prior to January 1<sup>st</sup> 2002. In January 2006, the Direction du matériel roulant et des ateliers transferred ownership of its fleet and the corresponding budgets to the boroughs of the former City of Montréal and the central departments (other than the Service de police). At this point, it became a supplier of specialized products and services known as the Centre de services partagés—Matériel roulant et ateliers (CSP–MRA). The CSP–MRA had to adapt itself to meet the needs of its clients who have essentially remained the same ones it has constantly served in the past.

It is worth noting that the CSP–MRA carries out all centralized activities pertaining to the entire vehicle fleet. These encompass vehicle registration renewals and representations relating to compliance with the *Act Respecting Owners, Operators and Drivers of Heavy Vehicles*, which require periodical mechanical checks to be performed.

Vehicle maintenance and repair services are the principal duties of the CSP–MRA. The CSP–MRA also provides services related to vehicle acquisition and leasing, user training and fuel management. We limited the scope of our audit to registered vehicles.

Clients entrust the maintenance of nearly 3,300 vehicles to the CSP–MRA, the combined replacement value of which is roughly \$225 million. To serve its clients, the CSP–MRA runs three regional mechanical workshops (Madison, Des Carrières and Dickson), 13 freestanding

garages located in the public works yards of the boroughs of the former City of Montréal, 13 mobile units (travelling mechanics) and a specialized centre for firefighting vehicles (Viau).

In 2006, clients of the CSP–MRA were invoiced at a base rate that corresponded to a fixed rate per vehicle to cover its maintenance for a year. Gradually, this fixed rate was replaced with a fee-for-service system. Since September 2009, all work performed on vehicles has been invoiced on a fee-for-service basis.

Under this system, the expenditures of the CSP–MRA should be fully offset by revenues from clients and the year-end balance should be zero. For 2008 and 2009, the budget allocated to the CSP–MRA was \$49.9 million and \$51.7 million, respectively.

## 2. AUDIT SCOPE

The objective of this audit is to promote the sound management of activities related to vehicle fleet management. Accordingly, we examined vehicle maintenance and repairs, fuel procurement and distribution, and the inventory of vehicle replacement parts.

Our audit focussed mainly on all of 2008 and the period of January to October 2009. It was conducted in two boroughs created from the former suburban municipalities (Saint-Laurent and Verdun), two boroughs of the former City of Montréal (Mercier–Hochelaga-Maisonneuve and Rosemont–La Petite-Patrie), the Service de sécurité incendie de Montréal (vis-à-vis adherence to agreements signed with the CSP–MRA) and the Direction du matériel roulant et des ateliers (CSP–MRA) of the former Service des affaires corporatives. The audit was performed on registered vehicles only.

## 3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

### 3.1. ESTABLISHMENT OF THE CSP–MRA

#### 3.1.A. Background and Findings

In September 1996, city council created the mobile equipment and workshop fund (FMRA) to cover transactions related to the operation of the City's fleet of vehicle. The creation of this fund made it possible to comply with the *Manuel de normalisation de la comptabilité municipale au Québec* and to track costs as well as management decisions related to the vehicle fleet more efficiently. This fund was overseen by the Direction du matériel roulant et des ateliers.

When the municipal mergers came into effect on January 1<sup>st</sup> 2002, the fleet of vehicles that had belonged to the former City of Montréal was divided up among the former City's boroughs and the central departments, in accordance with their respective mandates. However, management under the FMRA continued, thus preventing the individual boroughs and departments from fully benefiting from these assets, the budget allocated to them and the spin-offs from their management decisions. As for the boroughs derived from the former suburban municipalities, they retained the vehicles that were previously under their responsibility.

However, the adoption of a more decentralized organizational model by the city administration confirmed the need to change this formula. In addition, the 2004 implementation of new allocation rules for the boroughs in the three-year capital program, including the funds related to the acquisition of vehicles, effectively rendered the FMRA operating procedure obsolete.

In the spring of 2004, as efforts to establish a new organizational model were under way, a working subcommittee developed a concept for a shared services centre (CSP). This approach was expected to support the boroughs and the central departments in fulfilling their respective mandates and responsibilities as well as increase their accountability. Furthermore, it would allow them to take advantage of existing expertise and economies of scale. This new organizational model is described in the document *Stratégie et plan d'affaires 2004-2006*, which was prepared by the CSP-MRA.

In order to present this new vision, an executive summary on the creation of the CSP-MRA was drafted in March 2005. It clearly specified the vehicle fleet management responsibilities of the various stakeholders and indicated the rationale behind the creation of the CSP-MRA, its key features and its core principles. According to this summary, decisions concerning vehicle fleet management were to be made by the managers of the concerned boroughs and central departments on the basis of their priorities, their activities and the needs of their employees.

Since January 1<sup>st</sup> 2006, each borough and central department has been responsible for its own fleet of vehicles. There is no longer an administrative unit in charge of overall fleet management.

**The March 2005 executive summary specified that service agreements addressing the needs and priorities of clients should be negotiated and reviewed annually.** It also indicated that these agreements were to cover basic services required to ensure vehicle maintenance (guaranteed business volume), as well as optional services (business volume as decided by the client). **Initially, agreements were prepared and presented to the clients of the CSP-MRA, but they were never signed by the clients. In the end, the only department**

to sign a vehicle maintenance and repair agreement with the CSP–MRA was the Service de sécurité incendie de Montréal (SSIM), doing so in January 2008.

Despite the absence of any agreement, the CSP–MRA has some information on the business volume of its clients, specifically budget-related figures and documentation from administrative units concerning the maintenance of their fleet of vehicles. This information also indicates whether the CSP–MRA will oversee the maintenance of each newly acquired vehicle (since 2008). In addition, a table showing the delegation of authority that is applicable to services rendered by the CSP–MRA was produced and submitted by the boroughs. **However, in our opinion, the development of an agreement would help improve the planning of staff requirements, business volumes and budgets to support the anticipated levels of service and provide a management framework for all dealings between the CSP–MRA and its clients.** It would serve to document and update all client requests (e.g., priority of repair work, cost estimates, type of information to be produced and required authorizations), commitments and services offered by the CSP–MRA (e.g., downtimes, service quality, warranties, communication of information, work schedules, invoicing) and the responsibilities of each stakeholder (role of the CSP–MRA with respect to the Gouvernement du Québec).

**FINDING**

**We ascertained that, with the exception of the SSIM, there is no signed agreement in place between any of the business units and the CSP–MRA to improve the planning of staffing requirements, business volumes and budgets to support the anticipated levels of service and provide a management framework for all dealings between the CSP–MRA and its clients.**

**3.1.B. Recommendations**

**We recommend that the Direction du matériel roulant et des ateliers, in conjunction with the administrative units concerned, establish agreements that include all the appropriate elements governing their business relationships in order to have a frame of reference in place to facilitate the fulfilment of their respective responsibilities.**

**3.1.C. Action Plan for the Business Unit Involved**

*[Translation] “When the CSP–MRA was created, we endeavoured to establish service agreements with each of our clients. Following an internal audit report in 2007 conducted by KPMG on the review of processes related to the operations of the Direction du matériel roulant et*

*des ateliers, we made a second attempt to establish agreements with our key clients, but that was also unsuccessful, except in the case of the Service de sécurité incendie de Montréal. It is important to realize that we do not have any flexibility in this regard. Clients wish to negotiate: they ask us for compensation for such things as vehicle downtimes. The CSP–MRA does not own any reserve vehicles to tide clients over while their vehicles are out of service. Unfortunately, we do not have the financial means to acquire a reserve fleet to accommodate our clients' needs in this respect. Our business model is based on a cost structure, not a profit-making structure, so we have no profit margins. This makes it impossible for us to negotiate and reach agreements satisfactory to both parties.”*

#### **3.1.D. General Auditor's Comments**

**If, as the CSP–MRA claims, an agreement with the business units is impossible to reach within the current parameters that define its business model, it is imperative that this deadlock be resolved through a meeting with the Direction générale.**

**At the time these comments were being written, a new associate director general for borough relations was about to be appointed. His or her mandate will be to ensure the consistency and coordination of actions among the boroughs and central departments. It would therefore be necessary to bring these conflicts to his or her attention, with the goal of finding some common ground between the parties.**

### **3.2. MISSION AND OBJECTIVES**

#### **3.2.A. Background and Findings**

Having a mission is one of the key elements needed to organize activities. It also serves as the foundation for all subsequent reporting. An effective mission statement identifies the clients to be served, the goods or services being offered and the overall desired target results.

Setting objectives not only provides guidance during the planning stage for activities, but also when assessing the results of any corrective actions. Relevant and reliable performance indicators must be established to measure the extent to which objectives have been met and support the related decision-making process.

The mission of the Direction du matériel roulant et des ateliers has been clearly defined in the budget documentation of the former Service des affaires corporatives. It reads as follows:

*[Translation] “A public entity managed according to private-sector practices that competes with public and private suppliers to offer:*

- *maintenance and repair services for light or heavy vehicles and related equipment to boroughs, corporate departments and the agglomeration of Montréal;*
- *repair and production services related to machining, sheet metal working, welding, street furniture, period furniture, electronic devices and screen printing;*
- *training services for operators of heavy vehicles;*
- *consulting services pertaining to vehicle acquisition and fleet management.”*

This documentation also includes commitments and achievements for the current year as well as targets for the following year (e.g., increasing productivity for trades employees by 2%, adhering to the specified repair times, reducing the unit cost of parts and materials used by 2%). Furthermore, the CSP–MRA monthly management report submitted to the management of the former Service des affaires corporatives reiterates these objectives and incorporates others that are more operational in nature (e.g., success rate in adhering to inspection and repair times for pre-scheduled work, implementation of fee-for-service invoicing for the maintenance and repair of central departments’ vehicles). For each of these objectives, a target expressed either in dollars, as a percentage or as a deadline is set. **Although we consider these objectives to be appropriate, we believe that others could be added to better reflect the activities undertaken by the CSP–MRA.**

**FINDING**

**Some objectives have not been specified for the entire range of activities carried out by the CSP–MRA:**

- **client satisfaction;**
- **adherence to repair estimates;**
- **adherence to vehicle downtime estimates;**
- **adherence to costs identified in fixed-rate packages.**

### 3.2.B. Recommendations

**We recommend that the Direction du matériel roulant et des ateliers formulate other measurable objectives, supported by performance indicators, to channel the efforts of its staff and attain the desired outcomes.**

### 3.2.C. Action Plan for the Business Unit Involved

*[Translation] “In January 2010, we established some 15 relevant objectives supported by performance indicators for the four CSP–MRA mechanical workshops.” (Planned completion: March 2010)*

## 3.3. BUDGET

### 3.3.A. Background and Findings

When the CSP–MRA was created, its objective was to operate at zero cost, i.e. to present an annual operating budget whose projected expenses were equal to its projected revenues. These expenses must therefore be offset by business volumes established with clients, and any goods and services provided by the CSP–MRA to accommodate its clients’ needs must be invoiced to them.

The boroughs of the former City of Montréal and the central departments prepare annual estimates for the services they plan to obtain from the CSP–MRA. For 2009, these estimates were \$41.5 million for vehicle maintenance and specialized services required from the CSP–MRA (e.g., joinery work, screen printing, metal work). However, the CSP–MRA felt that these units had underestimated the amount of work they would require and, consequently, included an additional \$10.2 million in its budget, for a total of \$51.7 million. This adjustment was based on the fact that, in 2007 and 2008, these units required more services than they had initially indicated (budgeted and actual revenues were \$47.3 million and \$51.2 million in 2007 and \$49.9 million and \$53.2 million in 2008). The additional estimates were \$4.4 million in 2007 and \$8.7 million in 2008.

**A review of the results achieved in 2007 through 2009 shows that the CSP–MRA was not successful in balancing its revenues and expenses. Its deficit was \$122,000 in 2007 and \$1,177,500 in 2008. The projected deficit for 2009 is roughly \$4.9 million.**

**Table 1—Budget Allocated to the CSP–MRA (Garages and Specialized Workshops)**  
*In thousands of dollars*

	2007		2008		2009	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual (Aug. 2009 projection)
Revenues	47,396.7	51,243.9	49,935.6	53,255.2	51,703.1	46,856.3
Expenses	47,396.7	51,906.1	49,935.6	54,432.7	51,703.1	51,767.8
<b>Deficit</b>	<b>0.0</b>	<b>(662.2)</b>	<b>0.0</b>	<b>(1,177.5)</b>	<b>0.0</b>	<b>(4,911.5)</b>
Adjustment <sup>1</sup>	0.0	540.1	0.0	0.0	0.0	0.0
<b>Deficit after adjustment</b>	<b>0.0</b>	<b>(122.1)</b>	<b>0.0</b>	<b>(1,177.5)</b>	<b>0.0</b>	<b>(4,911.5)</b>

<sup>1</sup> When the initial 2007 budget was being prepared, the amount transferred to clients for the maintenance and repair of their vehicles did not take into account the increase in labour costs, although it was included in the CSP–MRA budget. To offset this omission, an amount of \$540,198 was given back to the boroughs and the Service de sécurité incendie de Montréal directly via the CSP–MRA budget.

An examination of the 2008 results indicates that the CSP–MRA generated higher revenues than anticipated but experienced an even greater increase in expenses, resulting in a deficit. For 2009, the CSP–MRA attributes most of the shortfall to a drop in its business volume. It appears that its clients now tend to call upon private companies more often for vehicle inspections or repairs and lease vehicles that come with maintenance services.

It is worth noting that the increase in the CSP–MRA deficit over the past few years correlates to the change in the fee system. The CSP–MRA shifted from a base rate in 2006 (annual fixed rate based on category of vehicle, e.g., \$5,000 a year for the maintenance and repair of a subcompact vehicle) to a fee-for-service system in 2009 (fees based on services rendered, e.g., \$92 per hour for the services of a mechanic).

On the basis of this report, the CSP–MRA calculates the productivity of its garage employees. In 2009, the target in this respect was 84% (percentage of total billable hours in relation to the total regular and overtime hours worked). The rate obtained as of June 30<sup>th</sup> 2009 was 79.1%. In 2008, the CSP–MRA observed a 3.6% increase in productivity in its garages.

**FINDING**

We were unable to obtain any details concerning how this percentage was determined. Our recalculations showed an increase in productivity of 2%, from 81% in 2007 to 83% in 2008. For employees assigned to generators, paint or body work, the rate was essentially the same as in 2009. The examination of this report also leads us to conclude that the total number of hours on the daily breakdown sheets does not correspond to the number of hours compensated. It is therefore possible that employees were paid for some hours that were not invoiced to CSP–MRA clients, primarily in 2008 and 2009, as the proportion of repairs invoiced on a fee-for-service basis has grown substantially since 2008. These variances might be due to input errors or the loss of some daily breakdown sheets.

Given the results obtained and the estimates for 2009, a turnaround plan was established in September 2009. This plan outlined several actions to be undertaken, including a freeze on hiring and overtime, staffing cuts and tighter cost controls.

**FINDING**

We ascertained that the effects of the turnaround plan action items were not quantified. Doing so would have enabled a measurement of their impact on the anticipated results and ensure that they contributed to remedying the situation. It should be noted that the turnaround plan does not extend to some of the services being offered, such as generator repairs, bodywork and paint.

It is unreasonable to expect the CSP–MRA to operate at zero cost in a municipal environment where factors drive labour costs upwards, thereby reducing competitiveness with the private sector. In fact, the executive summary produced at the time the CSP–MRA was established pointed out that this new way of operating posed a sizeable challenge for managers and constituted a significant departure from the existing organizational culture. It recommended the implementation of more efficient practices better adapted to the needs of both the organization and its clients. Consequently, in the current context, this new formula still clearly requires all stakeholders to develop innovative solutions so that the vehicle fleet can be managed cost-effectively from an organizational standpoint. These solutions must allow clients of the CSP–MRA to continue to enjoy savings from the improved management of their fleet while still taking into account the CSP–MRA's obligations to balance its budget and offer services aligned with its

clients' requirements. To make this objective achievable, the CSP–MRA must maintain a sufficient business volume.

### 3.3.B. Recommendations

We recommend that the Direction du matériel roulant et des ateliers assess the impact of the planned turnaround action items, ensure they make it possible to remedy the situation and examine any required additional measures that could be initiated to balance the budget as intended. These measures might involve, among other things, reviewing its service offering and raising awareness among the business units and the director general about the organization-wide consequences of an ever-diminishing business volume.

We recommend that the Direction du matériel roulant et des ateliers retain the documentation used to calculate its employee productivity rates for future reference and to shed light on the selected calculation method.

### 3.3.C. Action Plan for the Business Unit Involved

[Translation] “The CSP–MRA’s actual deficit of \$4.1 million in 2009 is primarily due to three factors:

- a significantly lower than average snowfall at the beginning and end of 2009;
- a loss of business volume to the competition;
- the transfer of fuel management to the CSP–MRA, without the ability to invoice clients for the related management and operating costs.

To date, the 2010 portion of the 2009–2010 winter season has had a serious negative impact on our revenues. The proposed turnaround measures will not enable us to achieve a balanced budget over the short term. This is why we revisited our business model in a report that was submitted to the director general. We schedule a meeting with him for late February to discuss this issue. **(Planned completion: December 31<sup>st</sup> 2010)**

Documentation [on employee productivity] has been kept on file since October 2009.” **(Planned completion: October 2009)**

### 3.4. FEE STRUCTURE

#### 3.4.A. Background and Findings

When the CSP–MRA was set up, the intention was to gradually convert the base rate system for its goods and services to a fee-for-service system. To implement the latter and ensure a complete cost recovery, an analysis was undertaken in 2005 that determined the hourly rate for mechanics and the mark-up applicable to the cost of parts and vehicle leasing services. The CSP–MRA took several factors into consideration, including the previous year's budget, employee productivity rates and competitors' rates. The hourly rate for mechanics was initially set at \$85, with a 30% mark-up for parts and a 5% mark-up for leasing services. The hourly rate and the mark-up on parts were subsequently adjusted in line with labour costs. As of 2009, the hourly rate was \$92 per hour for mechanics, the mark-up for parts was 35% and the mark-up for leasing services remained at 5%.

**These figures were revised in accordance with labour cost increases, but did not take into account the various factors used to establish them (e.g., the CSP–MRA budget, productivity rates, competition).**

#### **FINDING**

**Given the changes that have occurred since 2005, we believe that a comprehensive fee structure review is warranted to ensure that all relevant factors have been considered. Moreover, this review would enable the CSP–MRA to take into account the claims of clients about the excessive mark-up on parts, especially when such parts are costly.**

#### 3.4.B. Recommendations

**We recommend that the Direction du matériel roulant et des ateliers ensure the fairness of its fee structure by considering all of the relevant factors and taking into account the claims of clients with the ultimate goal of establishing a competitive fee system that would allow for complete cost recovery.**

#### 3.4.C. Action Plan for the Business Unit Involved

*[Translation] "In light of the changes that have occurred since 2005, we will review all of the factors used to establish our 2011 fee schedule." (Planned completion: October 2010)*

### 3.5. VEHICLE MAINTENANCE AND REPAIRS

To ensure that vehicles remain in good condition, regular maintenance and any required repair work must be performed promptly. In line with the operating procedure established in 2006, the CSP–MRA has become a shared service centre and must now execute any tasks requested by its clients in accordance with their requirements.

The clients of the CSP–MRA are mostly limited to the central departments and the boroughs of the former City of Montréal. Based on the invoices issued between January and October 2009, revenues from these clients totalled \$35 million. As for the boroughs created from the former suburban municipalities, para-municipal agencies and non-city clients, they accounted respectively for revenues of \$357,000, \$275,000 and \$162,000.

#### 3.5.1. APPLICATION OF BILL 430

##### 3.5.1.A. Background and Findings

As part of its daily operations, the CSP–MRA must fulfil its obligations under the *Act Respecting Owners, Operators and Drivers of Heavy Vehicles*.

This act was passed in June 1998 to govern road transport by heavy vehicles across Québec. Its purpose is to improve road safety and preserve the integrity of public roads. The Act requires owners and operators of heavy vehicles with a net weight in excess of 3,000 kilograms to be registered with the Registre des propriétaires et des exploitants de véhicules lourds. In addition, it provides for the evaluation and monitoring of their conduct on the road and at their workplace based on their individual files and pre-established criteria.

Following the merger of the municipalities on the Island of Montréal, the new fleet of vehicles for the newly-created City was registered to the City of Montréal. Accordingly, the City of Montréal is registered with the Registre des propriétaires et des exploitants de véhicules lourds of the Commission des transports du Québec.

Under this act, the SAAQ regulates the implementation of a preventive maintenance program (PMP) by vehicle fleet owners with specific requirements to ensure that vehicles remain in good mechanical working order. It is therefore the responsibility of each owner to either implement a PMP after having received the SAAQ certification or entrust said program to an authorized agent

in exchange for compensation. The participant must show that all PMP requirements have been met, namely that:

- preventive maintenance was performed in suitable, enclosed and heated facilities that allow access to the various parts of the vehicle;
- preventive maintenance was performed by qualified mechanics who have passed an SAAQ-recognized examination focussing solely on preventive maintenance;
- the PMP complies with government requirements on maintenance frequency, record keeping and the mechanical components to be maintained. Preventive maintenance frequency varies depending on the category of vehicle, the number of kilometres travelled per year and the weight of the heavy vehicle;
- preventive maintenance information and documentation for the last two years that the vehicle has been in use was signed by a qualified mechanic and kept on file.

In July 2000, the City of Montréal obtained its preventive maintenance certification, confirming its compliance with the PMP requirements. As a result, the City is authorized to apply the PMP, subject to all the rights and obligations under the Act and its regulations.

We performed various audits to ascertain that the obligations under the Act and its regulations were met, client appointments were kept and work performed by the CSP–MRA was completed within the allotted timeframe.

In order to conduct the necessary inspections, a schedule is prepared for all vehicles. According to the individuals we interviewed, discussions are held with the unit staff to ensure the suitability of the selected dates. Every week, an e-mail with colour code listing is sent to those responsible for each vehicle to notify them of overdue inspections (red), inspections scheduled within the next two weeks (yellow) and inspections upcoming within 15 to 30 days (green).

For clients that honour their designated appointments, the CSP–MRA has committed to carrying out inspections and any resulting repairs within a maximum of seven business days. According to the manager responsible for these operations, SAAQ-required inspections can be completed in approximately three hours. The additional time allotted by the CSP–MRA is used to perform any repairs required to ensure that the vehicle will remain operational until its next scheduled inspection date.

**The results of our audit showed that inspections are performed at the set frequency, that inspection sheets are prepared and that each vehicle has a file with past inspection and repair sheets.**

Monthly and annual reports are generated and submitted to managers to provide information on clients' adherence to their appointment schedule and the CSP-MRA's ability to abide by its seven-day downtime commitment to clients who respect their schedule. The CSP-MRA has apparently set a 75% target for compliance with this commitment. The monthly reports are supposed to be analyzed and adjusted in light of various factors, including work authorization periods (which are excluded from downtimes), discrepancies between the closing of work orders and return-to-service dates as well as delays caused by repairs unrelated to mandatory inspections that were included in the same work order. The CSP-MRA conducted the required analyses and adjustments for 2008, but failed to do so in the 2009 monthly reports. We were only informed of the required analysis and adjustment process on the basis of the monthly reports during the validation phase of our draft audit report.

**Our review of the 2008 annual report on clients' adherence to inspection schedules indicated that the percentage of appointments kept by clients at the Dickson and Des Carrières garages was 29% and 33%, respectively. As for honouring the maximum seven-day downtime for clients who kept their appointments, the CSP-MRA obtained a success ratio of 87% at the Dickson garage and 98% at Des Carrières. In 2009, the cumulative monthly reports sent to managers from January through August 2009 indicated that clients' appointment-keeping percentages varied from 17% to 47% (average of 31%) for the garage on Des Carrières and from 9% to 35% (average of 22%) for the Dickson garage. As for compliance with the seven-day downtime commitment for clients who honoured their appointments, it varied from 44% to 85% (average of 61%) for the garage on Des Carrières and from 30% to 80% (average of 57%) for the Dickson garage.**

**In relation to the turnaround time of seven business days, we observed that the target was achieved in 2008, but we were unable to confirm whether this was the case in 2009, as the required analyses and adjustments had not been performed by the end of that year.**

**FINDING**

**One observation is clear: the CSP-MRA has not updated its 2009 figures and cannot confirm whether it fulfilled its commitment to repair times for mandatory inspections. In our opinion, the required analyses and adjustments should be conducted more promptly so that managers have timely access to the information needed to take appropriate measures.**

Our review also indicated that there are inspection appointment schedules for light vehicles and that all work is performed in a timely manner for those vehicles maintained by the CSP–MRA.

### 3.5.1.B. Recommendations

We recommend that the Direction du matériel roulant et des ateliers, in conjunction with its clients, contemplate potential solutions to improve adherence to appointments for scheduled inspections in order to spread out its work load more efficiently and better honour its commitment to specified turnaround times.

We recommend that the Direction du matériel roulant et des ateliers conduct analyses and adjustments with respect to turnaround times for mandatory inspections in a timely manner so that managers have access to relevant information and are able to take any required corrective measures.

### 3.5.1.C. Action Plan for the Business Unit Involved

*[Translation] “Not only will we examine potential solutions, but we will also implement new ones as early as this spring. For example, we are setting up our first local garage in the Ville-Marie borough. In this case, our primary goal is to significantly improve the service provided to this borough by minimizing downtimes. To achieve this goal, our clients must keep their appointments for inspections, maintenance and repairs, and we must honour the turnaround times for servicing their vehicles. (Planned completion: April 2010)*

*Analyses of 2009 monthly data showed that these figures included the time required for clients to authorize work.*

*Analyses and, where necessary, adjustments to data on turnaround times for mandatory inspections will be conducted on a monthly basis starting in February 2010.” (Planned completion: February 2010)*

## 3.5.2. FIXED-RATE PACKAGES FOR MAINTENANCE AND REPAIRS

### 3.5.2.A. Background and Findings

In order to offer a complete range of vehicle inspection, maintenance and repair services at a single price, the CSP–MRA developed a series of packages for the preventive maintenance of vehicles (oil changes, tune-ups, inspections). Currently, there are packages available for light

vehicles (that account for 30% to 40% of the fleet), certain heavy vehicles (street sweepers, compactor trucks, snowblowers, tracked ploughs) and certain pieces of equipment (spreaders and snowblower heads). As for inspections of heavy vehicles pursuant to Bill 430, the package was discontinued in early July 2009.

When establishing maintenance and repair packages, various operations are carried out such as reviewing the manufacturer-suggested inspection tasks, the history of work done and the number of hours involved as well as oil and parts costs. In addition, suppliers are contacted to inquire about their prices for comparable services. Package rates are then established on the basis of this information.

**FINDING**

**Our work showed that the supporting documentation used to determine package rates is kept on file, but there are no summaries detailing how these rates were calculated, the results of enquiries directed at competitors and explanations for variances between CSP–MRA costs and competitors' rates. These summaries would shed light on the approach taken to establish package rates and could serve as a basis for their review. Finally, a copy of these documents could be submitted to CSP–MRA management for approval.**

**We also examined whether the fixed-rate packages were sufficient to recover the costs incurred by the CSP–MRA.** To this end, in response to a request from the Mercier–Hochelaga-Maisonneuve borough, the CSP–MRA conducted a review to determine if the number of hours spent on work related to the fixed-rate package for street sweepers was comparable to the number of hours stipulated for that package. Based on this analysis, it was determined that 15% less time was actually spent on these tasks than had been estimated. Considering that this examination was limited to a single class of vehicles, we performed an independent review for other vehicle types as well (mainly light vehicles).

#### **FINDING**

Our additional review showed that the costs incurred in 12 of the 18 cases were 35% higher, on average, than the fixed-rate packages. The managers we interviewed indicated that the times provided for in the packages were very precise and that a mere 15-minute overrun could translate into a 25% cost increase (in this example, for a \$92 fixed rate, the overrun would be \$23). They also added that employees are sometimes helped by fellow workers who do not record their time in the corresponding work orders.

#### **3.5.2.B. Recommendations**

We recommend that the Direction du matériel roulant et des ateliers prepare a summary of the steps taken to establish the price of each fixed-rate package and have this document approved to ensure that it complies with its guidelines and contains relevant information on the selected calculation method to facilitate any subsequent reviews.

We recommend that the Direction du matériel roulant et des ateliers ensure adherence to the labour time stipulated in its packages and, in the event of any significant variations, take the corrective measures needed to provide efficient operations at competitive rates.

#### **3.5.2.C. Action Plan for the Business Unit Involved**

*[Translation] "In January 2010, we started preparing summaries of the steps taken to establish the price of fixed-rate packages. Once completed, these documents will be submitted to the management committee of the CSP–MRA for approval. (Planned completion: May 2010)*

*We will prepare a monthly management report highlighting significant variances in labour time used for a fixed-rate package compared with standard times. All appropriate measures will be taken to remedy the situation." (Planned completion: September 2010)*

### **3.5.3. ESTIMATION OF REPAIR COSTS**

#### **3.5.3.A. Background and Findings**

The CSP–MRA has been providing repair estimates upon request since 2008. In this respect, the audited boroughs prepared and submitted to their respective garage a delegation of authority

chart that indicates, among others, the amounts above which repairs would require authorization from a borough representative.

To prepare an estimate, a vehicle is inspected and the necessary repairs are listed in a quote. This quote is then submitted to the designated administrative unit representative for authorization. The MIR system is also equipped with a function that supports the preparation of quotes for any required repairs. Quotes must include details about the repairs, their corresponding cost estimate, the total repair amount and the client's authorizations.

Upon submission, borough representatives may accept or reject quotes or request changes to them. Their authorization must appear on approved quote while any rejected quotes must be cancelled altogether.

The monthly reports that are generated indicate, for each garage and client, the work orders for which estimates have been prepared, the total costs estimated, the actual cost of the work, the variations in percentage and their cumulative total. Charts are also prepared to highlight the overall variations between estimated and actual costs for the work performed in each garage.

**FINDING**

**Our review of the June 2009 monthly estimate report indicated that the garage on Des Carrières prepared 67 quotes with total cost estimates of \$101,504 and actual costs of \$151,023, i.e. a 49% variation. When examining individual estimates, we noticed that variations ranged from 1,211.7% to -91.7%. We further reviewed some of the estimates for a signification variation level. According to the manager we interviewed, these cases involved verbal authorizations for additional repairs and no one took the time to update these quotes accordingly. One situation with a negative variation level was apparently due to the fact that the quote should have been cancelled after the client had declined to proceed with the repairs.**

**FINDING**

**We also reviewed a sample of five cases to determine whether the required quotes had been prepared. Based on our examination, we did not find evidence of the existence of any quote. In these cases, we were told that verbal authorizations had been given or repairs had been made following a mandatory inspection.**

### 3.5.3.B. Recommendations

We recommend that the Direction du matériel roulant et des ateliers ensure that all garages prepare quotes using the system available for this purpose to facilitate subsequent follow-ups and record keeping.

We recommend that the Direction du matériel roulant et des ateliers update quotes and indicate the appropriate authorization information to support the production of relevant reports on the follow-up of these estimates and provide easy recourse to the necessary information in the case of any subsequent disagreements.

### 3.5.3.C. Action Plan for the Business Unit Involved

*[Translation] "All of the CSP–MRA garages will prepare quotes for work whose value exceeds the clients' preauthorized amounts using the system available for this purpose. (Planned completion: February 2010)*

*We will update quotes with the appropriate information, including the authorizations obtained." (Planned completion: March 2010)*

## 3.5.4. DELIVERY DATES

### 3.5.4.A. Background and Findings

During our audit, we also observed that work orders are intended to provide clients with a promised delivery date.

#### **FINDING**

We ascertained that this field is ignored. The representatives we interviewed indicated that, for the moment, they were not entering the promised delivery date. They will eventually provide this information after obtaining the business unit's authorization for repair.

#### 3.5.4.B. Recommendations

We recommend that the Direction du matériel roulant et des ateliers enter the delivery date promised to clients on work orders to help improve customer service and assess compliance with specified deadlines.

#### 3.5.4.C. Action Plan for the Business Unit Involved

[Translation] “Provided that clients keep their appointments, the delivery date promised to them will be entered into work orders:

- for all mandatory work;
- for all work on strategic equipment for snow removal, cleanliness and collection of household waste and recyclables.” (Planned completion: April 2010)

### 3.5.5. CLIENT SATISFACTION

#### 3.5.5.A. Background and Findings

Now that clients have the option to utilize either the CSP–MRA or external suppliers to perform vehicle maintenance and repairs, their perception of the provided services and the corresponding costs have become deciding factors.

In recent years, the CSP–MRA has implemented various tools to determine and measure client satisfaction with its products and services. Accordingly, in the fall of 2007, a survey was conducted with target groups to assess their understanding of certain products and services offered by the CSP–MRA and measure their level of satisfaction with the products and services being provided. The intent was to use this information to support business development initiatives.

Out of the 451 people surveyed, only 77 of them replied, for a participation rate of 17%. The findings of the survey indicated, among other things, that 63.1% of respondents were satisfied with the quality of the work performed at the mechanical workshops and 43.6% were satisfied with the keeping of appointments for mandatory inspections.

**FINDING**

**It appears that certain actions were initiated in response to this survey, but no formal action plan was ever developed. No subsequent surveys were administered in 2008 or 2009. The CSP–MRA wanted to follow up with more targeted surveys, but its plans fell through.**

Other measures have also been adopted to accommodate clients' requests, including meetings between the head of the Division de la planification stratégique et relations d'affaires, the service managers of the municipal garages and the managers of certain boroughs. In addition, e-mails are being exchanged about certain issues. It should be noted that these meetings are limited to representatives of three boroughs (Mercier–Hochelaga–Maisonneuve, Rosemont–La Petite-Patrie and Ville-Marie) and focus on specific problems encountered in the course of their operations. Informal meetings were also held with representatives of Le Sud-Ouest and Ahuntsic-Cartierville boroughs. Finally, twice a year, the head of the Division de la gestion du parc de véhicules meets with the managers of the various business units to discuss their acquisitions and the management of their vehicle fleet.

**FINDING**

**During our audit, we ascertained that some clients have complained that repairs had been made before authorization had been given. This situation seems to occur from time to time, as employees have gotten into the habit of carrying out repairs without waiting for client authorization.**

According to the head of the Division de la planification stratégique et relations d'affaires, the main causes of client dissatisfaction are the lack of information on invoices, the 35% mark-up on the price of parts, downtimes and adherence to repair estimates. **However, we were not provided with any reports on client relations. A report of this nature could include the needs of the various clients and their satisfaction with the services being offered.**

Finally, some clients of the CSP–MRA told us that they would appreciate receiving timely detailed information on the work done upon vehicle delivery instead of waiting for invoices to obtain this information. They also mentioned that the costs of some repairs performed by the CSP–MRA were higher than those of external suppliers. Other clients indicated that some costs did indeed seem higher but that the CSP–MRA offered better service hours and that its garages were located closer to their operations.

**FINDING**

We ascertained that there is a mutual lack of documentation and reporting on these situations. We also observed that the business volume of the CSP–MRA has declined in comparison with the previous year and that the variance between its revenues and expenses for 2009 is estimated at nearly \$5 million.

**3.5.5.B. Recommendations**

In light of our findings, we recommend that the Direction du matériel roulant et des ateliers establish a suitable action plan in line with the needs expressed by its clients in order to develop strategies that will help increase its business volume.

**3.5.5.C. Action Plan for the Business Unit Involved**

*[Translation] “We have begun to develop an action plan for each of our clients. In the case of the Ville-Marie borough, we are about to implement one component of this action plan, i.e. a local garage. The main objectives of these action plans are to maintain our current business volume with these clients, to recover some or all of the business volume we have lost and to ensure that any new client needs are fulfilled by the CSP–MRA.” (Planned completion: April 2010 for the Ville-Marie borough)*

**3.6. VEHICLE FLEET OF THE SERVICE DE SÉCURITÉ INCENDIE DE MONTRÉAL (SSIM)****3.6.1. SERVICE AGREEMENTS BETWEEN THE SSIM AND THE CSP–MRA****3.6.1.A. Background and Findings**

In the fall of 2007, the CSP–MRA of the former Service des affaires corporatives initiated discussions with the Service de sécurité incendie de Montréal (SSIM) to negotiate an overall agreement for the maintenance of the SSIM’s fleet of light and heavy vehicles in 2008. On December 21<sup>st</sup> 2007, the managers of the CSP–MRA and the Direction des ressources financières et matérielles (who negotiated on behalf of the SSIM) announced that an agreement in principle had been reached. Since it was the first year that this new operating procedure was in place, certain reference documents needed to be reworked and a final agreement was actually concluded on January 24<sup>th</sup> 2008.

The agreement is based on a fee-for-service system (fixed-rate package or fees for services rendered such as \$92 per hour for the services of a mechanic) for heavy vehicle maintenance

and a fixed-rate system (pre-set annual fees) for the maintenance of light vehicles. Prior to 2008, a fixed annual rate per vehicle category (e.g., \$5,000 a year for the maintenance and repair of a subcompact car) had been used for maintenance work.

As part of the review of activities, services, operations and programs (RASOP) in 2007, the Direction des ressources financières et matérielles of the SSIM proposed the implementation of a different management approach for its fleet of light vehicles. The ultimate goal of this re-engineering process was to provide a more personalized service that was better adapted to the reality of the SSIM at lower costs.

An overall budget for the basic maintenance of light vehicles was created and incorporated into the agreement. For 2008, the maximum overall maintenance costs for the fleet of light vehicles were set at \$650,000.

On January 15<sup>th</sup> 2009, the agreement was extended by both parties until the end of 2009, with minor changes in terms of the financial framework related to light vehicles and the addition of fixed-rate maintenance packages for light and heavy vehicles. The maximum overall maintenance costs for the fleet of light vehicles were then set at \$665,000.

Consequently, under agreements concluded in 2008 and 2009, the CSP–MRA agreed to provide the SSIM with the following annual services:

- technical support for the acquisition of vehicles;
- registration and visual identification of vehicles;
- file tracking;
- repair history;
- preventive maintenance program tracking;
- warranty tracking;
- mandatory inspection tracking (Bill 430);
- local multidisciplinary service for all types of repairs;
- specialized workshop services seven days a week;
- technical expertise regarding on-board devices (ladders, pumps, etc.).

These two agreements included a specific commitment on the part of the CSP–MRA regarding costs and performance goals. It also stipulated the need for all emergency vehicles (heavy and light) to undergo the inspections recommended by the Société de l'assurance automobile du Québec (SAAQ) as required under Bill 430. Mandatory periodic mechanical checks were to be

performed on all road vehicles of the SSIM, regardless of their net weight (heavy and some light vehicles).

In order to comply with legislation and fulfil its commitments, the SSIM indicated in both agreements that it reserved the right to request estimates from external suppliers and have them perform the work required, especially in the following cases:

- chargeable breakdowns (accidents, unforeseeable incidents, negligence, vandalism, etc.);
- SAAQ inspections coming due or past due;
- significant shortage of vehicles available to meet specified expected needs;
- disagreements about estimates.

The SSIM fleet is composed of the following vehicles:

**Table 2—Composition of the SSIM Vehicle Fleet**

Category of vehicle	As of October 27 <sup>th</sup> 2009	As of December 28 <sup>th</sup> 2008
<b>Heavy vehicles</b>		
Pumper trucks	94	88
Ladder trucks	64	62
Others	<u>37</u>	<u>37</u>
Subtotal	195	187
<b>Light vehicles</b>	<u>131</u>	<u>140</u>
Total	<u>326</u>	<u>327</u>

Our audit focussed on compliance with the provisions in the agreements concluded between the two parties in 2008 and 2009. Accordingly, we examined the management reports prepared by the SSIM, the financial framework of the agreements, the processes for obtaining the required repair authorizations and the invoices prepared by the CSP–MRA for maintenance and repair work on firefighting vehicles.

The following table indicates the number of vehicles for which the mandatory inspections (as required under Bill 430) were past due.

Table 3—Status of Inspections (Bill 430)

	As of October 27 <sup>th</sup> 2009	As of December 28 <sup>th</sup> 2008
<b>Heavy vehicles</b>		
Planned inspections	322	329
Vehicles inspected	<u>313</u>	<u>321</u>
Past due	<u>9</u> (2.8%)	<u>8</u> (2.4%)
<b>Light vehicles</b>		
Planned inspections	171	160
Vehicles inspected	<u>158</u>	<u>160</u>
Past due	<u>13</u> (7.6%)	<u>0</u> (0.0%)

**FINDING**

**We ascertained that the management report information pinpointed delays in mandatory inspections for heavy and light vehicles, thus indicating that the goals in this regard are not being met.**

An inspection plan for heavy and light vehicles was prepared by the SSIM and a schedule was attached to both agreements. The 2009 inspection schedule was planned over an 11-month period, leaving December 2009 free to accommodate, as necessary, any delays in mandatory maintenance. According to the managers of the CSP–MRA, all of the planned inspections were supposed to be performed by the end of 2009. The inspection schedule needs to take into account the number of units that must be in service on any given day. The SSIM prioritizes mandatory tasks as stipulated in Bill 430 (body work) and the National Fire Protection Association (NFPA) standards (pumper trucks, ladder trucks and bucket trucks). Consequently, it plans which vehicles must be kept in service to comply with the required minimums per vehicle category.

Management reports on vehicle downtimes during planned inspections compared with actual inspections were prepared by the Direction des ressources financières et matérielles of the SSIM and submitted approximately every two weeks to the managers of the CSP–MRA. Management at both the SSIM and the CSP–MRA pointed out that these management reports were discussed during informal meetings or telephone conversations. However, with the exception of the SSIM management reports on vehicle downtimes issued on October 27<sup>th</sup> 2009, the parties had no formal review process for these reports in 2009. The CSP–MRA analyzed them, but its analysis results were never validated with the SSIM. The CSP–MRA had the following comments on this matter:

- although management reports on vehicle downtimes only provide data pertaining to mandatory inspections, the CSP–MRA indicated on November 26<sup>th</sup> 2009 that it had performed 1,599 emergency repairs on in-service vehicles in addition to mandatory inspections and some 60 lubrication jobs on ladder trucks;
- the SSIM did not comply with its planned scheduled for mandatory maintenance that was prepared by its representatives and attached to the agreement.

Tables 4 and 5 show the average downtimes of vehicles according to the management reports prepared by the SSIM and the information received from the CSP–MRA following its analysis of these reports.

**Table 4—Average Downtimes for Heavy Vehicles**

	<b>Pumper trucks</b>	<b>Ladder trucks</b>	<b>Bucket trucks</b>	<b>Truck chassis</b>
<b>Target</b>	17.0 days	20.0 days	22.0 days	11.0 days
<b>Actual</b>				
CSP–MRA—Oct. 27 <sup>th</sup> 2009	20.3 days	37.5 days	61.0 days	15.8 days
SSIM—Oct. 27 <sup>th</sup> 2009	22.1 days	41.1 days	60.0 days	18.7 days
SSIM—Dec. 28 <sup>th</sup> 2008	18.9 days	28.4 days	45.0 days	14.1 days
<b>Variance</b>				
CSP–MRA—Oct. 27 <sup>th</sup> 2009	3.3 days	17.5 days	39.0 days	4.8 days
SSIM—Oct. 27 <sup>th</sup> 2009	5.1 days	21.1 days	38.0 days	7.7 days
SSIM—Dec. 28 <sup>th</sup> 2008	1.9 days	8.4 days	23.0 days	3.1 days
<b>Achievement of timeliness targets</b>				
CSP–MRA—Oct. 27 <sup>th</sup> 2009	45% <sup>1</sup>	20%	0%	46%
SSIM—Oct. 27 <sup>th</sup> 2009	37%	26%	0%	39%
SSIM—Dec. 28 <sup>th</sup> 2008	54%	35%	0%	54%

<sup>1</sup> 45% of maintenance work on vehicles was performed within the target turnaround time of 17.0 days.

Table 5—Average Downtimes for Light Vehicles

<b>Target</b>	2.0 days
<b>Actual</b>	
CSP–MRA—October 27 <sup>th</sup> 2009	4.3 days <sup>1</sup>
SSIM—October 27 <sup>th</sup> 2009	5.2 days
SSIM—December 28 <sup>th</sup> 2008	4.0 days
<b>Variance</b>	
CSP–MRA—October 27 <sup>th</sup> 2009	2.3 days
SSIM—October 27 <sup>th</sup> 2009	3.2 days
SSIM—December 28 <sup>th</sup> 2008	2.0 days
<b>Achievement of timeliness targets</b>	
SSIM—October 27 <sup>th</sup> 2009	23%
SSIM—December 28 <sup>th</sup> 2008	43%

<sup>1</sup> The managers of the CSP–MRA revised the figures on average downtimes for light vehicles by extracting data pertaining to light vehicles over seven years old, as specified in the agreement.

#### **FINDING**

Our examination of the figures in tables 4 and 5 indicated that the average number of days needed to perform mandatory maintenance work was not adhered to as stipulated in the 2008 and 2009 agreements between the SSIM and the CSP–MRA. This occurred despite the fact that a fair number of vehicles were replaced because they had reached the end of their useful life. Considering that the SSIM is responsible for public safety, emergency response, prevention, support and technical expertise pertaining to fire safety, firefighting and first responder services, inspection schedules must be followed to ensure that the required minimum number of in-service vehicles for each category of vehicle and equipment is always available, to guarantee their ability to respond to emergencies and to eliminate any risks of service disruption. Failure to comply with inspection-related objectives results in longer vehicle downtimes than those specified in the planned schedule and deprives the SSIM of its vehicles for the duration of these unexpected downtimes, thereby forcing it to reschedule its mandatory inspections and resort to its reserve vehicles.

Management reports prepared by SSIM managers indicate that the SSIM used the services of external firms for 23% of its mandatory heavy vehicle inspections in 2009 to comply with the planned schedule in the agreement or to avoid additional delays. As of October 27<sup>th</sup> 2009, this figure was broken down as follows:

Table 6—Use of External Firms

External suppliers	Pumper trucks	Ladder trucks	Bucket trucks	Truck chassis
Inspections performed	6.0	5.0	0.0	59.0
Target (days)	17.0	20.0	22.0	11.0
Actual (average number of days)	18.0	16.5	N/A	8.6

The targets set for mandatory heavy vehicle inspections performed by external firms are the same as those stipulated in the agreement with the CSP–MRA. However, a comparison of actual vehicle downtimes reveals the following differences:

Table 7—Actual Downtimes

	Pumper trucks	Ladder trucks	Bucket trucks	Truck chassis
CSP–MRA	20.3 days	37.5 days	61.0 days	15.8 days
External firms	18.0 days	16.5 days	N/A	8.6 days
<b>Variance</b>	<b>2.3 days</b>	<b>21.0 days</b>	<b>N/A</b>	<b>7.2 days</b>

**FINDING**

**Subject to the explanations provided below, the information provided in this table indicates that external firms perform mandatory inspections more promptly than the CSP–MRA and achieve practically all of the goals set by the SSIM at hourly rates that are lower than those of the CSP–MRA.**

The CSP–MRA managers explained to us that 41 heavy vehicles were inspected by external firms out of a total of 71 newer heavy vehicles (three years old or younger). Since inspections on newer heavy vehicles are performed more promptly than those reserved for older vehicles, the average performance of the CSP–MRA was adversely affected. In addition, the average downtimes indicated for work performed by external firms encompassed 16 heavy vehicles whose required work was actually covered under the manufacturer’s warranty, including significant vehicle design modifications.

The CSP–MRA managers also pointed out that the distribution network for heavy vehicle replacement parts is less developed than the network for light vehicle parts, due to the fact that the SSIM uses highly specialized equipment. Also noteworthy is the absence, in many cases, of

any specific catalogue for replacement parts, the lack of equipment standardization and, of course, the unavailability of many of these parts on the market.

The firefighting vehicle fleet owner (i.e. the City of Montréal) has a legal and contractual obligation to keep up-to-date records on each vehicle under its responsibility. The CSP–MRA and the SSIM keep electronic inspection, maintenance and repair files on each firefighting vehicle, provided that the related work has been performed by the CSP–MRA. **When mandatory maintenance work is performed by third-party contractors who detect and carry out additional repairs, this information stays with the SSIM and is not relayed to the CSP–MRA.** Technically speaking, all mandatory maintenance information and documentation certifying that observed defects have been repaired are to be kept on file at the SSIM. Two SSIM analysts are responsible for managing the maintenance and repair work of fleet vehicles and ensuring that vehicle records are up-to-date.

**FINDING**

**We ascertained that this approach deprives CSP–MRA managers of important information when repairs are performed subsequent to maintenance work carried out by external suppliers. For example, warranties on replacement parts may be overlooked during an emergency repair job done by the CSP–MRA.**

The SAAQ requires the implementation of a preventive maintenance program (PMP) that complies with the provisions of Bill 430 to ensure that heavy and light vehicles remain in good mechanical working order. We randomly selected four mandatory inspection reports for firefighting vehicles, two of which were performed by the CSP–MRA and two others that were performed by external suppliers. We confirmed that PMP maintenance sheets included a checklist in compliance with the SAAQ's *Regulation Respecting Safety Standards for Road Vehicles* and that they were completed by certified mechanics. Every item on these maintenance sheets was marked as being either "compliant" or "not compliant", in which case a list of repairs to be executed was provided. We also reviewed a sample of invoices for the replacement of defective parts identified during mandatory inspections. **The results of our audit showed compliance with the required standards under Bill 430.**

The 2008 and 2009 agreements also included a work estimation and authorization process. This contractual provision stipulated that both parties had to agree on the nature and costs of work to be performed and that agreed-upon estimates were considered to be final, except in cases when work had to be performed within a very short period of time. In these cases, the Division des

ressources matérielles et immobilières had to authorize “express” repairs estimated at \$500 or more (\$100 in 2008) for light vehicles and \$3,000 or more (\$1,000 in 2008) for heavy vehicles.

Our audit focussed primarily on the analysis of management reports prepared by the Direction des ressources financières et matérielles of the SSIM and forwarded to the CSP–MRA. These reports reconcile the invoices issued by the CSP–MRA for actual work performed with the corresponding estimates agreed-upon by both parties. Essentially, we compared these estimates with the actual costs of the repair work.

**FINDING**

**During the first two months of 2009, we noticed significant variations without any major corrective actions being initiated to address these cost overruns. From March 2009 and thereafter, cost overruns were not as significant, but were still present. Some of the invoiced amounts are currently under dispute because of work that was performed but never authorized or simply refused. The SSIM sent these disputed invoices to the CSP–MRA until July 2009, at which time the SSIM initiated reviews related to our audit.**

The following table summarizes the cases in which there were cost overruns as well as invoices under dispute.

**Table 8—Cost Overruns**

	<b>Light vehicles</b>	<b>Heavy vehicles</b>	<b>Total</b>
• Overruns—From December 28 <sup>th</sup> 2008 to March 2 <sup>nd</sup> 2009	\$20,700	\$213,530	\$234,230
• Overruns—From March 3 <sup>rd</sup> to early October 2009	\$31,720	\$35,670	\$67,390
• Disputed amounts—From March 6 <sup>th</sup> to July 23 <sup>rd</sup> 2009	\$0	\$65,110	\$65,110
<b>Total</b>	<b>\$52,420</b>	<b>\$314,310</b>	<b>\$366,730</b>

We audited a sample of five randomly selected invoices from all those involving overruns or disputed amounts. We ascertained that the reports prepared by the SSIM were consistent with the overrun amounts in question. Following a meeting between the management of the SSIM and CSP–MRA, an agreement in principle was reached, stipulating that the SSIM would absorb the entire write-off for the overruns incurred between December 28<sup>th</sup> 2008 and March 2<sup>nd</sup> 2009, for a total of \$234,230. Neither party could provide evidence of this write-off.

Since March 2009, we observed a clear improvement in cost estimates prepared by the CSP–MRA in relation to invoices for repair work. In fact, invoices for repairs are consistent with the estimates between the two parties to the tune of 92.5% for light vehicles and 98.8% for heavy vehicles. Referring to the estimates authorized for the invoice dated September 14<sup>th</sup> 2009, the SSIM’s mobile equipment manager indicated that frequently (i.e. roughly 50% of the time), more than one estimate had to be authorized. The CSP–MRA managers confirmed this SSIM assessment. They explained that the detection of mechanical or electronic problems on a vehicle regularly lead to other repairs that would have otherwise remained undetected. There are no studies or reports to check repairs that have required more than one estimate.

Finally, the agreements concluded between the two parties in 2008 and 2009 provided for the exchange of statistics compiled by each party to help track performance on a weekly basis. To date, the SSIM has received nothing but invoices from the CSP–MRA. In addition, the SSIM managers indicated that the quarterly meetings, also provided for in the partnership management committee agreement, were held only three times in 2009.

**FINDING**

**We determined that there are no minutes of the quarterly meetings provided for in the partnership management committee agreement.**

**3.6.1.B. Recommendations**

**We recommend that the Direction du matériel roulant et des ateliers align its business processes for the repair and maintenance of firefighting vehicles with best industry practices to optimize its operating procedures.**

**In light of these improvements, we recommend that the Direction du matériel roulant et des ateliers, in conjunction with the Service de sécurité incendie de Montréal, review the contents of their agreement to establish a financial framework that is consistent with their expectations. Specifically, we recommend that both parties:**

- set new terms for performance goals and costs to better reflect new operational realities;**
- describe specific contractual provisions (estimate management, management reports, vehicle downtimes, etc.) in further details to eliminate any ambiguities.**

Finally, we recommend that the Direction du matériel roulant et des ateliers record the minutes of the meetings held as stipulated by the agreement with the Service de sécurité incendie de Montréal to document the issues that were discussed and the decisions that were made.

We recommend that the Service de sécurité incendie de Montréal submit all relevant information on the maintenance and mechanical work performed by third parties on firefighting vehicles to avoid the payment of repairs that are covered under a warranty.

### 3.6.1.C. Action Plan for the Business Unit Involved

- **DIRECTION DU MATÉRIEL ROULANT ET DES ATELIERS**

*[Translation] “There are few comparable examples in Québec that would allow us to define best industry practices. The biggest maintenance and repair workshop for firefighting equipment is, by far, the CSP–MRA workshop. The maintenance of firefighting equipment (pumper trucks, ladder trucks, basket trucks) is a very specialized field, for which very few comparable scenarios exist. Furthermore, the private sector refuses to provide precise figures on its performance. The only comparable figures in the public sector in Canada would be those from Toronto, Calgary, Edmonton and Vancouver. Despite the lack of resources at our disposal to carry out this type of work, we will attempt to obtain data from these cities and ensure that they are indeed comparable to our situation and adapt our business processes whenever necessary. (Planned completion: December 31<sup>st</sup> 2010)*

*We agree to collaborate with the Service de sécurité incendie de Montréal to review the content of the 2011 agreement and attempt to find a financial framework that will be consistent with the expectations of both parties. It is important to note that our financial framework does not provide us with any significant leeway. Our business model is based on a cost structure, rather than a profit-making structure. We do not have the financial means to accommodate, for example, a request by the Service de sécurité incendie de Montréal to withhold 10% of the amount of our invoices during the negotiation process to resolve certain ambiguities. (Planned completion: January 2011)*

*Minutes of the meetings held pursuant to the service agreement with the SSIM will be recorded.” (Planned completion: February 2010)*

- **SERVICE DE SÉCURITÉ INCENDIE DE MONTRÉAL**

*[Translation] "We will systematically submit the list of maintenance and mechanical work performed by external suppliers on SSIM vehicles." (Planned completion: December 2009)*

### 3.6.2. HEAVY VEHICLE REPLACEMENT (SSIM)

#### 3.6.2.A. Background and Findings

According to the managers we interviewed from the Direction des ressources financières et matérielles of the SSIM, an ongoing program for the replacement of heavy firefighting vehicles was implemented in 2007. This program accounts for a significant investment under the three-year capital program. Additionally, given the prevailing annual fixed-rate system, it has become virtually impossible to take advantage of any savings related to the maintenance of these newer heavy vehicles. The purpose of this program is twofold. First of all, it assures service efficiency through the replacement of aging heavy firefighting vehicles. Secondly, it ensures compliance with the relevant National Fire Protection Association standard (NFPA No. 1901, Annex D) as well as the recommended standards of the Insurers' Advisory Organization (CGI). One of these CGI standards requires any city the size of Montréal to replace all heavy firefighting vehicles that have been in use for more than 20 years prior to the end of 2010. As a result, the SSIM found itself having to replace approximately 40 pumper trucks and 30 ladder trucks between 2007 and 2010, representing estimated investments of \$53,360,869. To this end, we reviewed management reports pertaining to the actual acquisitions of heavy vehicles to date and the corresponding three-year capital program.

#### **FINDING**

**Based on acquisitions from 2007 onward and our various discussions with SSIM managers, the projected heavy vehicle acquisitions of pumper trucks and ladder trucks will be completed by 2011.**

#### 3.6.2.B. Recommendations

**We recommend that the Direction des ressources financières et matérielles of the Service de sécurité incendie de Montréal (SSIM) undertake the necessary measures to replace its fleet of heavy vehicles in accordance with the requirements set forth in CGI's national policy.**

### 3.6.2.C. Action Plan for the Business Unit Involved

- *[Translation] “Confirming the overall status of the fleet in 2010 and preparing projections; (Planned completion: March 2010)*
- *Analyzing and defining the position of the SSIM with respect to the requirements of the CGI policy; (Planned completion: May 2010)*
- *Identifying the needs of the SSIM with supporting arguments; (Planned completion: May 2010)*
- *Raising awareness among the various authorities; (Planned completion: June 2010)*
- *Taking all pertinent decisions into account when planning the next three-year capital program.” (Planned completion: October 2010)*

## 3.7. FUEL PROCUREMENT, DISTRIBUTION AND RECONCILIATION

### 3.7.A. Background and Findings

The CSP–MRA manages 18 fuel tanks (one at the Montréal Botanical Garden, one at the municipal nursery and the remaining 16 in the public works yards of the boroughs of the former City of Montréal). In order to supply these tanks, the Direction de l’approvisionnement of the then Service des affaires corporatives of the City of Montréal issued a call for public tenders in November 2007 for the supply of fuel between December 1<sup>st</sup> 2007 and November 30<sup>th</sup> 2011.

In 2008 and 2009 (from January 1<sup>st</sup> to September 1<sup>st</sup> 2009), fuel consumption was, respectively, 10,738,148 litres (for a total of \$11,164,300) and 6,378,066 litres (for a total of \$4,859,783).

Fuel is distributed by way of an automated system. To obtain fuel, users must indicate their registration number, personal identification number, vehicle number, odometer reading (in kilometres) and pump number.

In June 2009, the CSP–MRA wrote to the director general of the City to inform him that the current fuel management system was obsolete and that an investment of \$1.5 million was needed for its replacement. In response, a three-year capital program was proposed, but it was rejected by the budget committee in the fall of 2009. As a result, the projected improvements cannot be executed.

The CSP–MRA produces monthly reports to the various users for monthly invoicing and fuel management purposes. These reports analyze fuel consumption, cases of topping off tanks that

were less than 10% empty and instances where vehicles were refuelled twice within a 24-hour period.

**FINDING**

Based on our analysis, we determined that the content of the fuel consumption reports should be improved. These reports do not distinguish between consumption per litre and consumption per hour nor do they indicate the standard rate of consumption per type of vehicle. In some cases, the consumption figures are inaccurate since users do not correctly enter the data from their odometer readings (they sometimes record tenths of kilometres even though this digit is not required). For example, if the odometer reading is entered as 16,023.0 at the outset (instead of 160,230) and 16,266.5 upon arrival (instead of 162,665), the total kilometres travelled would erroneously be indicated as 243.5, instead of the actual 2,435, thereby distorting the data.

The fuel inventory is measured regularly using an automated system that indicates the level of fuel in each tank. Manual inventory readings are also taken periodically to ensure the accuracy of the automated system output. Furthermore, the fuel management system is shut down once a year for a full inventory of all sites, and adjustments are made as required.

The fuel inventory is reconciled monthly based on the beginning and closing inventory, purchases and distributions. **Our review of the May 2009 reconciliation report confirmed its accuracy. This is also supported by various other documents.**

**3.7.B. Recommendations**

We recommend that the Direction du matériel roulant et des ateliers revise its report on fuel consumption with all the information needed to help those in charge analyze and ensure the relevance of the data being entered in order to better control fuel consumption and vehicle usage.

**3.7.C. Action Plan for the Business Unit Involved**

*[Translation] "The fuel management system has reached the end of its useful life. Its operating environment is obsolete. This recommendation will be addressed when this system is replaced."  
(Planned completion: December 31<sup>st</sup> 2010)*

## **V.4.2. MERCIER–HOCHELAGA-MAISONNEUVE BOROUGH**

### **1. INTRODUCTION**

This borough is responsible for a number of activities, including the acquisition, maintenance, repair and disposal of vehicles, fuel consumption and staff training. To execute these activities, it deals primarily with the CSP–MRA.

Annual investments planned under the borough's three-year capital program for the renewal of its fleet of vehicles amount to \$1.000 million, \$1.383 million and \$1.419 million for 2007, 2008 and 2009, respectively. Its operating budgets for 2008 and 2009 were respectively \$5.738 million and \$6.153 million.

In May 2009, the borough's fleet comprised 334 vehicles and machines, 330 of which were owned by the borough and 4 of which were leased. The vehicles and machines owned by the borough have a combined replacement value of \$22.9 million and their average age is 10.54 years. The estimated replacement value of the leased vehicles is \$354,000. These vehicles are managed by the Direction des services administratifs, in conjunction with the other administrative units of the borough (Direction des travaux publics, Direction de la culture, des sports, des loisirs et du développement social, Direction de l'aménagement urbain et des services aux entreprises).

### **2. AUDIT SCOPE**

The objective of our audit was to promote the sound management of all fleet-related activities. To this end, we examined vehicle acquisitions and leases, maintenance and repairs, fuel supply and distribution as well as vehicle disposal.

Our audit focussed primarily on the year 2008 and the period from January to November 2009.

### 3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

#### 3.1. ROLE AND RESPONSIBILITIES

##### 3.1.A. Background and Findings

The adoption of the new organizational model, as defined in the March 2005 executive summary, provided for the negotiation of a service agreement between the boroughs, the central departments and the CSP-MRA. Its goal was to define an administrative framework that would facilitate interactions among the various parties. The management of the former Service des affaires corporatives entrusted the CSP-MRA with the drafting of the agreement. A first draft was produced for the 2005 fiscal year (*Entente de services 2005*) and a second for 2006 (*Entente de services 2006*). These agreements were to specify the basic vehicle maintenance services (guaranteed business volume) and their costs (business volume as determined by the client).

The development of a draft agreement for the boroughs, central departments and the CSP-MRA entailed numerous meetings, proposals and counterproposals.

##### **FINDING**

**We ascertained that the parties have yet to reach a consensus that would lead to a signed agreement. This situation has had a significant impact on the quality of the relationship between the borough and the CSP-MRA.**

**In our opinion, despite the ongoing difficulties that arose between the borough and the CSP-MRA during these negotiations, it is nevertheless essential that such an agreement be concluded as it would provide a framework for all of the dealings between the borough and the CSP-MRA. It should serve to record and update all of the borough's requests (e.g., repair priorities, required cost estimates, type of information to be produced and required authorizations). It should also detail the commitments and services from the CSP-MRA (e.g., downtimes, quality of service, warranties, dissemination of information, work schedules, invoicing). Finally, it should clearly delineate the responsibilities of every stakeholder (i.e. the role of the CSP-MRA with respect to the Gouvernement du Québec).**

### 3.1.B. Recommendations

We recommend that the borough management, in conjunction with the CSP-MRA, reach an agreement that not only covers all the elements governing their business relations, but also serves as a frame of reference to facilitate the fulfilment of their respective responsibilities.

### 3.1.C. Action Plan for the Business Unit Involved

*[Translation] “We will present the CSP-MRA with a proposed agreement to define the roles and responsibilities of each party with regard to specific elements, i.e. the SAAQ (Bill 430, registrations, special licences), quotes, repairs, warranties, fuel, the MIR system (reports, database), turnaround times, costs, inspections of new and leased vehicles, etc. (Planned completion: September 2010)*

*We will gradually conclude specific agreements with the CSP-MRA, including an agreement concerning the SAAQ (special licences, Bill 430, registrations, etc.).*

*We will ensure that these agreements define services, responsibilities, approaches, turnaround times, schedules and other key elements.”*

## 3.2. MANAGEMENT INFORMATION SYSTEM AND REPORTING

### 3.2.A. Background and Findings

Fleet management stakeholders must be aware of their assigned tasks and the priorities on which they should focus their efforts. In addition, they need a suitable information system as well as systematic, permanent reporting mechanisms that will enable them to assess the extent to which fleet management operations are consistent with specified expectations. Accordingly, management reports must be issued periodically and include relevant information on the evaluation of the results achieved during the specified period.

#### FINDING

We ascertained that the borough completely lacks a computerized management system to administer its vehicle fleet and process its operations in this regard, especially as pertains to acquisitions, maintenance and repairs as well as vehicle disposals. For the moment, the only electronic system used is an inventory record maintained by the financial and material resources management officer.

However, the CSP–MRA – which performs the maintenance and repairs on the majority of the borough’s vehicles and distributes most of the fuel for these vehicles – uses a maintenance, inspection and repair (MIR) system to manage vehicle maintenance and repairs as well as a fuel management system for the distribution of fuel. These systems allow the CSP–MRA to produce a number of reports, some of which are submitted to the borough, including:

- semi-annual inventory lists (*Grille décisionnelle de planification d'achat des appareils des clients du CSP–MRA*) that are available on demand to help borough managers determine which vehicles need to be replaced;
- bi-monthly invoicing reports that are comprised of invoices and copies of work orders which provide division managers with budget tracking data to control maintenance and repair costs (these reports are not reviewed by those responsible for fleet management);
- Fuel consumption reports that provide the head of the Division de la voirie with key data to be analyzed in order to determine any required actions (these reports are not used by those responsible for fleet management).

**Some CSP–MRA clients, including the borough, consider this information to be insufficient for the management of their fleet. They would like additional features that would allow them to extract and analyze invoicing data more efficiently.**

**FINDING**

**We noticed that clients of the CSP–MRA do not have all the information needed to efficiently manage their vehicle fleet.**

Accordingly, various changes will be made to the MIR system. New features that will meet the stated expectations will be integrated in early 2010. **These features will enable the borough to conduct analyses that were previously performed manually.** Electronic data on fuel consumption is still unavailable, thereby preventing the borough from analyzing this information.

At the end of November 2009, the borough introduced a computer application that compiles maintenance and repair costs per vehicle and supports searches in past work orders using keywords (e.g., brakes, windshield wipers, tire inflation, etc.). Currently, data is only available for work orders issued in 2008 and 2009. Tests have been conducted and the application is in its “run-in” stage, but managers cannot use it yet.

**FINDING**

**With the exception of certain specific reports and those produced by the CSP–MRA, the borough does not systematically produce fleet management reports, especially in terms of vehicles acquired and maintained by external suppliers or those that are leased on a long-term basis. However, maintenance, repair and fuel consumption issues are discussed during working meetings. The information used by managers is fragmented and experience-based, rather than being derived from a suitable information system.**

Sound vehicle fleet management requires reliable, relevant information that will strengthen management controls, especially those related to fleet planning, expense analysis and compliance with borough policies and guidelines. There should be a system that generates, at the very least, the reports that provide the valuable information needed and consequently support the decision-making process:

- reports on the history of usage costs per vehicle (cost per kilometre or hour of use) to establish suitable controls over maintenance expenses and develop a long-term fleet replacement strategy;
- periodic reports on fuel consumption costs per vehicle (number of litres per kilometre or hour of use) to help managers compare the fuel consumption of various vehicles;
- reports compiling usage costs per vehicle to determine the total annual costs for all vehicles used for a given activity and assess their performance;
- reports on vehicle downtimes for the ongoing analysis and systematic assessment of the time devoted to repairs and maintenance;
- reports on the frequency of repairs to help pinpoint improprieties in the use of municipal vehicles and assess the quality and reliability of any repair work that is performed.

**FINDING**

**We observed that several reports are missing, chief among them the reports indicated above. The lack of these types of reports prevents managers from producing complete analyses in a timely manner and from using this information to optimize their decision making. Consequently, the borough's management does not possess adequate information on the management of its fleet of vehicles (e.g., operating costs for vehicles that have exceeded their optimal service life). These reports should take into account vehicles serviced by external suppliers as well as those maintained by the CSP–MRA.**

### 3.2.B. Recommendations

We recommend that the Direction des services administratifs of the borough follow up with the CSP–MRA to expedite the development of the required features in the MIR system. It should advocate for the incorporation of maintenance and repair data for vehicles serviced by external suppliers into this system to support the production of relevant management reports that would foster informed decision making and improved vehicle fleet management.

### 3.2.C. Action Plan for the Business Unit Involved

*[Translation] “A first stage has just been completed with the development of an interface for the MIR system that will allow CSP–MRA clients (i.e. boroughs and central departments) to have direct access to digital invoicing data. We are currently at the user testing phase. (Planned completion: March 2010)*

*As for subsequent developments pertaining to needs that have already been identified by the boroughs and validated by the DSI, a project is being prepared, in conjunction with the DSI, which will be submitted to the DSI strategic planning committee for the approval of its financing and implementation.” (Planned completion: June 30<sup>th</sup> 2010)*

## 3.3. VEHICLE INVENTORY

### 3.3.A. Background and Findings

The vehicle inventory must include basic information on the vehicles owned by the borough (e.g., vehicle features, date of acquisition, age of vehicle, acquisition costs). This informs managers about the vehicles available for their operations and helps them make decisions about the replacement or disposal of vehicles. Consequently, this inventory must be comprehensive and updated regularly to remain current. Finally, a physical verification needs to be carried out periodically to ascertain the accuracy of the inventory.

The borough prepares an inventory list and sends it to the CSP–MRA to update the vehicle registry in the MIR and fuel management systems. This supports the tracking of requirements under Bill 430 and the registration of vehicles.

The borough’s inventory list is also maintained following the acquisition and disposal of vehicles.

In order to check the accuracy of data recorded in the borough's inventory list and the information in the MIR system, we compared one inventory list produced by the CSP–MRA's MIR system on November 9<sup>th</sup> 2009 with one produced by the borough on November 4<sup>th</sup> 2009.

**This reconciliation revealed 13 errors (3.8%):**

- the borough neglected to include five vehicles in its inventory;
- there were double entries for three vehicles (two different inventory numbers for each);
- the borough entered one vehicle that had been previously disposed of;
- the CSP–MRA list contained three vehicles that had been returned to their supplier;
- the CSP–MRA had removed one vehicle from its list which was still in service.

**FINDING**

**We determined that the borough's inventory is not regularly reconciled against data produced by the CSP–MRA's MIR system.**

**3.3.B. Recommendations**

**We recommend that the Direction des services administratifs regularly reconcile its inventory of vehicles against CSP–MRA data to detect any discrepancies and make the necessary corrections so that each administrative unit has up-to-date information about its vehicles and avoids operational delays.**

**3.3.C. Action Plan for the Business Unit Involved**

*[Translation] "We will reconcile our inventories against data from the CSP–MRA and the respective divisions twice a year and update our inventory at least once a month." (Planned completion: June 2010)*

**3.4. ACQUISITION AND DISPOSAL OF VEHICLES**

The acquisition and disposal of vehicles must be preceded by an exhaustive needs analysis and supported by relevant criteria. These transactions must be consistent with existing City policies and procedures, and the rationale behind every decision must be clearly explained in the corresponding executive summaries prior to receiving authorization from the borough council.

The vast majority of acquisitions made by the borough are to obtain replacements for existing vehicles. However, a few vehicles are occasionally purchased to accommodate new needs.

Data from past years must be reviewed and analyzed (e.g., costs, usage, fuel consumption, unusual breakdowns) in order to make informed decisions and adequately plan these transactions.

### 3.4.1. ACQUISITION

#### 3.4.1.A. Background and Findings

The acquisition process begins with an assessment of the condition of the vehicles in the borough's fleet according to criteria selected by the borough managers (vehicle age, estimated useful life, kilometres travelled, etc.). To this end, the borough managers meet to analyze an array of information, including the report entitled *Grille décisionnelle de planification d'achat des appareils* that is prepared and distributed by the CSP–MRA managers.

Following these meetings, the number and type of vehicles that the borough managers wish to acquire are determined. The final decision is made in accordance with the available budget. Under its 2009–2011 three-year capital program, the borough was allocated \$1.419 million in 2009 and \$500,000 for 2010 and 2011. Of this amount, \$261,000 is earmarked for replacing vehicles required by the Division des services techniques et du soutien logistique aux installations, whose operations span the nine boroughs of the former City of Montréal.

In order to assess the pace of replacement of the borough's fleet, we looked at the data presented in three annual reports prepared by the CSP–MRA in the fall of 2006, 2007 and 2008. The average age of the fleet vehicles was respectively listed as 11.2 years, 11.0 years and 10.3 years.

#### **FINDING**

**Our examination of the most recent report we obtained (May 2009) revealed that the average vehicle age was 10.54 years, compared with an ideal average age of 8.63 years, for a variance of 1.91 years. In the opinion of the two individuals assigned to the management of the vehicle fleet, the investments planned for the coming years will be insufficient to keep the average age (10.54 years) of the fleet at its current level. Alternatives such as long-term vehicle leasing are currently being considered. However, we did not obtain any supporting documentation on variations in actual expenses related to vehicle acquisitions, replacement needs or long-term vehicle leasing.**

Should the borough decide to carry out the necessary replacements over the next four years on the basis of useful vehicle life (8.63 years), as recommended in the *Grille décisionnelle de planification d'achat des appareils de mai 2009* report released by the CSP–MRA, an investment of \$5.4 million would be necessary in 2009 (including the accumulated delay), \$1.3 million in 2010, \$1.3 million in 2011 and \$1.1 million in 2012. **If we take into consideration the \$1.419 million set aside under the three-year capital program, the investment deficit for 2009 will be \$3.981 million.**

**FINDING**

Our audit revealed that, although the borough has some information on its vehicle fleet, including the *Grille décisionnelle de planification d'achat des appareils* report, it lacks a capital master plan that considers all of the elements pertaining to vehicle fleet replacement. While the report produced by the CSP–MRA contains useful fleet information, including a list of vehicles per class, their life expectancy, a list of vehicles that have reached or exceeded their useful life span and vehicle maintenance costs, it lacks some key details. We found no indication of the targets to be achieved, the optimal composition of the vehicle fleet, the options to be considered in the case of a considerable delay in the implementation of the plan or guidelines for long-term vehicle leasing. Furthermore, this information is not included in any of the reports produced by the borough.

It is therefore more difficult to have a comprehensive understanding of the situation involving the vehicle fleet, the risk of insufficient long-term credit and alternatives that would enable the borough to have the vehicles necessary to execute its operations.

**3.4.1.B. Recommendations**

We recommend that the Direction des services administratifs, in conjunction with the other administrative units, establish a master plan that would include all of the elements related to the vehicle fleet in keeping with the borough's guidelines to support informed and timely decisions (acquisition, leasing, disposal).

**3.4.1.C. Action Plan for the Business Unit Involved**

[Translation] "We will develop criteria for acquiring or leasing vehicles based, for instance, on operational needs, the new types of vehicles on the market, the reliability of existing vehicles, the

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*funds available under the three-year capital program, the priorities, the operational strategies and so forth.*

*We will also establish a three-year list of projected vehicle disposals and replacements (master plan) by division and type of vehicle.” (Planned completion: October 2010)*

### 3.4.2. DISPOSAL

#### 3.4.2.A. Background and Findings

To enable managers to justify vehicle disposals, the decision-making criteria must be well defined and the reasons justifying a disposal must be recorded and authorized.

The decision to dispose or not dispose of a vehicle must be carefully considered, given the repercussions on usage costs. A vehicle that is prematurely decommissioned must be replaced with a newly acquired or leased counterpart, whereas overextending its service life span can entail significant maintenance and repair costs that will never be recovered.

Currently, the disposal of the borough’s vehicles is shaped by several criteria, including vehicle age, overall condition, estimated repair costs in the coming months, safety and strategic importance. Finally, the actual budget available will also play a part in the decision to dispose of a vehicle.

A number of these criteria can be assessed using information found in the *Grille décisionnelle de planification d’achat des appareils des clients du CSP–MRA* report. For each type of vehicle, this report indicates the expected useful life span, age, fuel consumption, odometer reading, maintenance costs over the past year and identifies those vehicles that have exceeded their expected useful life, as determined by the CSP–MRA. During meetings held between the borough managers and those of the CSP–MRA, the CSP–MRA representatives submit this report and answer any questions the borough managers may pose.

To carry out the analyses necessary to replace a vehicle, borough managers must consider a range of data, including overall maintenance costs, fuel consumption and vehicle acquisition costs. This information is generated by the CSP–MRA’s systems. For the time being, the borough cannot readily extract the data it needs to perform these analyses.

In light of the designated criteria and the information submitted by the CSP–MRA, the borough managers determine, during the course of the year, which vehicles are to be earmarked for

disposal. The division head of the administrative department impacted then notifies the service manager of the CSP-MRA garage by e-mail of the vehicles being decommissioned to cancel their records in the MIR and the fuel management systems and to undertake the actions necessary to cancel their registration.

Finally, vehicle disposals are included in executive summaries submitted to the borough council for approval. These summaries indicate the vehicles targeted for disposal as well as the reasons behind these decisions.

**FINDING**

**We noticed that some last-minute vehicle substitutions had been made. Several vehicles whose disposal and auction were approved by the borough council were replaced with others that were not subject to the same approval process. Some of these vehicles were kept in service, sometimes for long periods of time.**

Here are specific examples that we observed during our audit:

- Vehicle #176-98175, the disposal of which was approved by the borough council, remained in service for 24 months prior to being sold. However, another vehicle with the same ID number was auctioned off;
- Two vehicles (#212-99015 and 212-99045), which were authorized for disposal by the borough council, were still in the inventory seven months later;
- Vehicle #177-98212, whose disposal had been authorized by the borough council, was retired from service 15 months later. During this period, the vehicle designated as its replacement was also in service.

The managers we interviewed indicated that such substitutions can be explained by the fact that vehicles earmarked for disposal are reassessed a few days prior to being auctioned off. When significant defects are observed after the initial decision, a substitution is made. **We feel that there may be, indeed, occasions when vehicle substitutions are justified. However, our audit revealed several instances of this practice, which we consider to be unusual.** Furthermore, given that the ID number of vehicles to be decommissioned is indicated in the executive summary that is submitted to the borough council for authorization, an amended executive summary containing the accurate information should be issued.

**FINDING**

Following our review of a sample of executive summaries related to the disposal of vehicles in 2009, we determined that these summaries included only a minimal explanation for the disposal of vehicles (write-offs, obsolescence or excessive repair costs) and did not provide sufficient justification (quantified analyses) to ascertain the real cause for their decommissioning.

Our audit also revealed that executive summaries were duly approved by the appropriate authorities (division heads, directors, elected officials).

**3.4.2.B. Recommendations**

We recommend that the Direction des services administratifs obtain approval for all vehicle disposals in a timely manner to avoid substitutions in the choice of vehicles to be decommissioned and ensure that the borough council receives the appropriate information for decision-making purposes.

We recommend that the Direction des services administratifs support its executive summaries for vehicle disposals with the required justifications in respect to the decisions made by the various authorities concerned.

**3.4.2.C. Action Plan for the Business Unit Involved**

*[Translation] "Guidelines on the procedures for the decommissioning and disposal of vehicles are being developed. Vehicle decommissioning and disposals will continue to be authorized through executive summaries when vehicles are ready to be sold. (Planned completion: June 2010)*

*We will attach to the executive summaries an assessment of the condition of the vehicles, including their age, the number of kilometres travelled or hours of use and their expected useful life span, as well as an explanation or rationale for their disposal (e.g., discontinued operation, high repair costs, obsolescence or safety hazard)." (Planned completion: March 2010)*

### 3.5. INVOICING

#### 3.5.A. Background and Findings

The invoices generated must be accurate and allow for the easy tracking of all information required to manage vehicle maintenance and repairs. The borough receives invoices from its external suppliers and from the CSP–MRA.

**Handwritten invoices from external suppliers are kept in the file of the corresponding vehicles for future reference.**

The CSP–MRA submits invoices twice a month (at the beginning and in the middle of the month). Every invoice contains a summary for each category of expenses (maintenance, leasing, administrative fees, etc.), a breakdown by cost centre (department) and any existing work orders. These work orders can be two, three or sometimes four weeks old.

#### **FINDING**

**We ascertained that the invoicing system is designed first and foremost to accommodate the needs of the SIMON accounting system, rather than those associated with fleet management. For example, the invoices present maintenance and repair costs by expense category rather than by vehicle.**

#### **FINDING**

**We noticed that the Direction des services administratifs did not verify work orders. They were submitted to the Direction des travaux publics without any systematic invoice verification. The managers we interviewed indicated that they did not receive the work orders in a timely fashion, which limited their ability to compare the work requested with the work executed by the CSP–MRA.**

**FINDING**

**We observed that the content of work orders did not allow users to easily ascertain the actual work performed:**

- **repairs are not described by type of work (fixed-rate packages) or major vehicle components (engine, transmission, brakes, cooling system, etc.);**
- **descriptions are not always explicit (check components, repair throttle, etc.);**
- **work orders are in PDF format, thereby precluding any file manipulation or analyses such as time comparisons per type of repairs or against standard time frames;**
- **initiation and completion dates are not always indicated;**
- **vehicle entry and exit dates are not indicated since there are no specific fields for these values;**
- **repairs done on one vehicle are occasionally recorded in another vehicle's work order.**

**CSP–MRA invoices are produced using the MIR system, which was scheduled for several updates in early 2010.** These changes were to make it simpler for the borough to analyze invoicing-related data.

The borough did not wait for the CSP–MRA to upgrade the MIR system. It developed its own invoicing application that compiles maintenance and repair costs per vehicle and supports searches in work orders using keywords (e.g., brakes, windshield washers, tire inflation, etc.). Currently, data is only available for work orders issued in 2008 and 2009. This application is still in its “run-in” stage and managers cannot use it yet.

All external suppliers that provide vehicle maintenance and repair services to the borough deliver the serviced vehicles along with the corresponding invoices for the work they performed. As a result, vehicle owners can easily check that the billed costs match the estimate that was agreed upon with the supplier. In case of any discrepancy, the required adjustment can be made more quickly to the satisfaction of both parties. We believe that the implementation of a similar procedure at the CSP–MRA would be beneficial and would help settle many of the disputes that arise between CSP–MRA and borough managers.

### 3.5.B. Recommendations

We recommend that the Direction des services administratifs impress upon the CSP–MRA the importance of obtaining duly completed work orders when vehicles are delivered. This would allow the managers concerned to validate that the agreed-upon work was performed at the estimated cost and, in the case of any discrepancy, make the appropriate corrections as quickly as possible.

We recommend that the Direction des travaux publics check and authorize all invoices received to ensure they are accurate and to have them corrected as needed.

We recommend that the borough take the necessary measures to compile, for each vehicle, a list of maintenance and repair costs charged by external suppliers to provide useful information for decision-making purposes.

### 3.5.C. Action Plan for the Business Unit Involved

*[Translation] “We will send a memorandum to Guy Charbonneau, head of the Direction du matériel roulant et des ateliers, to inform him that we wish to obtain work orders (invoices) within 24 hours of a vehicle’s discharge from a CSP–MRA garage.*

*In addition, we will ask the CSP–MRA to enter the work order number on the approved estimate. (Planned completion: March 2010)*

*Given the major delays in receiving invoices, we will validate invoices for major repairs upon receipt.*

*As long as invoices are issued as vehicles are being discharged from the garage, we will check each invoice for repairs requested, made and invoiced and take appropriate action to rectify any discrepancies. (Planned completion: June 2010)*

*We will enter the invoices for repair work done by external suppliers into our cost-tracking system for repairs carried out by the CSP–MRA. This task will require the involvement of a programmer and an office clerk.” (Planned completion: June 2010)*

### **V.4.3. ROSEMONT–LA PETITE-PATRIE BOROUGH**

#### **1. INTRODUCTION**

This borough is responsible, among others, for the acquisition, maintenance, repair and disposal of vehicles, fuel consumption and staff training. To this end, it deals primarily with the CSP–MRA. However, it is increasingly turning to external service providers.

Under its three-year capital program, the projected annual investments for the renewal of its vehicle fleet have stood at \$1.6 million since 2007. In addition, the borough relies on long-term leasing to ensure the availability of a sufficient number of vehicles and meet its operational needs. Its operating budget was \$5.7 million in 2008 and \$6.4 million in 2009.

In May 2009, the borough's fleet was comprised of 340 vehicles and machines, 298 of which were owned by the borough and the remaining 42 were leased. The vehicles and machines owned by the borough have a combined replacement value of \$21.6 million and an average age of 8.62 years. The estimated replacement value of the leased vehicles is \$5.2 million. These vehicles are managed by the Direction des services administratifs, in conjunction with the other administrative units of the borough (Direction des travaux publics, Direction de la culture, des sports, des loisirs et du développement social, Direction de l'aménagement urbain et des services aux entreprises).

#### **2. AUDIT SCOPE**

The objective of our audit was to promote the sound management of all fleet-related activities. To this end, we examined vehicle acquisitions and leases, maintenance and repairs, fuel supply and distribution as well as vehicle disposal.

Our audit focussed primarily on the year 2008 and the period from January to October 2009.

### 3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

#### 3.1. ROLE AND RESPONSIBILITIES

##### 3.1.A. Background and Findings

The adoption of the new organizational model, as defined in the March 2005 executive summary, provided for the negotiation of a service agreement between the boroughs, the central departments and the CSP–MRA. Its goal was to define an administrative framework that would facilitate interactions among the various parties. The management of the former Service des affaires corporatives entrusted the CSP–MRA with the drafting of the agreement. A first draft was produced for the 2005 fiscal year (*Entente de services 2005*) and a second for 2006 (*Entente de services 2006*). These agreements were to specify the basic vehicle maintenance services (guaranteed business volume) and their costs (business volume as determined by the client).

The development of a draft agreement for the boroughs, central departments and the CSP–MRA entailed numerous meetings, proposals and counterproposals.

##### **FINDING**

**We ascertained that the parties have yet to reach a consensus that would lead to the signing of an agreement. This situation has had a significant impact on the quality of the relationship between the borough and the CSP–MRA.**

In our opinion, despite the ongoing difficulties that arose between the borough and the CSP–MRA during these negotiations, it is nevertheless essential that such an agreement be concluded. **It would provide a framework for all of the dealings between the borough and the CSP–MRA. It should serve to record and update all of the borough’s requests (e.g., repair priorities, required cost estimates, type of information to be produced and required authorizations). It should also detail the commitments and services from the CSP–MRA (e.g., downtimes, quality of service, warranties, dissemination of information, work schedules, invoicing). Finally, it should clearly delineate the responsibilities of every stakeholder (i.e. the role of the CSP–MRA with respect to the Gouvernement du Québec).**

### 3.1.B. Recommendations

We recommend that the borough management, in conjunction with the CSP–MRA, reach an agreement that not only covers all the elements governing their business relations, but also serves as a frame of reference to facilitate the fulfilment of their respective responsibilities.

### 3.1.C. Action Plan for the Business Unit Involved

*[Translation] “We agreed with the principle and took part in discussions, but the last draft agreement proposed in 2006 by the CSP–MRA imposed onerous responsibilities on us without specifying any commitments on its part in terms of performing services and was therefore never ratified. In our opinion, the responsibility for reaching a supplier/client agreement should lie with the supplier (CSP–MRA) rather than the client (boroughs). We also believe that a master agreement should be established for all boroughs. Nevertheless, we are still ready to resume talks with a view towards concluding a service agreement. To this end, we will call a meeting between our designated representatives and those of the CSP–MRA.” (Planned completion: March 2010)*

## 3.2. MISSION AND OBJECTIVES

### 3.2.A. Background and Findings

Having a mission is one of the key elements needed to organize activities. It also serves as the foundation for all subsequent reporting. An effective mission statement identifies the clients to be served, the goods or services being offered and the overall desired target results.

Setting objectives not only provides guidance during the planning stage for activities, but also when assessing the results of any corrective actions. Relevant and reliable performance indicators must be established to measure the extent to which objectives have been met and support the related decision-making process.

**FINDING**

**Our review of the mission statements of the various borough departments showed that none of them even discussed vehicle fleet management. However, we noticed that the mission statement of the Direction des services administratifs positioned it "as an expert consultant in financial and material resources" for the borough. Moreover, we ascertained that the Direction des services administratifs had hired an engineer dedicated to the management of the borough's vehicle fleet.**

Given this situation, we believe that the responsibility for the management of the borough's fleet of vehicles should be defined in the mission statement of every administrative department involved. This would clarify the roles and responsibilities of all borough stakeholders with respect to vehicle management.

**The only specific, documented objectives that we were able to obtain were those related to budget targets.** However, the managers we interviewed pointed out that borough departments are also concerned with other "unofficial" objectives, including the updating of the vehicle fleet, the reduction of maintenance and repair costs, the increased availability of vehicles, the control of fuel consumption and the reduction of complaints from residents. They indicated that these objectives and the progress made to achieve them were discussed during working meetings and that corrective actions were initiated when necessary. For example, according to the information produced by the CSP–MRA on the updating of the fleet, the average vehicle age has been lowered from 10.12 years in 2006 to 8.62 years in 2009.

**FINDING**

**Following our review of the information specified in the above paragraph, we determined that the mission statements and objectives concerning vehicle fleet management should be defined and shared with all personnel. More specifically, objectives should be approved by the borough management, stated in measurable terms, supported by performance indicators and applied to all operations.**

### 3.2.B. Recommendations

**We recommend that the borough management ask each of the departments concerned to update their mission statement with a clear definition of their role as a vehicle fleet manager and to pursue measurable objectives supported by performance indicators as a way to channel the efforts of employees towards achieving the desired outcomes.**

### 3.2.C. Action Plan for the Business Unit Involved

*[Translation] “We agree with this recommendation. Our corrective actions can be divided into three steps:*

- 1) reviewing the mission statements of the concerned departments in order to reflect their role in managing the fleet of vehicles;*
- 2) creating an organizational chart that will specify the operational positions with management responsibilities and the functional positions with an advisory or support role;*
- 3) developing performance indicators based on the available data and establishing measurable objectives in relation to these indicators.” (Planned completion: June 2010)*

## 3.3. ACQUISITION AND DISPOSAL OF VEHICLES

### 3.3.1. MASTER PLAN

#### 3.3.1.A. Background and Findings

In order to assess the pace of replacement of the borough’s fleet, we looked at the data presented in three annual reports prepared by the CSP–MRA dated from November 2006, 2007 and 2008. The average age of the vehicles in the borough’s fleet were respectively listed as 10.12 years, 9.85 years and 9.12 years. However, a more recent report (May 2009) showed the average age to be 8.62 years as opposed to the ideal average age of 8.0 years, for a variation of 0.62 years. According to the managers we interviewed, the updating of the fleet in recent years is due to the fact that the borough disposed of a number of older vehicles and leased others using amounts set aside in its operating budget. They indicated that, given the limited funds earmarked for replacement vehicles, the borough increasingly resorts to long-term leasing to offset this variance.

**FINDING**

**We found no evidence that confirms the variations between actual expenditures for the acquisition of vehicles and replacement needs or that explains the position taken on long-term leasing of vehicles.**

Should the borough decide to carry out the necessary replacements over the next four years on the basis of useful vehicle life, as recommended in the *Grille décisionnelle de planification d'achat des appareils de mai 2009* report released by the CSP–MRA, an investment of \$5 million would be necessary in 2009 (including the accumulated delay). When taking into consideration the \$1.615 million set aside under the three-year capital program, the investment deficit for 2009 will be \$3.385 million.

**FINDING**

**Based on the results of our audit, we noted that the borough does not have a capital master plan in place that takes into account all of the elements relevant to fleet replacement. The borough does have, however, some information on its vehicle fleet, including the *Grille décisionnelle de planification d'achat des appareils* report.**

**3.3.1.B. Recommendations**

**We recommend that the Direction des services administratifs, in conjunction with the other administrative units, establish a master plan that would include all of the elements related to the vehicle fleet in keeping with the borough's guidelines. Such a plan would support informed and timely decisions (acquisition, leasing, disposal).**

**3.3.1.C. Action Plan for the Business Unit Involved**

*[Translation] "We agree with this recommendation. During the preparation of our next three-year plan for vehicle acquisition (2011–2013), we will draft a master plan to document the guidelines to be followed, based on the information related to vehicle fleet management available at that time. The implementation of a master plan as a permanent working tool will enable us to develop strategies over a longer-term horizon." (Planned completion: December 2010)*

### 3.3.2. ACQUISITION PROCESS

#### 3.3.2.A. Background and Findings

Vehicle acquisition began shortly after the adoption of the three-year capital program by the borough council. Our audit focussed on ensuring that managers followed the existing procedures and abided by the *Cities and Towns Act* (section 573) with respect to the acquisition process. To this end, we reviewed the acquisition of four vehicles.

**Table 9—Vehicle Acquisition**

Item #	Vehicle ID number	Description	Type of acquisition	Amount
1	539-07321	Street sweeper/vacuum truck	Call for public tenders	\$193,703
2	825-07189	Snowblower	Private tender	\$77,658
3	414-08379	Tractor	Invitational tender	\$73,339
4	414-09401	Tractor	Invitational tender	\$95,168

For these vehicles, we ascertained the existence of key controls at various stages of the acquisition process, including the:

- specifications;
- suppliers' bids;
- selection of the lowest compliant bidder;
- executive summaries for the borough council (when applicable).

In all of the cases we examined, the funds necessary for the purchases were part of the borough's three-year capital program or operating budget and the vehicles were delivered within a reasonable time frame.

**FINDING**

For the acquisition of the snowblower, we noticed that the borough proceeded by way of a private agreement rather than an invitational tender. The managers justified their decision by pointing out that the first snowblower they purchased in 2004 was the result of a call for public tenders and that they deemed it important to procure the same brand as the models currently owned by the borough to promote consistency in the equipment used. This explains why the managers did not issue an invitational tender and placed an order with the manufacturer instead. It should be noted that the borough proceeded in the same manner for the acquisition of another vehicle in 2006.

**3.3.2.B. Recommendations**

We recommend that the Direction des travaux publics comply with the provisions of the Act with respect to the awarding of contracts in order to obtain the best possible prices for its purchases.

**3.3.2.C. Action Plan for the Business Unit Involved**

*[Translation] "Henceforth, we will comply with this recommendation. Special attention will be paid to the way in which our contracts are awarded to ensure that we comply with the provisions in the Act." (Planned completion: February 2010)*

**3.4. VEHICLE LEASING**

**3.4.A. Background and Findings**

Vehicle leasing can help accommodate short-term needs or serve as a longer-term replacement for a vehicle that has been decommissioned. Long-term leases allow the borough to have access to a vehicle whose maintenance is performed by an external supplier and to acquire that vehicle at the end of the leasing contract (buyback). The funds for vehicle leasing are included in its operating budget.

Leasing represents a growing share of the borough's budget. Leasing costs accounted for approximately \$1.2 million in 2007, \$1.6 million in 2008 and \$1.6 million in October 2009. According to borough managers, this situation can be attributed in part to the borough's underfunded three-year capital program, the resulting focus on reducing maintenance and repair costs as well as CSP–MRA downtimes.

The types of leasing agreements currently used by the Rosemont–La Petite-Patrie borough are:

- short-term leasing of vehicles, without any operator, to accommodate occasional needs (e.g., pickup trucks, pieces of equipment). These leases are arranged through the CSP–MRA or an external supplier. This is not a common practice for the borough, representing annual expenditures of less than \$5,000. Consequently, our audit did not focus on this aspect;
- leasing of light and heavy vehicles, without any operator, for longer-term use (e.g., four- to five-year terms for pickup trucks, loaders, tractors, street sweepers, etc.). These leases are arranged through external suppliers and represent the majority of the borough’s leasing costs. They also include vehicle maintenance and sometimes include an option to purchase. In 2009, the CSP–MRA established a leasing fund to finance the increasing number of leases entered into by the boroughs with external suppliers. The maintenance of these vehicles is included in the leasing fees, and these vehicles can be purchased at the end of the lease. For the moment, the borough has not availed itself of this option because it still has reservations about the CSP–MRA downtimes;
- leasing of light and heavy vehicles with an operator for special short-term needs associated with an equipment requisition.

In terms of leases for light and heavy vehicles without any operator over an extended period of time, our audit focussed on six contracts, some of which cover multiple vehicles. Together, they represent a little more than half of the borough’s leased vehicles.

**Table 10—Leasing Contracts**

Item #	Type of vehicle	Number of units	Leasing period	Type of acquisition	Amount
1	Street sweeper/vacuum truck	3	2008–2012	Master agreement with the Direction de l’approvisionnement	\$948,014
2	Snowblower	1	Winter 2008–2009	Private tender	\$45,847
3	Snow-clearing equipment	11	2006–2011	Call for public tenders	\$2,474,310
4	Snow-clearing equipment	3	2007–2012	Call for public tenders	\$1,203,881
5	Snow-clearing equipment	6	2007–2012	Call for public tenders	\$1,329,226
6	Snow-clearing equipment	4	2009–2014	Call for public tenders	\$878,901

We examined whether the leasing process complied with existing legislation and regulations, if there were sufficient detailed analyses to justify these leases and if the required authorizations had been obtained.

For the six cases we reviewed, the funds necessary for the lease were provided by the borough's operating budget and the vehicles were delivered within a reasonable time frame. We confirmed that the City's usual purchasing procedures were followed and that the contracts were awarded to the lowest compliant bidder.

**FINDING**

**We did not find any comprehensive studies to confirm that the recent leases were preferable to the acquisition of new vehicles or the repair of the vehicles to be replaced. The only document we obtained was a 2006 study on snow removal vehicles (10 tractors and 2 loader-tractors) that highlighted long-term leasing costs (5 years) and savings on maintenance costs for vehicles to be replaced (2 tractors for clearing sidewalks and 5 track-type ploughs).**

**FINDING**

**In the case of item 2, the borough proceeded by way of a private agreement rather than an invitational tender, as it had previously acquired a vehicle from this supplier through a call for public tenders in 2006. However, this approach does not comply with city procedures or the provisions of the *Cities and Towns Act* (section 573), which specifies that all contracts between \$25,000 and \$99,999 require an invitation to be sent to at least two suppliers.**

We also reviewed the manner in which contracts were awarded to ensure that the borough's approach was acceptable. To this end, we asked the CSP–MRA to conduct a more extensive study of specific calls for tenders.

For the leasing of snow removal equipment (items 3 and 4), the CSP–MRA's observations are listed below:

- the specifications were referring to model TU-900 equipment, whereas the models delivered were TN-900s, which are currently listed as being \$17,300 cheaper than TU-900s;
- the specifications for item 3 did not specify a particular make or model, whereas item 4 indicated a Benco model TU-900.

For the snow removal equipment (items 5 and 6), the CSP–MRA observed that the specifications for item 5 limited the choice of make to one supplier, i.e. New Holland. The same stipulation was included in the specifications for item 6, although a change was made in a subsequent addendum to open the process to suppliers of all makes.

Finally, we examined the expenditure accounts related to the equipment requisitions.

**FINDING**

We ascertained that the borough entered into a number of leases by way of a private agreement for vehicles used to clean street drains even though the total of these leases was between \$24,999 and \$100,000. According to city procedures and section 573 of the *Cities and Towns Act*, the borough managers should have issued an invitational tender given the magnitude of the contract value. The managers indicated that their decision was based on the quality of the services provided by, and the equipment available through, this supplier. The hourly rate was identical to that of the CSP–MRA (the CSP–MRA also uses the services of this supplier).

**3.4.B. Recommendations**

We recommend that the Direction des travaux publics ensure that vehicle leasing contracts are awarded in compliance with the Act, which requires an invitational tender to be issued to at least two suppliers for contracts between \$25,000 and \$99,999, in order to guarantee the best possible prices for the borough.

We recommend that the Direction des travaux publics conduct the appropriate analyses to justify the decision to enter into long-term equipment leases rather than opt for an acquisition or repair solution. When leasing is the better option, arguments supporting the decision to deal with an external supplier rather than the long-term leasing fund of the CSP–MRA should be documented. Moreover, the results of these analyses or the selected scenario should be included in executive summaries to help borough council members make fully informed decisions.

**We recommend that the Direction des travaux publics take the necessary measures to improve the management framework of its vehicle leasing process and, more specifically, to develop technical requirements that will allow all potential suppliers to submit competitive bids and the borough to select the most beneficial proposal.**

**We recommend that the Direction des travaux publics use the appropriate method for awarding contracts pursuant to city regulations and section 573 of the *Cities and Towns Act*.**

### **3.4.C. Action Plan for the Business Unit Involved**

*[Translation] “Henceforth, in keeping with this recommendation, special attention will be paid to the way in which all our contracts are awarded to ensure compliance with the provisions stipulated in the Act. (Planned completion: next call for tenders)”*

*We agree with this recommendation. In all our acquisition decisions, the appropriate analyses are always performed to select the option that is the most beneficial to our operations, although we do not always document the results of these analyses. In order to comply with this recommendation, the next long-term vehicle leasing request will be suitably documented and supported by an appropriate analysis based on the available figures. Given that the long-term leasing fund of the CSP–MRA has been in place only since May 2009, we will solicit a bid from the CSP–MRA in our next call for tenders. This bid will be evaluated using the same criteria as those received from other suppliers. (Planned completion: next call for tenders)”*

*We agree with the recommendation to improve the management framework of our process in order to minimize the risk of errors and omissions that may occur when specifications are prepared and bids are opened. Accordingly, from the beginning of the process onward, the Direction des travaux publics will ask another stakeholder (the Division des ressources financières et matérielles) to perform additional checks of all the documents issued and received to help ensure their accuracy and compliance. (Planned completion: next call for tenders)”*

*Owing to exceptional emergency circumstances, we contracted more leases for street drain cleaning equipment than anticipated during the course of a year. As a result, in order to abide by the recommendation, special attention will be paid to the scope of the work to be carried out and to the manner in which our contracts are awarded in order to ensure we comply with the provisions stipulated in the Act.” (Planned completion: next call for tenders)”*

### 3.5. WARRANTIES

#### 3.5.A. Background and Findings

Tracking warranties requires a reliable system whose data can be easily retrieved at any time. This system must also allow for the appropriate allocation of budgetary funds.

As of July 20<sup>th</sup> 2009, the borough's fleet was comprised of 329 vehicles. The CSP–MRA oversees the maintenance and repairs of 273 of these vehicles (83%). External suppliers perform this work on only 15 vehicles (5%), while another 41 vehicles (12%) belong to leasing companies who are responsible for the corresponding maintenance and repairs. Maintenance and repair work carried out by the CSP–MRA and external suppliers is covered by a warranty for a given period of time.

When it comes to maintenance and repairs performed by the CSP–MRA, borough managers alerted us to problems in the invoicing of parts and labour that should have been under warranty. Following a meeting held on October 23<sup>rd</sup> 2009 between the borough and the CSP–MRA, a **CSP–MRA manager indicated that [Translation] “... unfortunately, the (MIR) computer system cannot prevent the invoicing of work that would normally be covered by a warranty.”** As a result, the CSP–MRA may bill the borough for work that is covered by a warranty. A recommendation to this effect was included in the report addressed to the CSP–MRA.

#### **FINDING**

**We ascertained that the borough does not have access to a system that tracks maintenance and repairs performed by external suppliers.**

We reviewed a sample of vehicles in which the responsibility for warranty tracking fell to the borough. Our audit showed that the supplier had identified the parts under warranty and had replaced them at no charge. Should the trend towards expanding the fleet of vehicles supervised by the borough continues, it may be beneficial for the borough managers to implement a warranty tracking system.

### 3.5.B. Recommendations

We recommend that the Direction des services administratifs consider the value of implementing a system to track warranties related to work performed by external suppliers.

### 3.5.C. Action Plan for the Business Unit Involved

*[Translation] “We agree with this recommendation. Currently, as the volume of work performed by external suppliers is limited, the borough managers are able to monitor the situation easily and effectively. However, an increase in work volume in the coming 18 months is being anticipated. In that case, it would be useful to study whether the borough should adopt a warranty tracking system.” (Planned completion: June 2011)*

## 3.6. SATISFACTION WITH THE CSP–MRA SERVICES

### 3.6.A. Background and Findings

The Direction du matériel roulant et des ateliers has become a supplier of specialized products and services that must continuously adapt to the needs of its clients. Given that clients are free to entrust their maintenance and repair work to either the CSP–MRA or external suppliers, service costs and quality have become deciding factors for both parties.

In recent years, the CSP–MRA has implemented various tools to determine and measure client satisfaction with its products and services. For instance, a survey was conducted with target groups in the fall of 2007 to assess their understanding of certain products and services offered by the CSP–MRA, measure their level of satisfaction with the products and services being provided. The intent was to use this information to support business development initiatives.

Other measures have also been adopted to accommodate clients' requests and address various operational issues. Among others, meetings were held between the head of the Division de la planification stratégique et relations d'affaires, the service managers of the municipal garages and the managers of certain boroughs, including Rosemont–La Petite-Patrie.

**FINDING**

The managers we interviewed during our audit outlined four main issues with the CSP–MRA:

- **failure to prepare cost estimates in line with the stated needs;**
- **over-extended vehicle downtimes;**
- **non-adherence to quotes;**
- **repairs performed without the appropriate authorization.**

These issues are detailed below.

- **Failure to prepare cost estimates in line with the stated needs.**

In respect to body work, the managers maintained that the CSP–MRA did not follow the borough’s instructions regarding the repairs to be done and proposed instead an approach that was almost akin to refurbishing. They claimed that the scope of the work to be performed did not always appear to be correctly understood or explained. In these cases, the borough elected to have less complicated work done at a lower cost through an external supplier.

We obtained examples of significant variations between the costs quoted by the CSP–MRA and those charged by external suppliers for similar work. These examples involved repairs to light vehicles.

- **Over-extended vehicle downtimes.**

The managers pointed out that vehicles requiring minor work were frequently out of service for a long period of time. Our examination of certain work orders indeed showed significant downtimes for specific jobs.

- **Non-adherence to quotes.**

The managers we interviewed mentioned that the CSP–MRA did not always send them revised quotes to warn them about increases in the cost of work to be performed. In this respect, we came across invoices that were substantially higher than their corresponding quotes.

- **Repairs performed without the appropriate authorization.**

The CSP–MRA occasionally performed repairs on vehicles without first obtaining authorization from borough managers. Several examples of this were provided to us.

**Most of these issues were discussed with the managers of the CSP–MRA during working meetings. In the opinion of the CSP–MRA, measures have been initiated or are being implemented to remedy the situation.** However, borough managers remain sceptical about the ability of the CSP–MRA to offer competitive pricing and quality service for all of its operations.

### 3.6.B. Recommendations

**We recommend that the borough implement the appropriate mechanisms to resolve the outstanding issues between the two parties. In this regard, we strongly suggest the documentation of the facts related to the reported issues. There is also a need to assess them objectively in light of a business relationship that clearly requires improvement and this must be approached with the firm intention of resolving the identified issues that have been a source of a long-standing conflict.**

### 3.6.C. Action Plan for the Business Unit Involved

*[Translation] “We are obviously open to pursuing efforts to resolve the outstanding issues between the CSP–MRA and our borough, although we would have preferred that the responsibility be shared with the CSP–MRA.” (Planned completion: December 31<sup>st</sup> 2010)*

## V.4.4. VERDUN BOROUGH

### 1. INTRODUCTION

The fleet belonging to the Verdun borough is composed of 135 vehicles (102 light vehicles and 33 heavy vehicles) with an average age of 10.6 years. The vehicles are assigned to the borough's various administrative units.

The responsibility for the management of the borough's fleet falls entirely with the Direction des travaux publics et soutien à la direction d'arrondissement (Direction des travaux publics). In this respect, its main tasks are the:

- planning and acquisition of vehicles;
- short-term leasing of vehicles;
- management of vehicle usage (driver's licences, registration, training);
- recording of fleet-related information and production of the appropriate management reports;
- operation of a municipal garage for the mandatory maintenance of heavy vehicles (Bill 430), the periodic maintenance of light vehicles and various repairs;
- decommissioning and disposal of vehicles.

The borough rarely calls upon the CSP–MRA. Since its municipal garage is staffed with qualified mechanics, it is self-sufficient in this regard. However, the borough managers use the guidelines and purchase agreements negotiated by the Direction de l'approvisionnement of the former Service des affaires corporatives of the City of Montréal for vehicle purchases, fuel management, replacement parts and training.

### 2. AUDIT SCOPE

The objective of our audit was to promote the sound management of all fleet-related activities. To this end, we examined vehicle acquisitions and leases, maintenance and repairs, fuel procurement and distribution, the turnover of replacement parts and vehicle disposal.

Our audit focussed primarily on the year 2008 and the period from January to September 2009.

### 3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

#### 3.1. VEHICLE ACQUISITIONS AND LEASES

##### 3.1.A. Background and Findings

As of June 22<sup>nd</sup> 2009, the borough's fleet was comprised of 135 vehicles (102 light vehicles and 33 heavy vehicles) with a total value of \$7,894,714 (acquisition cost) and an average age of 10.6 years. The vehicles were assigned to the borough's various administrative units (roads and parks, municipal buildings, recreation, public safety, water and sewer systems, mechanical services, etc.).

While preparing the 2009–2011 three-year capital program, the Division immeubles, matériel roulant, approvisionnement of the Direction des travaux publics updated the borough's vehicle fleet inventory and established a replacement value for each type of vehicle. **This information was used to estimate the replacement value of the entire fleet (\$12.5 million) and establish its average age (roughly 10 years)** in a report that was submitted to the Direction des travaux publics.

On the basis of the age and current value of the fleet, the division determined that **an annual investment of at least \$1.5 million would be required to maintain the average age at 10 years.**

**Following discussions with the borough director about the three-year investments (2009–2011) for the acquisition of vehicles, it was decided that the total amount over three years would be limited to \$2.277 million or \$759,000 a year.** The borough council adopted the borough's three-year capital program on December 16<sup>th</sup> 2008 and approved a \$759,000 loan by-law to finance the acquisition costs of these vehicles on February 3<sup>rd</sup> 2009.

##### **FINDING**

**In light of the report on the updated fleet inventory, we ascertained that the Division immeubles, matériel roulant, approvisionnement deemed the planned investments to be insufficient. They reached this consensus after considering the investments made in recent years and the \$759,000 investment budgeted for 2009, 2010 and 2011. If maintenance expenses remain at their current level, the average age of the fleet will increase gradually, while its reliability will decrease.**

For example, some snowblowers are more than 40 years old and one loader is over 20 years old. During our interviews with managers of the Direction des travaux publics, they expressed serious concerns about the borough's ability to invest the necessary amounts to renew its fleet.

**FINDING**

**We ascertained that the borough does not have a capital master plan for the renewal of its vehicle fleet. It is therefore more difficult to have a comprehensive overview of the current vehicle fleet, the risk of insufficient long-term investments and the alternatives that would provide the borough with the vehicles necessary to carry out its operations.**

In addition, a capital master plan would allow the borough to establish its priorities, set realistic objectives, determine the optimal composition of its fleet and define the corresponding guidelines (type of vehicles, fuel consumption, type of technology, engine specifications, etc.). It would also provide a better overview of the current state of its fleet and allow for the evaluation of alternatives should there be a considerable delay in the progression of the plan.

In 2008, six replacement vehicles were purchased for a total of \$647,244. As of June 23<sup>rd</sup> 2009, an amount of \$716,394 had been spent on the purchase of 10 vehicles out of a total budget of \$759,000. Among these vehicles, four were previously owned and cost less than \$15,000 each. The six others were purchased new either from a dealer following a call for tenders issued by the borough or via combined purchase agreements previously arranged by the Direction de l'approvisionnement of the former Service des affaires corporatives as part of a call for public tenders (blanket order).

**Table 11—Vehicle Acquisitions**

Year	Used models	Call for tenders	Purchase agreements	Total
2008	0	5	1	6
2009	4	4	2	10

We selected four used vehicles purchased in 2009 and nine vehicles purchased by way of calls for tenders in 2008 and 2009 to ascertain the existence of key controls at various stages of the acquisition process, including the:

- documentation prepared to determine mobile equipment needs and justify acquisitions;
- preparation of drawings and specifications (technical standards);
- calls for tenders (when applicable);

- suppliers' bids;
- technical compliance analysis of bids and selection of the lowest compliant bidder;
- work order authorizations;
- delivery of vehicles within specified time frames;
- executive summaries and minutes of borough council meetings (when applicable);
- entering of new vehicles into the database;
- physical check of the new vehicles.

Concerning the four used vehicles, we obtained the working documentation prepared by the mechanical supervisors on the costs of comparable used vehicles, as well as the authorized work orders. **No anomalies were found in the purchase process and a physical check of these four vehicles was performed.**

**FINDING**

**However, we observed that the Direction des travaux publics did not establish any criteria for the purchase of used vehicles (vehicle age, certification, odometer readings, cost, colour, residual warranties, condition and appearance of body, etc.).**

We also reviewed the purchasing process for the nine vehicles acquired in 2008 and 2009 through calls for tenders (six invitational and three public) issued by the borough. We examined these transactions and consulted with the managers of the CSP–MRA to assess the process implemented and, more specifically, examine the technical standards attached to these calls for tenders.

Accordingly, the nine calls for tenders in 2008 and 2009 were reviewed, as were related work order authorizations, executive summaries and minutes of borough council meetings. Moreover, we verified with the CSP–MRA that these categories of vehicles were not included in the combined vehicle purchase agreements negotiated by the Direction de l'approvisionnement of the former Service des affaires corporatives of the City of Montréal. **Only one anomaly was detected during this examination and it concerned the acquisition of a snowblower.**

Following a public call for public tenders in 2008, the borough acquired a loader with a snowblower attachment at a cost of \$341,688. The specifications for this vehicle were prepared by the Division immeubles, matériel roulant, approvisionnement in conjunction with the borough's Division de la voirie et des parcs. The call for tenders was dated July 24<sup>th</sup> 2008. Five suppliers obtained the tendering documents and three bids were received. The lowest compliant bidder

was awarded the contract. After examining the documents related to this acquisition, we contacted one of the potential suppliers that did not bid to determine the reasons it abstained. This potential supplier indicated that the specifications were too restrictive and had been prepared in a way to discourage competitive bidding.

Upon our request, the CSP–MRA conducted a more detailed evaluation of the technical specifications for the loader/snowblower on September 16<sup>th</sup> 2009. **Its analysis showed that some of the requirements within the specifications accompanying the call for tenders made it impossible for other manufacturers of loader/snowblowers to submit their product for consideration.** These requirements included:

- the existence of a technical services department supervised by an engineer who had been with the firm for at least five years;
- the need for the snowblower model to have been in active production for more than a year;
- the requirement for a transmission equipped with a specific type of speed reduction mechanism (axle pinion gear shafts for the turbine and conveyors).

#### **FINDING**

**We ascertained that some loader/snowblower suppliers were not able to submit a competitive bid. Consequently, there is no guarantee that the borough obtained the best possible price.**

It is worth noting that the borough has not acquired any vehicles via long-term leases. It does, on occasion, lease vehicles on a short-term basis when special needs arise (e.g., as a temporary replacement vehicle).

#### **3.1.B. Recommendations**

**We recommend that the Direction des travaux publics take the necessary measures to improve the management framework of its vehicle acquisition process, specifically by:**

- **establishing a master plan in keeping with the borough's guidelines that will promote timely and informed decisions;**
- **establishing selection criteria as to the types of used vehicles to purchase (cost, certification, fuel consumption, warranty);**
- **developing technical requirements so that all potential suppliers can submit a competitive bid and the borough can select the best possible proposal.**

### 3.1.C. Action Plan for the Business Unit Involved

*[Translation] "We will draft a vehicle acquisition master plan.*

*We will also create a reference document specifying the borough's various criteria in respect to the purchase of used vehicles.*

*Finally, we will implement a control mechanism that will ensure that call-for-tenders documentation for the acquisition of mobile equipment is less restrictive in order to encourage more suppliers to submit bids." (Planned completion: November 26<sup>th</sup> 2010)*

## 3.2. COMPLIANCE WITH THE REQUIREMENTS FOR HEAVY VEHICLE USERS (BILL 430)

### 3.2.A. Background and Findings

The *Act Respecting Owners, Operators and Drivers of Heavy Vehicles*, adopted in June 1998, governs road transport by heavy vehicles across Québec. Its purpose is to improve road safety and preserve the integrity of public roads. The Act requires owners and operators of heavy vehicles with a net weight in excess of 3,000 kilograms to be registered with the *Registre des propriétaires et des exploitants de véhicules lourds*. In addition, it provides for the evaluation and monitoring of their conduct on the road and at their workplace based on their individual files and pre-established criteria.

The Ville de Verdun was registered with the *Registre des propriétaires et des exploitants de véhicules lourds* prior to December 31<sup>st</sup> 2001. Following the merger of the municipalities on the Island of Montréal, this responsibility was centralized and the new fleet of vehicles for the newly-created City was registered to the City of Montréal. Pursuant to Bill 430, the Ville de Montréal is now registered with the *Registre des propriétaires et des exploitants de véhicules lourds* of the *Commission des transports du Québec* and the borough must ensure compliance with the provisions of this legislation concerning its heavy vehicles.

As a heavy vehicle user, the borough is responsible for:

- registering vehicles on behalf of the City of Montréal/Verdun borough;
- maintaining vehicles in good mechanical working order;
- repairing malfunctions observed during pre-departure checks;
- complying with the maintenance program standards;
- keeping the documentation necessary to maintain a file on the vehicle;

- submitting vehicles to periodic mechanical checks under the preventive maintenance program (PMP);
- ensuring that drivers possess the necessary driving skills and exhibit the proper conduct.

A sample of five heavy vehicles was selected at random from the 33 heavy vehicles registered with the borough fleet to ensure that the borough was effectively fulfilling its responsibilities under Bill 430. Specifically, we checked:

- the validity of the registration certificate;
- the existence of records for planned and completed mechanical inspections on these five sample vehicles in accordance with Bill 430;
- the existence of work orders for corrective maintenance and the description of the repairs in the records of each vehicle selected;
- the presence of a compliance decal on the five heavy vehicles, indicating the date of the most recent mechanical inspection;
- the existence of a duly completed and certified maintenance form from a mechanic recognized by the Société de l'assurance automobile du Québec (SAAQ), including a checklist in accordance with the *Regulation Respecting Safety Standards for Road Vehicles* for which each item is marked as being either "compliant" or "not compliant", in which case a list of required repairs is provided;
- proof that mechanics are properly trained and SAAQ-authorized (certificate of mechanical inspection);
- the presence of a pre-departure checklist on board, requiring drivers to conduct visual and auditory inspections of certain elements accessible from the vehicle and take the necessary steps to correct any malfunctions identified;
- evidence that any identified and documented malfunctions stemming from pre-departure checks have been repaired;
- evidence that the driver's licences of heavy vehicle operators are checked annually with the SAAQ and that the licence holders are authorized to drive the category of vehicle in question;
- proof that driving and work hours are properly managed, especially during snow removal seasons (compliance with the maximum number of work hours).

**Overall, the results of our audit showed that the fleet of heavy vehicles was managed effectively in compliance with Bill 430.** Each vehicle had its own maintenance and repair history file. The mandatory maintenance form for heavy vehicles was completed by qualified

mechanics and kept on file for each of the vehicles audited. Driver's licences were validated annually and supervisors authorized time sheets as a way to control driving hours.

#### **FINDING**

During our audit of these five heavy vehicles, we observed that one pre-departure checklist was not completed. At the request of the borough and the City, drivers must carry out a pre-departure check of their vehicle and document their observations regarding its mechanical condition on the vehicle checklist. The borough supervisors are also required to ensure drivers complete these checklists. We did not find any evidence that supervisors had verified all checklists. Follow-ups were only performed when drivers indicated a mechanical problem. Under the *Highway Safety Code*, there are cases when fines can be levied if pre-departure checks are not completed. These incidents are also recorded in the files of heavy vehicle owners and operators.

#### **3.2.B. Recommendations**

We recommend that the Direction des travaux publics take the necessary actions to force all heavy vehicle drivers to complete the pre-departure checklist on the condition of their vehicle. This will ensure that it is in good working order and that any malfunctions are identified and repaired as quickly as possible.

#### **3.2.C. Action Plan for the Business Unit Involved**

*[Translation] "We will implement control measures to ensure heavy vehicle drivers fulfil their obligation with respect to completing their pre-departure checklist and submit a copy, as necessary, to the garage so that any detected anomalies can be corrected." (Planned completion: May 21<sup>st</sup> 2010)*

### **3.3. VEHICLE MAINTENANCE AND REPAIRS**

#### **3.3.A. Background and Findings**

Under Bill 430, the SAAQ regulates the implementation of a preventive maintenance program (PMP) by vehicle fleet owners with specific requirements to ensure that vehicles remain in good mechanical working order.

It is therefore the responsibility of each owner to either implement a PMP or entrust this program to an authorized agent in exchange for compensation. The participant must show that all PMP requirements have been met, namely that:

- preventive maintenance was performed in suitable, enclosed and heated facilities that allow access to the various parts of the vehicle;
- preventive maintenance was performed by qualified mechanics who have passed an SAAQ-recognized examination focussing solely on preventive maintenance;
- the PMP complies with government requirements on maintenance frequency, record keeping and the mechanical components to be maintained. The preventive maintenance frequency is determined by the category of vehicle and the number of kilometres driven per year;
- preventive maintenance information and documentation for the last two years that the vehicle has been in use was signed by a qualified mechanic and kept on file.

For light vehicles, the borough has implemented various maintenance tasks in accordance with the manufacturers' standards. They primarily involve checking the brakes, cooling system, engine, electrical system, tires and fluid levels, as well as lubrication.

**As part of our audit, we selected five light vehicles at random and obtained evidence that work orders for their complete inspection were produced. The majority of light vehicles are inspected every six months.** As for public safety vehicles, they are inspected monthly given the fact that they are driven for a greater number of kilometres in comparison with other fleet vehicles.

**FINDING**

**We discovered that mechanical supervisors oversee downtimes as well as maintenance and repair quality based solely on their experience and judgment. Our audit indicated that there are no existing standards for maintenance and repair times. Consequently, productivity is not measured and compared against the performance of external suppliers with similar operations. These standards could be comparable to those in place in external garages (e.g., standard times for executing repair or maintenance work, measurement of productive time, etc.). Time variations could then be explained and justified by the supervisors of these employees.**

**FINDING**

We observed that there are no mechanisms in place to measure the quality of repairs following a review of the causes of repeat or similar repairs. In addition, we did not obtain any information on the quality of work based on road tests since there is no data on the failure rate of repairs after such tests. As for the merits of the quality control performed by supervisors, there is no data available on this aspect of their work.

**FINDING**

We ascertained that the controls for the measurement of user satisfaction with mechanical services are limited to the verbal comments of certain users made to the supervisors of mechanics. There is no formal method to determine the level of user satisfaction with mechanical services.

In this context, we selected and contacted two borough representatives (division head and supervisor) who use the vehicle fleet and mechanical services to assess their level of satisfaction.

They made positive, albeit concise and minimal, comments about the speed and quality of execution of mechanical work, the courtesy of the supervisors and mechanics as well as the willingness of supervisors to locate replacement vehicles.

### 3.3.B. Recommendations

We recommend that the Direction des travaux publics establish efficiency standards and quality criteria for maintenance and repair work based on comparable industry controls and implement the appropriate mechanisms to measure their level of attainment. These controls should also include the compilation of rework costs to determine how they drive overall maintenance and repair costs upward.

We recommend that the Direction des travaux publics develop a mechanism to measure the level of user satisfaction and take the appropriate steps to address any complaints and comments it receives. This measurement tool should also make it possible to record and report user feedback to the appropriate authorities.

### 3.3.C. Action Plan for the Business Unit Involved

*[Translation] “We will establish efficiency standards and quality criteria for maintenance and repair work. (Planned completion: November 26<sup>th</sup> 2010)*

*Once the necessary budget has been allocated and an improved management system has been put into place, we will implement a system to measure the quality of work and assess whether quality goals were attained. (Planned completion: November 25<sup>th</sup> 2011)*

*Once the necessary budget has been allocated and an improved management system has been implemented, we will compile all rework costs. (Planned completion: June 24<sup>th</sup> 2011)*

*We will develop a mechanism to measure the level of user satisfaction.*

*We also intend to follow up on user complaints and comments.*

*Finally, we will report regularly on the level of user satisfaction and the follow-up of user complaints.” (Planned completion: November 25<sup>th</sup> 2011)*

## 3.4. WARRANTIES

### 3.4.A. Background and Findings

#### **FINDING**

**We ascertained that the current controls to ensure compliance with warranties on replacement parts and repairs performed by external suppliers are insufficient. In fact, the only evidence we found were notes in vehicles files indicating that repairs were made under warranty.**

According to the supervisors we interviewed, documents tend to accumulate in vehicle files, making it occasionally difficult to retrieve information on warranty-related repairs. Furthermore, given that there are two supervisors overseeing repair and maintenance for fleet vehicles, it is essential that a control mechanism be used to identify warranties in effect for each vehicle and prevent the borough from incurring unnecessary additional fees.

When vehicles need repairs under warranty, managers must decide whether the repairs should be performed in-house or by external suppliers. This decision consider the labour costs involved

in bringing the vehicle to the selected supplier and back, compared with the estimated costs of having the repairs done by the borough.

**FINDING**

We ascertained that the costs discussed above are evaluated in a subjective manner, that they are not documented and that there are no criteria to support supervisors in their decision-making process. Moreover, when the borough performs repairs on vehicles or replacement parts under warranty, the new parts are supplied free of charge, but the borough must absorb the labour costs. However, when these repairs are entrusted to external suppliers, they must assume all expenses.

**3.4.B. Recommendations**

We recommend that the Direction des travaux publics implement a suitable system to easily pinpoint the parts and repairs under warranty and eliminate the risk of disbursing unnecessary additional fees.

We recommend that the Direction des travaux publics establish basic criteria to determine whether repairs covered by a warranty should be carried out by suppliers or the borough.

**3.4.C. Action Plan for the Business Unit Involved**

*[Translation] "We will implement a system to track components and repairs that are under warranty. (Planned completion: May 21<sup>st</sup> 2010)*

*We will also establish basic criteria to determine whether repairs covered by a warranty should be carried out by suppliers or the borough." (Planned completion: May 21<sup>st</sup> 2010)*

**3.5. DECOMMISSIONING AND DISPOSAL OF VEHICLES**

**3.5.A. Background and Findings**

In order to enable managers to justify vehicle disposals, the decision-making criteria must be well defined and the rationale behind the disposal must be recorded and authorized.

The decision to dispose or not dispose of a vehicle must be carefully considered, given the repercussions on usage costs. A vehicle that is prematurely decommissioned must be replaced with a newly acquired or leased counterpart, whereas overextending service life span can entail significant maintenance and repair costs that will never be recovered.

**FINDING**

**We observed that mechanical failure and poor body condition are the only criteria used currently to determine which vehicles should be decommissioned. In addition, we ascertained that the decision to dispose of vehicles is sometimes made following the purchase of new or used vehicles and the need to decommission an equivalent number of vehicles, which are usually chosen among those that are the most problematic. The borough is unaware of the exact costs associated with this approach and does not employ decision-making rules backed by a specific plan.**

In our opinion, it is important that the borough actually incorporates other vehicle disposal criteria. It should also determine which forms need to be completed and which authorizations need to be obtained. These elements could be addressed in guidelines that would ensure that disposal-related decisions are fully justified.

The borough could prepare a form that lists all of its vehicle disposal criteria, including the:

- kilometres travelled and hours of use;
- vehicle age;
- maintenance costs compared with financing costs;
- appearance and comfort (image, well-being, safety);
- projected maintenance and repair costs over the following two years;
- new technology that could cut usage costs and increase productivity;
- environmental protection;
- required authorizations (supervisor, division head and head of the Direction des travaux publics).

**Given the lack of any data on vehicle disposals, we were unable to evaluate the soundness of the decision to decommission six vehicles in 2009.**

### 3.5.B. Recommendations

We recommend that the Direction des travaux publics develop guidelines for the disposal of vehicles. Among others, this document should specify the decision-making criteria to be adopted, the forms to be completed and the authorizations required in order to support the decision-making process and promote the optimal use of vehicles and equipment. Furthermore, all relevant documentation should be kept on file to justify any decision made.

### 3.5.C. Action Plan for the Business Unit Involved

*[Translation] "We will develop guidelines for the disposal of vehicles.*

*We will also establish a system to document and justify choices made with respect to vehicle disposal." (Planned completion: May 21<sup>st</sup> 2010)*

## 3.6. DRIVER TRAINING

### 3.6.A. Background and Findings

The borough's vehicles travel thousands of kilometres each year and are used in a wide array of situations by various drivers.

#### **FINDING**

During our interviews with mechanical supervisors, we ascertained that some employees drive vehicles without having been properly trained on how to operate them. The supervisors indicated that they provided explanations on vehicle operation to the designated employees immediately prior to their use. These situations occurred during emergencies when drivers needed to be replaced because they had worked the maximum number of hours allowed by the SAAQ and under labour legislation (e.g., during snowstorms).

This practice could increase the risk of accidents, drive the costs of fleet vehicle repairs upward and last, but not least, tarnish the record of heavy vehicle owners or operators (Bill 430).

### 3.6.B. Recommendations

We recommend that the Direction des travaux publics provide appropriate training to drivers so that they acquire the specific skills needed to operate vehicles.

### 3.6.C. Action Plan for the Business Unit Involved

*[Translation] “We will provide the appropriate training to drivers so that they have the specific skills required to operate vehicles.*

*We will also implement a training monitoring system for all drivers.” (Planned completion: November 25<sup>th</sup> 2011)*

## V.4.5. SAINT-LAURENT BOROUGH

### 1. INTRODUCTION

The fleet belonging to the Saint-Laurent borough is composed of 228 vehicles (160 light vehicles and 68 heavy vehicles), with an average age of 10.9 years. The vehicles are assigned to the borough's various administrative units.

The responsibility for the management of the borough's fleet falls entirely with the Direction des travaux publics. In this respect, its main tasks are the:

- planning and acquisition of vehicles;
- short-term leasing of vehicles (seasonal usage) with the assistance of the Direction des services administratifs for the calls for tenders;
- management of vehicle usage (driver's licences, registration, training);
- recording of fleet-related information and production of the corresponding management reports;
- operation of a municipal garage for the mandatory maintenance of heavy vehicles (Bill 430), the periodic maintenance of light vehicles and various repairs;
- decommissioning and disposal of vehicles.

This borough rarely calls upon the CSP-MRA. Since its municipal garage is staffed with qualified mechanics, it is self-sufficient in this regard. However, the borough managers use the guidelines and purchase agreements negotiated by the Direction de l'approvisionnement of the former Service des affaires corporatives of the City of Montréal for vehicle purchases, fuel management, replacement parts and training.

### 2. AUDIT SCOPE

The objective of our audit was to promote the sound management of all fleet-related activities. To this end, we examined vehicle acquisitions and leases, maintenance and repairs, fuel procurement and distribution, the turnover of replacement parts and vehicle disposal.

Our audit focussed primarily on the year 2008 and the period from January to September 2009.

### 3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

#### 3.1. MISSION AND OBJECTIVES

##### 3.1.A. Background and Findings

Having a mission is one of the key elements needed to organize activities. It also serves as the foundation for all subsequent reporting. An effective mission statement identifies the clients to be served, the goods or services being offered and the overall desired target results.

The mission statement of the Division de la mécanique des bâtiments et de l'éclairage des rues reads as follows: *[Translation]* "To provide the Saint-Laurent borough management with the most efficient and cost-effective mechanical services."

During our audit, we interviewed the managers of the Division de la mécanique des bâtiments et de l'éclairage des rues. They indicated that their primary objectives were twofold: to work within the amounts specified in fleet management budgets and to minimize costs as much as possible.

##### **FINDING**

**Based on this information, we believe that the vehicle-related objectives of the Division de la mécanique des bâtiments et de l'éclairage des rues should be defined, conveyed to all staff and applied to all of its operations.**

These objectives should be stated in measurable terms and supported by performance indicators. Additional objectives may address such aspects as the quality of repairs, turnaround times for repairs and user satisfaction.

##### 3.1.B. Recommendations

**We recommend that the Direction des travaux publics formulate measurable objectives, supported by performance indicators, to channel the efforts of its staff and attain the desired outcomes.**

##### 3.1.C. Action Plan for the Business Unit Involved

*[Translation]* "We will convey the mission statement of the Division de la mécanique des bâtiments et de l'éclairage des rues that reads as follows: 'To provide the most efficient and cost-effective mechanical services.' **(Completed)**

*We will establish performance indicators to improve the efficiency of operations performed by the Section mécanique of the Saint-Laurent borough. (Planned completion: March 1<sup>st</sup> 2010)*

*We also intend to reduce downtimes of vehicles in the garage by using the daily report as an indicator: 80% of vehicles should not be out of service for a duration exceeding a regular work shift, except when necessary. (Planned completion: December 31<sup>st</sup> 2010)*

*Finally, we will complete the procedures manual for the Section mécanique.” (Planned completion: March 1<sup>st</sup> 2010)*

## 3.2. VEHICLE ACQUISITIONS AND LEASES

### 3.2.A. Background and Findings

As of July 15<sup>th</sup> 2009, the borough's fleet was comprised of 228 vehicles (160 light vehicles and 68 heavy vehicles). **The total acquisition cost for these vehicles and machines was \$23.4 million and their average age was 10.9 years.** These vehicles were assigned to the borough's various administrative units (parks and recreation, public safety, roads, electricity and signage, water and sewer systems, mechanical services, etc.).

While preparing the 2009–2011 three-year capital program, the Division de la mécanique des bâtiments et de l'éclairage des rues of the Direction des travaux publics updated the borough's vehicle fleet inventory and established a replacement value for each type of vehicle. This information was used to estimate the replacement value of the entire fleet (\$25.0 million) and establish its average age (roughly 10 years) in a report that was submitted to the Direction des travaux publics.

On the basis of the age and current value of the fleet, the division determined that **an annual investment of at least \$2.5 million would be required to maintain the average age at 10 years.**

Following discussions with the borough director about the three-year investments (2009–2011) for the acquisition of vehicles, **it was decided that the total amount over three years would be limited to \$4.5 million, or \$1.5 million a year.** The borough council adopted the borough's three-year capital program on October 15<sup>th</sup> 2008 and approved a \$4.5-million loan by-law to finance the acquisition costs of these vehicles on December 2<sup>nd</sup> 2008.

Considering the investments made in recent years and the \$1.5 million budgeted for 2009, 2010 and 2011, the Division de la mécanique des bâtiments et de l'éclairage des rues deems that the planned investments are insufficient.

**FINDING**

**We ascertained that if maintenance expenses remain at their current level, the average age of the fleet will increase gradually, while its reliability will decrease.**

According to a fleet analysis conducted by the Division, 65 vehicles had exceeded their useful life span in 2009 and their replacement value was estimated at \$5.2 million (ratio of vehicles to be replaced versus the total number of vehicles in the fleet: 20.6%). **During our interviews with the managers of the Direction des travaux publics, they expressed serious concerns about the borough's ability to invest the necessary amounts to renew its vehicle fleet.**

**FINDING**

**We ascertained that the borough has conducted studies on its vehicle fleet, but it lacks a capital master plan that takes into account all pertinent fleet renewal elements.**

The studies currently available highlight such elements as the vehicle replacement value, a list of the various types of vehicles broken down by age and certain initiatives under evaluation for the acquisition of vehicles equipped with state-of-the-art multipurpose technology. **However, we found no indication of the targets to be achieved, the optimal composition of the vehicle fleet or the alternatives to be considered in the case of a considerable delay in the implementation of the plan.**

It is therefore more difficult to have a comprehensive understanding of the situation involving the vehicle fleet, the risk of insufficient long-term investment and alternatives that would enable the borough to have the vehicles necessary to carry out its operations.

### 3.2.B. Recommendations

**We recommend that the Direction des travaux publics update its 2009 vehicle fleet master plan and include all relevant elements in keeping with the borough's guidelines to support timely and informed decisions.**

### 3.2.C. Action Plan for the Business Unit Involved

[Translation] “We will update our vehicle master plan for 2010 in preparation for our 2011–2013 three-year capital program.

A strategic retreat is in the works for 2010 where all of the supervisors and the division head of the Direction des travaux publics will attempt to find ways to reduce the vehicle fleet and make informed decisions in this respect.” (Planned completion: March 31<sup>st</sup> 2010)

## 3.3. VEHICLE MAINTENANCE AND REPAIRS

### 3.3.A. Background and Findings

Under Bill 430, the SAAQ regulates the implementation of a preventive maintenance program (PMP) by vehicle fleet owners with specific requirements to ensure that vehicles remain in good mechanical working order.

It is therefore the responsibility of each owner to either implement a PMP or entrust this program to an authorized agent in exchange for compensation.

We validated the information confirming that the borough received the PMP certification prior to the merger with the City of Montréal. It was officially accredited by the SAAQ on November 5<sup>th</sup> 2008, at which point it was formally authorized to apply the PMP, subject to all the rights and obligations under the Act and its regulations. PMP decals were received from the SAAQ bearing an authorized agent number unique to the City of Montréal. These decals are affixed on all heavy vehicles belonging to the borough once they have undergone preventive maintenance.

#### **FINDING**

**We discovered that mechanical supervisors oversee downtimes as well as maintenance and repair quality based solely on their experience and judgment. Our audit indicated that there are no existing standards for maintenance and repair times. Consequently, productivity is not measured and compared against the performance of external suppliers with similar operations.**

These standards could be comparable to those in place in external garages (e.g., standard times for executing repair or maintenance work, measurement of productive time, etc.). Time variations could then be explained and justified by the supervisors of these employees.

**FINDING**

We observed that there are no mechanisms in place to measure the quality of repairs following a review of the causes of repeat or similar repairs. In addition, we did not obtain any information on the quality of work based on road tests since there is no data on the failure rate of repairs after such tests. As for the merits of the quality control performed by supervisors, there is no data available on this aspect of their work.

**FINDING**

We ascertained that the controls for the measurement of user satisfaction with mechanical services are limited to the verbal comments of certain users made to the supervisors of mechanics. There is no formal method to determine the level of user satisfaction with mechanical services.

**3.3.B. Recommendations**

We recommend that the Direction des travaux publics establish efficiency standards and quality criteria for maintenance and repair work based on comparable industry controls and implement the appropriate mechanisms to measure their level of attainment. These controls should also include the compilation of rework costs to determine how they drive overall maintenance and repair costs upward.

We recommend that the Direction des travaux publics develop a mechanism to measure the level of user satisfaction and take the appropriate steps to address any complaints and comments it may receive. This measurement tool should also make it possible to record and report user feedback to the appropriate authorities.

**3.3.C. Action Plan for the Business Unit Involved**

*[Translation] "We will establish normal work times for the City's various pieces of equipment. To this end, we will conduct research through the APOM (Association des professionnels à l'outillage municipal) as industry times are very conservative and not rooted in reality. We will measure the operational efficiency of the Section mécanique. We will also compare the work performed by external and internal suppliers (in terms of quality and time). (Planned completion: December 31<sup>st</sup> 2010)*

*We intend to survey other borough departments in Saint-Laurent to determine their level of satisfaction with mechanical services. A survey form will be developed.*

*We will keep a register of client complaints.” (Planned completion: March 1<sup>st</sup> 2010)*

### 3.4. FUEL PROCUREMENT, DISTRIBUTION AND RECONCILIATION

#### 3.4.A. Background and Findings

The fuel budget was \$1,003,698 in 2008 and \$1,176,050 in 2009. The borough owns three underground fuel tanks. Two of them have a 45,459-litre capacity and the other one has a 65,000-litre capacity. In August 2008, the fuel equipment was checked by a consulting engineering firm and a certificate of compliance was issued on August 13<sup>th</sup> 2008. This inspection is arranged every three years, in compliance with Québec's *Highway Safety Code*.

We examined the security of the fuel pumps and the controls related to the refuelling process. The fuel pumps are located on the premises of the municipal garage, which is fenced in. Daytime access is monitored by a security guard at the front entrance. At night, the fence doors are closed and a video camera system linked to the security guard station ensures on-site surveillance. The vehicle refuelling operation is also considered safe. Here are elements that are checked by the management system (Coen Corp.) at every refuelling:

- check of the employee identity card;
- check of the chip in the magnetic card to verify the identity of the vehicle;
- check and validation of the following information:
  - odometer data,
  - vehicle tank's capacity (in litres), as specified by the manufacturer,
  - number of kilometres travelled and hours operated for all stationary vehicles or auxiliary engines;
- automatic check of the type of fuel required for each vehicle.

We used the April 2009 monthly inventory report to compare the actual remaining balances indicated by the gauges and the estimated remaining quantities as indicated by the fuel management system. **We obtained evidence that this report is issued monthly and reviewed by the head of the Section des ressources matérielles. Only insignificant variations were observed.**

**Conclusion**

**Based on the findings of our audit, we determined that there are suitable controls in place for the distribution of fuel to users and that the fuel inventory is reconciled monthly.**



## V.5. Facilities and Infrastructures – Société du parc Jean-Drapeau



## V.5. FACILITIES AND INFRASTRUCTURES – SOCIÉTÉ DU PARC JEAN-DRAPEAU

### 1. INTRODUCTION

The Société du parc Jean-Drapeau (formerly known as the Société du parc des Îles) is a para-municipal body established by letters patent under the Charter of the City of Montréal to administer both Île Sainte-Hélène and Île Notre-Dame. Members of its board of directors are elected by the City's executive committee. Its mission is twofold. On the one hand, it is responsible for organizing and continuously providing international, recreational, educational, cultural, social and tourist activities at Parc Jean-Drapeau. On the other hand, it must ensure that any improvement to the park's facilities and infrastructure complies with the directions set forth in the development master plan as approved by city authorities.

Under a memorandum of understanding (MOU) concluded with the City in November 1996, the Société was tasked with:

- preserving, protecting and developing the park's green areas and waterways;
- managing the park in terms of public use, safety and road signs;
- ensuring access, proper traffic flow and parking on both islands;
- fostering the image of Parc Jean-Drapeau;
- providing activities to the public;
- maintaining and preserving the site's buildings, facilities and public artworks;
- maintaining business relationships with all of the partners involved in the park's operations.

Parc Jean-Drapeau hosted the Expo 67 exhibition and other international events, including the Man and His World annual exhibition (1968-1981), the Olympic Games (1976), the Canadian Grand Prix (1978-2008), the Floralties internationales de Montréal horticultural fair (1980) and the Palais de la Civilisation (1985). Today, over 11 million people visit Parc Jean-Drapeau each year. They are attracted by its first-class facilities, which include the Aquatic Complex, the Biosphère, the Casino de Montréal, the fortifications on Île Sainte-Hélène, La Ronde, some bicycle paths and green areas. They are also drawn by the 300 or so annual events and activities hosted by the park each year, including a Nascar race, the Fête des neiges, the Fête des enfants and many other festivals and sporting events. With the scheduled return of the Canadian Grand Prix to Montréal in 2010, the park is sure to increase its visitor volume

dramatically. As a result of this prestigious international race, the City fully expects to derive significant spin-off benefits through the extensive media exposure associated with this event.

Given the high volume of visitors, the wide array of activities and the magnitude of events being held at Parc Jean-Drapeau each year, the park's operations require proper facilities and infrastructure assets that are safe for all visitors and employees.

This is particularly important in light of the Parc Jean-Drapeau development project announced by the mayor at the end of November 2009 to provide the metropolis with new, permanent year-round recreational tourism infrastructure assets. This project is among the City's top five priorities in preparation for the 50<sup>th</sup> anniversary of Expo 67, the 375<sup>th</sup> anniversary of the founding of Montréal and the 150<sup>th</sup> anniversary of the Canadian Confederation, all of which will take place in 2017.

Given the deteriorating state of many existing facilities and infrastructure assets as well as the safety risks they pose, corrective measures are needed to eliminate key problem areas. Specifically, actions items must be established and implemented over time to address any reported issues within the budgetary framework. Ideally, these action items should be aligned with the directions set forth by municipal authorities regarding the development of Parc Jean-Drapeau.

In this report, we will assess the situation with respect to the park's development priorities as established by municipal authorities. We will also review the state of facilities and infrastructure assets, the risks inherent in their current condition and any measures that have been taken to date to remedy the situation.

As part of Montréal's network of large parks, Parc Jean-Drapeau is a designated collective zone under the jurisdiction of the agglomeration council by virtue of the schedule to the Montréal agglomeration order (1229-2005). To fulfil its mission and responsibilities in 2009, the Société had an operating budget of \$16.5 M, including a \$10.4 M contribution from the City, and a three-year capital program totalling roughly \$3.0 M. In 2010, its operating budget remained unchanged while its three-year capital program was reduced to \$0.3 M. Other funds from the corporate reserve will be granted to the Société in 2010 for any capital projects authorized by the City based on priority areas. The exact corporate reserve amount earmarked for the Société was not available at the time this report was drafted.

## 2. AUDIT SCOPE

Our main concern during this audit was to ensure that municipal authorities have an overview of the quality of all facilities and infrastructure assets located within the park. In this vein, we assessed potential problem areas that could compromise the safety of visitors and employees or interfere with on-site activities. We verified that the Société had identified any required corrective measures along with their cost estimates and implementation schedule. At the same time, we reviewed the priorities set forth by municipal authorities regarding the future development of Parc Jean-Drapeau.

Our audit focused on the following business units: the Société du parc Jean-Drapeau, the Service des infrastructures, transport et environnement (SITE), the Service de la mise en valeur du territoire et du patrimoine (SMVTP) and the Service du développement culturel, de la qualité du milieu de vie et de la diversité ethnoculturelle (SDCQMVDE). While most of our data collection was deliberately limited to 2008 and 2009, we occasionally had to include information from previous years to fulfil our mission.

## 3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

### 3.1. PRIORITIES SET FORTH BY MUNICIPAL AUTHORITIES REGARDING THE DEVELOPMENT OF PARC JEAN-DRAPEAU

#### 3.1.A. Background and Findings

In 1996, the Société reached a memorandum of understanding (MOU) with the City of Montréal under which it agreed, among others, to develop Parc Jean-Drapeau in compliance with its master plan guidelines. Another MOU provision stipulated that the Société is responsible for any master plan updates and that all major changes must be submitted to the executive committee for subsequent approval by city council. This particular provision must be applied in accordance with the City's new legal framework that was adopted following the creation of the agglomeration council in 2006.

The original master plan was approved by city council in 1993. Eleven years later, on June 16<sup>th</sup> 2004, the executive committee asked the Société's board of directors to bring this master plan up to date. Upon completion, the updated master plan had to be submitted to the City's executive committee and, if applicable, be subjected to a public consultation exercise.

To accomplish its task, the Société's board of directors adopted in June 2005 a structured master plan updating approach that entailed the creation of three consultative forums, i.e. the technical, coordination and partner committees. These committees, which were comprised of representatives from the Société, city departments, the Ville-Marie borough and other organizations, held approximately 30 meetings in 2005 and 2006. The Société also called upon external professionals to review specific problem areas. In the end, the updated master plan identified seven priority avenues that were to serve as guidelines for any future development projects.

**FINDING**

**Although it has been claimed that the role initially entrusted to the Société for updating the master plan was amended in June 2006, we were unable to find any evidence that would corroborate this statement.**

If the City actually intended to amend the master plan updating role entrusted to the Société, we believe that the MOU should have been revised accordingly.

Under this amendment, the role of the Société would now include serving as a municipal consulting group responsible for providing written recommendations, including master plan updates. These recommendations are intended to help the City draft the final master plan. Once this master plan is approved by city officials, the Société would be in charge of implementing it.

In fact, the Société recommended to its board of directors several master plan updates that were approved on January 22<sup>nd</sup> 2007. On May 17<sup>th</sup> 2007, the assistant director general of the SDCQMVDE requested that the executive committee review the Société's recommendations and instruct the Office de consultation publique de Montréal to hold a public consultation meeting on the proposed priority areas for updating the Parc Jean-Drapeau master plan in light of the celebrations commemorating the 40<sup>th</sup> anniversary of Expo 67.

**FINDING**

**There was no evidence that these recommendations were ever submitted to the executive committee, thereby suggesting that there was no public consultation on the matter and that city officials never provided development guidelines by means of an updated master plan.**

Despite the fact that the development guidelines were not duly approved by city officials, the Société used the updated master plan that was approved by its board of directors to continue its thinking process on the future of the park in 2008. Taking into account the major events in store for 2017<sup>1</sup>, the concept of revamping and developing Parc Jean-Drapeau emerged as part of the 2017 development plan. The Société believes that this plan is aligned with one of the key objectives that the City identified in its document entitled *Imagining – Building Montréal 2025* (during the 2002 Montréal summit), i.e. [Translation] “To make Montréal an international, cosmopolitan tourist destination that is open to the world” in keeping with three major priority areas outlined in this particular document<sup>2</sup>. The Société promoted its 2017 development plan on several occasions throughout 2008 and 2009.

In this vein, the Horizon 2017 action plan was unveiled during an August 2008 meeting of the executive committee whose participants included the director of the SDCQMVDE and the director general of the City. On this occasion, the Société presented the proposed development project and its economic spin-offs. At the end of the presentation, the Société sought approval for its 2017 development plan guidelines.

In 2009, the director general of the Société attended meetings from the working committee that was created to commemorate the 375<sup>th</sup> anniversary of the founding of Montréal in 1764. Under the leadership of the assistant director general of the SDCQMVDE, this committee was tasked by the director general of the City to reflect upon and recommend guidelines to municipal authorities for the 2017 celebrations. Specifically, the committee on the 375<sup>th</sup> anniversary had to:

- review a variety of options to commemorate the event;
- propose guidelines;
- draft an action plan;
- form an ad hoc organizing committee.

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<sup>1</sup> The 50<sup>th</sup> anniversary of Expo 67, the 375<sup>th</sup> anniversary of the founding of Montréal and the 150<sup>th</sup> anniversary of the Canadian Confederation.

<sup>2</sup> [Translation] Third priority area: Montréal, an exceptional living environment

- “To highlight the unique insular and natural environment of Montréal by expanding the network of large parks, preserving natural habitats and developing waterfronts through projects such as: [...]”.
- “To increase participation in amateur and professional sports”.

Fourth priority area : Montréal, a city with high-performance infrastructure assets

- “To promote the development of public transportation”.
- “To develop active transportation”.

Fifth priority area : Montréal, a city open to the world

- “To strengthen the position of Montréal as a cultural metropolis, a city of festivals and sporting events”.
- “To transform Montréal into an international tourist destination, especially downtown”.

From May to September 2009, the committee on the 375<sup>th</sup> anniversary held eight business meetings during which participants exchanged views on various projects for the 2017 festivities, including the Parc Jean-Drapeau development project. In August 2009, the director general of the Société presented the [Translation] “Parc Jean-Drapeau Strategy for the 375<sup>th</sup> Anniversary” to the executive committee and the mayor’s office in order to capture their interest. After reviewing the steps taken by the Société to update the master plan in 1993, he talked about the obsolescence of current park facilities and infrastructure assets. Finally, he presented the 2017 development plan with proposed investments of \$143 M from the public sector and \$333 M from other partners. In the end, he asked the executive committee to approve the development plan proposal and to authorize a special, seven-year budget of \$143 M (from 2010 to 2016) as well as a \$1 M budget for carrying various studies pertaining to the 2017 development plan.

Following the November 2009 municipal elections, the Société presented its [Translation] “Parc Jean-Drapeau Strategy for the 375<sup>th</sup> Anniversary” to the newly-created executive committee. This presentation was essentially a repeat of the one made to the previous committee in August 2009.

Ever since it was tasked by the executive committee to update the master plan, the Société has expended significant efforts towards developing a strategic vision. In fact, it made several presentations to the assistant director general of the SDCQMVDE, the director general of the City, the committee on the 375<sup>th</sup> anniversary, the executive committee and the mayor’s office to promote its priority development areas for the coming years as well as its 2017 development plan.

**FINDING**

**However, to date, the Parc Jean-Drapeau development guidelines have never been officially approved by city authorities.**

In November 2009, the mayor accepted the Parc Jean-Drapeau development project in principle as outlined in the Société’s [Translation] *Year 2009 in Review* report. He indicated that this project was among the top five priorities to be implemented in preparation for 2017 in order to provide the metropolis with new, permanent year-round recreational tourism infrastructure assets. Although 2010 budget papers refer to the revamping and renovation of Parc Jean-Drapeau as well as investments of roughly \$400 M from the public and private sectors, funds have yet to be allocated to this project in the 2010-2012 three-year capital program.

At the time this audit report was drafted, the committee on the 375<sup>th</sup> anniversary was also waiting for official guidelines from the executive committee to pursue its mission. We understand that other development projects could be prioritized for 2017.

### 3.1.B. Recommendations

Until municipal authorities officially approve the updated master plan, it will be difficult to translate it into an actual development plan. Consequently, any work in preparation for the 2017 festivities will have to be delayed, thereby impacting the deadlines.

In our opinion, it is imperative that clear guidelines be established and subsequently approved by city officials as early as possible for both the updated master plan and the 2017 development plan. Doing so will provide ample opportunity to promote these plans among the various stakeholders so that they can make enlightened decisions in the short term.

**We recommend that the Société du parc Jean-Drapeau submit a summary report on the various steps taken to date and all the factors impacting on this urgent situation to the executive committee as soon as possible. Ultimately, city officials should undertake to approve the Société's:**

- updated master plan, which would lead to the adoption of official guidelines for the development of Parc Jean-Drapeau in compliance with the MOU;
- 2017 development plan, including a 2010-2016 investment and financing plan.

**We recommend that the Direction générale of the City of Montréal ask the appropriate municipal authorities to render a decision on the role of the Société du parc Jean-Drapeau regarding the updating process for the master plan and to take any applicable measures so that the MOU is amended in keeping with the City's expectations.**

### 3.1.C. Action Plan for the Business Unit Involved

- **SOCIÉTÉ DU PARC JEAN-DRAPEAU**

*[Translation] "The Société will submit an executive summary explaining how it will fulfil the role assigned to it by the executive committee in the summer of 2004 with respect to updating the master plan for the development of Parc Jean-Drapeau. Through this document, the Société will seek the City's authorization for:*

- *the recommendations presented to city officials in January 2007, including the seven priority development areas that were identified during the master plan updating process,*

- the Horizon 2017 action plan that resulted from this exercise to provide the Société with a 10-year strategic vision for completing the development of Parc Jean-Drapeau in time for the 50<sup>th</sup> anniversary of Expo 67 and the 375<sup>th</sup> anniversary of the founding of Montréal in 2017,
- a \$1 M budget to perform all of the required validation studies pertaining to the preliminary investment program as part of the Horizon 2017 action plan.

The executive committee will use this information to decide on the priority areas for the development of Parc Jean-Drapeau and the next recommended steps.” **(Planned completion: April 30<sup>th</sup> 2010)**

- **DIRECTION GÉNÉRALE**

[Translation] “To continue discussions on finalizing a new MOU between the City and the Société du parc Jean-Drapeau.

To submit an executive summary to the appropriate authorities for the adoption of this new MOU (the current one had been approved by the city council on November 19<sup>th</sup> 1996 – CO9602733.)” **(Planned completion: December 2010)**

## **3.2. SETTING TO STANDARDS AND UPGRADING OF CURRENT FACILITIES AND INFRASTRUCTURE ASSETS AT PARC JEAN-DRAPEAU**

### **3.2.A. Background and Findings**

Given the large number of visitors to Parc Jean-Drapeau each year, its facilities and infrastructure assets require ongoing maintenance. Sometimes, they also have to be brought up to current standards or upgraded in a timely fashion to avoid any premature deterioration. All of these maintenance tasks allow them to remain in good running order and assure the safety of the premises.

Under a MOU signed in 1996, the Société and the City share park-related roles and responsibilities. Our audit focused on these key facilities and infrastructure assets:

- buildings;
- the water supply and sewage system;
- the road network and bridges;
- the power supply network.

It should not be forgotten that Parc Jean-Drapeau has hosted many historical events over the years and remains a busy venue for several activities and events. Its existing facilities and infrastructure assets are quite old. In fact, other than buildings of heritage interest such as the fortifications dating from the 19<sup>th</sup> century, most of the other facilities and infrastructure assets on site were built specifically for the Expo 67 international exhibition. Everyone we interviewed confirmed that these facilities and their related infrastructure assets, in particular the water supply and sewage system as well as the power supply network, were initially designed and installed for the temporary duration of the exhibition (i.e. approximately six months). Forty-three years later, their obsolescence is worrisome in terms of safety and reliability. In addition, many of them do not comply with current operating standards and regulations.

As a result of these considerations, the primary goals of our audit were to determine whether there was a diagnosis report on the current condition of all facilities and infrastructure assets, their potential risks and the estimated costs of upgrading or bringing them up to current standards along with a prioritized action plan.

**FINDING**

**Subsequent to our various interviews, our data collection and our documentation review, we find that except for the somewhat detailed water supply and sewage system diagnosis, there is no complete overview of the facilities in their current condition that highlights the type of work to be performed, the priority levels and related cost estimates.**

Buildings

Under the MOU signed with the City, the Société is responsible for maintaining and repairing all of the park buildings and equipment using funds allocated by the City.

Parc Jean-Drapeau is comprised of 68 buildings, including service buildings, heritage buildings, Expo 67 buildings and sports complexes. Their total value is estimated at \$159 M based on various updated studies, some of which are more than 10 years old.

**FINDING**

**Representatives from the Société indicated that many park buildings are obsolete and have been neglected over the years due to a lack of funds.**

Presently, certain buildings do not comply with CSST standards and threaten the occupational health and safety of their employees. In addition, some heritage buildings need major repairs, including the Hélène de Champlain restaurant that is currently closed for non-compliance with fire safety regulations. The Place des Nations also requires short-term work to secure its highly-deteriorated structure.

Here is a generally accepted principle used by the real estate industry to calculate the annual expenditures and investments required to maintain tangible assets in good condition:

- annual expenditures equivalent to 2% of the replacement costs for the ongoing maintenance of buildings (operating budget);
- annual investments equivalent to 2% of the replacement costs for the preservation of buildings (three-year capital program).

When applying this principle using the park's estimated building value of \$159 M, the Société should have each year \$3.2 M for ongoing maintenance as part of its operating budget and \$3.2 M for the preservation of buildings as part of its three-year capital plan, for a total of \$6.4 M.

**FINDING**

**Considering that the Société's 2010 budget includes forecasted annual maintenance expenditures of \$1.3 M for buildings and roughly \$0.3 M under its three-year capital plan for a grand total of \$1.6 M, the Société is clearly short of funds to properly maintain its building stock in good condition.**

Under the circumstances, we must assume that the investment deficit will continue to increase over time. In turn, this deficit could become critical during those periods when regular maintenance may have to be postponed in order to perform a large number of emergency repairs.

**FINDING**

**Although representatives from the Société are fully aware that the park's buildings are in less than pristine shape, they do not have a comprehensive, up-to-date qualitative survey that outlines the complete condition of the various building components (roof, doors, windows, ventilation and heating systems, etc.) as well as the type and extent of mandatory repairs to be prioritized.**

To remedy this shortcoming, a joint decision was reached with the SMVTP that a professional firm would be retained to conduct a qualitative survey of all park buildings and facilities starting in March 2010. The results of this analysis will help the Société pinpoint and prioritize repairs, estimate their costs and prepare a schedule for their timely implementation.

### Water Supply and Sewage System

The MOU stipulates that the City is responsible for any major maintenance and rebuilding work on the water supply and sewage system.

**FINDING**

**Any minor maintenance work on these infrastructure assets is carried out by the Ville-Marie borough, although this is not specifically stipulated in the MOU. In addition, the MOU does not draw a clear distinction between major and minor work on the water supply and sewage system.**

With regards to the current condition of these infrastructure assets, the available documentation indicates that the Parc Jean-Drapeau water supply system experienced 32 breaks from 2003 to 2008, many of which were significant. They affected mostly the older lines on Île Notre-Dame that were built in 1966.

**FINDING**

**According to the senior engineer at the Direction de la gestion stratégique des réseaux d'eau of the SITE, the frequency of these breaks exceeds the acceptable standard for this type of infrastructure.**

For instance, during the years 2003 to 2008, 11 of the water main breaks at Parc Jean-Drapeau occurred on a 500-meter section of pipe located within the Floralties gardens on île Notre-Dame. Based on the acceptable standard, there should have been no more than 7.5 breaks during that timeframe. In this context, the City lab was called upon to assess the condition of water pipes. Its analysis report shows that the thinner steel pipes in this area are extremely corroded, heavily damaged and even perforated in several places. Any major breaks could significantly reduce the water pressure inside the pipes which, in turn, might result in an inadequate water supply to the Casino's sprinkler system in the event of a fire.

The water supply system built in 1966 runs below the Gilles-Villeneuve Circuit in many areas. Any break in this particular portion of the system could seriously jeopardize the Formula One Grand Prix event that will be returning to Montréal this summer.

Our audit of the Direction de la gestion stratégique des réseaux d'eau of the SITE indicates that analyses on the current condition of the Parc Jean-Drapeau water supply and sewage system are underway. The diagnosis of the water supply and sewage system on Île Notre-Dame is nearly completed while the one for Île Sainte-Hélène has not been undertaken.

The Île Notre-Dame diagnosis shows that approximately 80% of the water supply network from 1966 has been either rebuilt or rehabilitated between 1988 and 1992. Work on the remaining 20%, which includes among others the portion located within the Floralties gardens and the one that runs below the Gilles-Villeneuve Circuit, is currently being planned by the SITE. Assuming the budget is adopted for this work, it should be performed in 2010.

At the time of our audit, the required funding had not been officially approved for this project. In addition, according to the information we obtained, an analysis report on the sewage system had been requested, although this area does not currently appear to be a cause for concerns.

### Road Network and Bridges

Under the MOU, the City is in charge of any major repair work and reconstruction on the road network of Parc Jean-Drapeau while the Société is responsible for the regular maintenance of parking lots and traffic lanes.

**FINDING**

**We observed that the MOU does not establish a clear distinction between major repairs and regular maintenance for this type of infrastructure.**

In the case of the bridges and other structures at Parc Jean-Drapeau, the MOU stipulates that the City is responsible for the reconstruction and major maintenance of the Concorde bridge and the Pont des îles. Our audit indicated that the SITE oversees the inspection of all Parc Jean-Drapeau bridges and structures.

**FINDING**

**The MOU does not precisely delineate the breakdown of the shared maintenance responsibilities for all the other bridges and structures.**

In our opinion, the MOU should clearly specify the sharing of roles and responsibilities pertaining to this type of infrastructure.

**FINDING**

**Neither the SITE nor the Ville-Marie borough whose territory encompasses the Parc Jean-Drapeau premises has a clear picture of the current condition of the park.**

Actually, it appears that the responsibilities assigned to the Ville-Marie borough are very imprecise. This observation is proven by the lack of any evidence suggesting that the borough has budget allowances for the Parc Jean-Drapeau infrastructure assets. Under these circumstances, it becomes difficult to assess priority areas and to make enlightened decisions.

The Direction des transports of the SITE has a diagnosis report on the general condition of the bridges and other park structures (38 in total). Evidence shows that all of these structures were inspected from 2006 to 2009 and that none of them are in critical condition or faulty to the point of impacting their integral stability or public safety. According to the head of this division, this diagnosis report serves as a valuable tool in prioritizing areas of intervention and taking any corrective measure in a timely fashion.

Representatives from the Société have expressed safety concerns about the Concorde bridge connecting the island of Montréal to Île Notre-Dame. Following two major accidents in 2009, the Société submitted a proposal to the Direction des transports of the SITE for the reconfiguration of the bridge's traffic lanes. According to the head of the division from the Direction des transports of the SITE, an in-depth bridge structure inspection carried out in 2007 indicated that the bridge is in good shape. Nonetheless, the reconfiguration of the traffic lanes on the bridge requires a preliminary load carrying capacity assessment at a cost of approximately \$400,000.

To this day, the SITE has never been able to perform this assessment due to a lack of funds.

## Power Supply Network

Under the MOU, the City is responsible for maintaining the park's entire power supply network (high and low voltage) right up to the connection point for each building.

People we interviewed indicated that a portion of the power supply network on Île Sainte-Hélène was upgraded a few years ago. The Commission des services électriques (CSE) was tasked with upgrading the manholes, duct banks and other related structures. Since then, the CSE has been responsible for maintaining and repairing these particular structures while the SMVTP maintains the power supply network on the entire Parc Jean-Drapeau territory.

### **FINDING**

**The power supply network on Île Notre-Dame dates back to Expo 67. In many respects, its apparent obsolescence has become very worrisome.**

Representatives from the SMVTP suggested that the advancing age of most of the power network components (e.g., distribution cables, transformers and circuit breakers) is the prime cause of the site's frequent power failures. Repair lead times tend to be quite long (ranging from three to four weeks) due to a number of reasons. These include some special component features (e.g., older distribution cables have a lead sheath rather than a synthetic one) and the shortage of genuine replacement parts. Such delays can jeopardize future activities and events on site. Our interview subjects believe that the various repairs performed throughout the years have actually weakened the power supply network, thereby compromising its reliability during major events.

### **FINDING**

**In general, key stakeholders from the SMVTP and the Société are aware that the power supply network is showing increased signs of obsolescence. However, they really do not have access to a summary report that inventories the various network components, the location, frequency, extent and impact of power failures as well as the repairs performed. In other words, they do not have a clear picture of the overall situation.**

One SMVTP representative pointed out that the most recent cost estimate (roughly \$10 M) for upgrading the network and bringing it up to current standards is more than 10 years old. It has to

be updated with a prioritized list of areas in need of intervention. Given the lack of any diagnosis on the existing situation, determining priorities might be difficult to ascertain.

In a nutshell, we are aware of numerous attempts made by the Société over the past few years to raise awareness among municipal authorities about the importance of allocating budget allowances to upgrade current facilities and bring them up to standards. Despite these efforts, the financial contribution from the City to the Société has decreased from \$11.5 M in 2005 to \$10.4 M in 2010. In addition, following a municipal decision to adopt a transitional budget in 2010 in order to implement a new strategic plan for capital expenditures during that period, things went from bad to worse. In fact, under this transitional budget, the funds allocated to the Société under its three-year capital plan were reduced from \$3 M to \$0.3 M. At the time of our audit, the exact funding to be allocated under the three-year capital plan for 2011 and 2012 had not been determined.

Since 2008, the Société has also made several presentations on its proposed park development project for the 375<sup>th</sup> anniversary of the City of Montréal in 2017. These presentations have been focusing, among others, on the deteriorating condition of certain facilities and infrastructure assets that have become unsafe for employees and visitors. One of the conclusions from these presentations is that the current state of facilities and infrastructure assets can compromise not only the development of the park, but future events that receive extensive media coverage such as the Formula One Grand Prix, which is returning to Montréal this year.

Consequently, the City's executive committee adopted a resolution on August 12<sup>th</sup> 2009 with a view towards upgrading the park's infrastructure and bringing it up to standards. Specifically, this resolution aimed at:

- supporting the project for upgrading and bringing a portion of the water supply and sewage system and the power supply network up to current standards as well as repairing a section of the road network in Parc Jean-Drapeau for a total cost estimated at \$20 M;
- authorizing the filing of a grant application with the Gouvernement du Québec under the Building Canada Fund in Québec program;
- confirming the commitment of the City to pay for its share of eligible expenditures should the grant be obtained.

The SITE was in charge of preparing and filing this grant application with the Gouvernement du Québec. This task was completed in the summer of 2009.

**FINDING**

**There is no evidence to date that the Gouvernement du Québec rejected the financial assistance grant application submitted by the SITE. However, nobody is aware of this grant status since there has been no follow-up on the matter.**

**3.2.B. Recommendations**

In conclusion, our review of the MOU between the City and the Société indicates that the sharing of roles and responsibilities among the parties involved is at best ambiguous and that certain types of maintenance activities are not clearly defined. In our opinion, the MOU should be revised.

We also believe that the various stakeholders should expend the efforts needed to draw a complete inventory of all facilities and infrastructure assets under their control in order to specify their current condition. In our opinion, this inventory should serve as the corner-stone for any future project aimed at upgrading the existing facilities and infrastructure assets or bringing them up to standards. This diagnosis would assist decision makers in prioritizing areas of intervention by:

- assessing the current condition of facilities and infrastructure assets in terms of the risks they pose to visitors, employees and future events at the park;
- determining the type of work required and any related costs.

Ultimately, these priority areas of intervention should be reflected in an investment and financing plan. That being said, some facilities and infrastructure assets might require immediate attention so that they can be upgraded or brought up to standards as soon as possible. Doing so will ensure their proper operating conditions and the safety of the large number of participants in the major activities and events that are being held on site. Municipal authorities have already indicated that the Parc Jean-Drapeau development project is considered to be among the City's top five priorities in preparation for the 2017 festivities. Consequently, in order to achieve an optimal level of consistency, we recommend that certain priority areas of intervention be aligned with the proposed development plan for this major community venue.

A significant investment will be required to ensure that existing facilities and infrastructure assets meet or exceed current standards and to carry out the proposed development plan for Parc Jean-Drapeau. To this end, we believe that every effort should be focused on actively searching for potential funding sources and following up on pending grant applications.

To optimize the coordination of work among the various parties involved, we recommend that the Direction générale of the City take any necessary measures to revise certain elements in the MOU with the Société du parc Jean-Drapeau to clearly define:

- the different types of maintenance for the park's infrastructure;
- the sharing of roles and responsibilities pertaining to infrastructure maintenance.

In order to make enlightened decisions for upgrading existing facilities and infrastructure assets or bringing them up to standards and ensure the timely coordination of any items under the development plan being drafted for Parc Jean-Drapeau, we recommend that the Direction générale of the City:

- obtain from each stakeholder (i.e. the SITE, SMVTP, Ville-Marie borough and CSE) an accurate diagnosis report on the current condition of the infrastructure assets (i.e. the water supply and sewage system, the road network and bridges as well as the power supply network) and their potential risks for visitors and future events;
- ask each stakeholder to determine the type of work required with cost estimates based on the infrastructure diagnosis and the anticipated development plan for Parc Jean-Drapeau;
- prioritize the areas of intervention and ensure that they are reflected in a proper investment and financing plan;
- actively search for funding sources and follow up on all pending grant applications;
- plan adequate reporting mechanisms to ensure the periodic status monitoring of items under the investment and financing plan.

To help make enlightened decisions for upgrading existing facilities and infrastructure assets or bringing them up to standards while ensuring the timely coordination of any items under the development plan to be adopted for Parc Jean-Drapeau, we recommend that the Société du parc Jean-Drapeau:

- obtain a qualitative report (or diagnosis) on the various facilities under its jurisdiction and their potential risks;
- analyze the diagnosis results to prioritize any areas of intervention and prepare their implementation schedule;
- forward this implementation schedule to the Direction générale of the City;
- make all the presentations required to secure funding for the execution of the various priority items in its implementation schedule.

### 3.2.C. Action Plan for the Business Unit Involved

#### 1) DIRECTION GÉNÉRALE

*[Translation]* “Among others, the MOU will be amended in keeping with the general auditor’s recommendations to specify:

- the type of maintenance required for the infrastructure assets;
- the sharing of roles and responsibilities for their maintenance. (**Planned completion: December 2010**)

#### 2) Phase 1 – Work to be performed in 2010

A budget of \$6 M was recommended to the executive committee under the three-year capital program to ensure public safety, a seamless Formula 1 event and the maintenance of specific assets. (See the note below from the director general and treasurer.) (**Completed**)

*[Translation]* “The recommendation to the executive committee includes a net amount of \$6,062 k under the Parc Jean-Drapeau’s three-year capital program to carry out the minimum work required for 2010 to ensure the safety of the premises during various park events, especially the Formula 1 (F1) race, and the maintenance of specific assets. This budget encompasses the following elements:

— Structural work at Place des Nations (F1)	\$1,400 k
— Signage plan (F1 and general)	\$400 k
— Bypass route (F1 and general)	\$500 k
— Security of information assets (F1 and general)	<u>\$300 k</u>
F1 Total	<u>\$2,600 k</u>

— Remedial work to the geodesic dome (awarded contract)	\$330 k
— Playground	\$755 k
— Aquatic complex – Stands	\$200 k
— Hélène de Champlain – Preservation work	<u>2 177 k\$</u>
Total of all the other required work	<u>\$3,462 k</u>
Total recommended in 2010 under the three-year capital program	<u>\$6,062 k</u>

We are aware that the Formula 1 race is a top priority for the City and that the deadline for the completion of all its required work is very tight (June 13<sup>th</sup> 2010). Consequently, we have already allocated the recommended budget of \$2,600 k.

Moreover, an additional \$600 k from the waterworks three-year capital program will be transferred to the Société to finance any required cladding of the water supply system that runs below the Formula 1 circuit.

The remaining \$3,462 k budget should be approved in principle by the executive committee during its upcoming March 17<sup>th</sup> meeting.

Another \$2,000 k from the 2010 waterworks budget will be allocated to the rehabilitation and replacement of water mains. The initial value of their replacement alone was established at \$5 M.”

#### Phase 2 – Work to be performed from 2011 to 2013

To sustain the ongoing coordination between the City and the Société for the successful completion of the objectives and action items set forth in the development plan to be approved for Parc Jean-Drapeau.

To coordinate all of the activities (i.e. diagnosis, work execution, investment, financing and status reporting) from the various municipal departments involved in the implementation of the development plan to be approved.” **(Planned completion: December 2010)**

### 3) SOCIÉTÉ DU PARC JEAN-DRAPEAU

[Translation] “Based on its financial means, the Société du parc Jean-Drapeau identified facilities under its jurisdiction that are in need of work in 2010 to ensure the safety of the premises. This work will be executed during the year in accordance with the executive committee’s decision on this matter. **(Completed)**”

*As early as the spring of 2010, the Société will initiate diagnosis studies to assess the seven buildings deemed to be in the most critical condition, i.e. the Hélène de Champlain restaurant, the Place des Nations, the Canada pavilion, the Olympic Basin's administrative building and VIP stands, the athletes' quarters and two service buildings. (Planned completion: May 31<sup>st</sup> 2010)*

*The Société will inventory all park facility areas under its jurisdiction pursuant to the MOU currently in effect and assess their level of risk. This data will support the discussion on the new role envisioned for the Société and the development of related study, maintenance and investment budgets. (Planned completion: June 30<sup>th</sup> 2010)*

*The prioritized areas of intervention and their implementation schedule as recommended by the Société will be joined with those of the other municipal administrative units concerned to determine the total investments required. A coordination process with the various stakeholders, including the director general and treasurer, is being planned for work to be performed from 2011 to 2013." (Planned completion: September 2010)*

## V.6. Sale of the Marc-Aurèle-Fortin Land Site



## V.6. SALE OF THE MARC-AURÈLE-FORTIN LAND SITE

### 1. INTRODUCTION

Since the late 1960s, the City has been trying to develop vacant lots in the southwest sector of the current Rivière-des-Prairies–Pointe-aux-Trembles borough. In order to rezone various areas in the neighbourhood in accordance with the development plan for Rivière-des-Prairies, the City expropriated land for the construction of roads and the development of a protected zone around the sector. Under section 964b of the Charter of Ville de Montréal (which became section 144 of the Charter after the creation of the new City in 2002), several land sites were acquired by the City in order to set up a bank of land for resale to carry out projects fostering the planning and development of vacant lots.

Among the land holdings available for resale is a vast 198,741 m<sup>2</sup> (2,140,000 ft.<sup>2</sup>) lot in the western part of Rivière-des-Prairies known as the “Marc-Aurèle-Fortin site”. This land is located south of Maurice-Duplessis Boulevard and east of Philippe-Panneton Avenue, following the centre of the extension of Fernand-Gauthier Avenue. The site is bounded on the south by the Canadian National rail lines, on the north and east by a residential area, and on the west by an industrial sector of average density.

This land is in an area that is earmarked for development and has already been the subject of two calls for proposals in 2001, as part of the City’s “Habiter Montréal” program. In both cases, the process proved fruitless and, consequently, no development project has ever materialized.

There was still a will to develop the land and resell it for residential purposes. Consequently, the Rivière-des-Prairies–Pointe-aux-Trembles borough asked the Service de la mise en valeur du territoire et du patrimoine (SMVTP) to draft a new public call for proposals in 2004. This time, the process proved successful and, in 2008, a five-year development agreement (2008–2012) was signed between the City and a developer.

### 2. AUDIT SCOPE

The objective of this audit was to examine the various steps taken by the City to select a developer for the residential project on the Marc-Aurèle-Fortin land site. To this end, we examined how the market value and reserve price for the land were established. We also

reviewed the process used to issue a public call for proposals, as well as the information disclosed to the authorities concerned.

Our audit focused chiefly on the years 2004 to 2009. It targeted primarily the Direction stratégies et transactions immobilières (DSTI) of the SMVTP and the Rivière-des-Prairies–Pointe-aux-Trembles borough.

### **3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS**

#### **3.1. ESTABLISHMENT OF THE MARKET VALUE AND INFORMATION DISCLOSED TO THE EXECUTIVE COMMITTEE**

##### **3.1.A. Background and Findings**

When transferring land intended for resale, the City must comply with the legal and administrative frameworks applicable to this type of property transfer.

In the case of property transfers, the Charter of Ville de Montréal (sec. 34.1) also enables the executive committee to exercise some of the city council's powers, such as the alienation of immovable property valued at \$25,000 or less.

Unlike the acquisition of goods and services for which there are contract allocation provisions in the *Cities and Towns Act* (call for public tenders, invitational tenders, or private agreements), the transfer of property is not subject to any specific legal provisions. As a result, the approach to transferring immovable property becomes a matter of choice between two awarding procedures, i.e. through a private agreement or a public call for proposals.

For example, land in industrial parks or small residential lots that remain unsold after a call for public tenders are generally sold through a private agreement.

When the City intends to offer land for residential development, the preferred procedure for awarding contracts is a public call for proposals. In accordance with this procedure, the SMVTP, in collaboration with the borough concerned, prepares the specifications of the public call for proposals and obtains the approval of the appropriate authorities before issuing the public call. Once proposals are received, a selection committee analyzes them on the basis of pre-established evaluation criteria and recommends approval of the best proposal to the appropriate authorities, conditional on finalization of a development agreement between the parties.

The first steps taken by the City for the development and sale of the Marc-Aurèle-Fortin land site began with the *Habiter Montréal* program. In January 2001, the City's executive committee authorized the Service de l'habitation, then responsible for the program, to issue a public call for proposals to builders for the sale and development of this land site. At the same time, the committee approved a reserve price of \$5 million, which represented the market value as well as the transfer and development conditions contained in the specifications of the call for proposals. After two months, no interested party had come forward. In April 2001, the executive committee authorized a new public call for proposals with a reduced reserve price of \$3.75 million. In August 2001, on the recommendation of the Service de l'habitation, the executive committee accepted the only proposal that was submitted, with the intention of signing a development agreement providing for the subsequent sale of lots on the site.

Following lengthy negotiations that lasted almost two years with the developer to reach a development agreement, the latter decided to withdraw his proposal in May 2003. In its executive summary to the executive committee which recommended that the withdrawal of the developer's proposal be accepted, the Service de l'habitation mentioned that the Rivière-des-Prairies–Pointe-aux-Trembles borough should revisit the plan for the site and set conditions for its development. Subsequently, in September 2003, the Rivière-des-Prairies–Pointe-aux-Trembles borough formally requested the right to assume control over this file from the Service de l'habitation.

In June 2004, the borough drew up a development program for this site. This plan provided for the construction of a minimum of 250 housing units on the land, most of which would be single-family dwellings, including detached, semi-detached or town houses. The plan also provided the development parameters (e.g., type, height and placement of buildings, side and back yard dimensions, etc.) and other project-specific requirements (e.g., infrastructure assets, architectural quality, buffer zone, and the like.)

In July 2004, the borough council asked the SMVTP to prepare the specifications for a public call for proposals aimed at builders for the development of the Marc-Aurèle-Fortin land site. Among other things, these specifications included a project description, notices to potential bidders, the nature of the proposal as set out in the development program, land specifications and the proposal selection criteria.

In August 2005, the SMVTP recommended that the executive committee authorize a public call for proposals for the sale of the land. It also asked the executive committee to approve the specifications of the public call for proposals and a reserve price of \$1 million. The DSTI

prepared an executive summary to support the committee's decision-making process. This document indicated that the reserve price was based on the market value of land in this sector as assessed by the Section de l'expertise et de l'évaluation immobilières. It also mentioned that the market value encompassed the costs of municipal infrastructure to be built on the site, which had been estimated at \$21 million by the Service des infrastructures, transport et environnement based on a street grid used in the previous development proposal. In addition, the executive summary indicated that:

- the residential development advocated by the borough included one- to three-unit buildings, but that family-type detached, semi-detached or town houses were preferable;
- the proponent would be responsible for all site-related development costs, particularly in respect to the creation of the buffer zone, which would play a combined aesthetic, safety and noise-reduction role on the boundary with the industrial zone to the west and the rail lines to the south. The proponent would also be responsible for the expenses related to municipal infrastructures, in accordance with the *By-law Concerning Municipal Works Agreements for the Development of Residential Projects*, as of the request date;
- the submitted proposals would be analyzed by an evaluation committee comprised of representatives from the Rivière-des-Prairies–Pointe-aux-Trembles borough and the SMVTP, and judged according to the following criteria<sup>1</sup>:
  - overall composition (20%),
  - building quality (15%),
  - landscaping (10%),
  - profile of the proponent and professional teams (15%),
  - marketing approach (10%),
  - quoted price (20%),
  - fiscal items (10%);
- the SMVTP, in collaboration with the Rivière-des-Prairies–Pointe-aux-Trembles borough, would recommend the best proposal to city council within 90 days of the proposals being opened;
- within the eight-month period following the city council's approval to accept a proponent, the latter would have to negotiate with municipal representatives and settle on the final terms of a development agreement for the completion of a residential project on the site. The development agreement would then have to be approved by the borough and city councils.

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<sup>1</sup> The weighting assigned to each of these criteria is shown in the specifications of the public call for proposals appended to the executive summary.

Essentially, the aim of our audit was threefold:

- to ensure that there was a fair market value opinion supporting the reserve price as established for the call for proposals;
- to examine the proposal review process;
- to ensure that the appropriate authorities had all the necessary information when authorizing the call for proposals and deciding which proposal should be selected.

The main methods used for assessing market value are the cost, comparison and income methods.

Beginning in June 2004, the Section des transactions immobilières (now the Section transactions et services immobiliers) of the DSTI asked the Section de l'expertise et de l'évaluation immobilières (now the Section expertise et évaluation immobilières) to establish the market value of the abovementioned land as part of the call for proposals.

In a November 2004 assessment to establish its fair market value, the Section de l'expertise et de l'évaluation immobilières specified that the parcel of land concerned was very large, un-serviced and intended for subsequent subdivision once a winning bid had been selected and the final project terms had been agreed upon. Generally speaking, the features and development restrictions of a parcel of land influence its value. In this case, the Section de l'expertise et de l'évaluation immobilières advised caution when assessing this particular parcel of land given that some of the data originated from 2000 or 2001 (when earlier calls for proposals had been issued). Although this data had been indexed for the November 2004 assessment, it was to be used reservedly, since it came from a project that was outdated and had not proved viable. For instance, the costs of the infrastructures and the retention pond might be different, depending on the selected proposal. Moreover, the Section de l'expertise et de l'évaluation immobilières mentioned that it was missing data for the accurate assessment of the various costs related to development restrictions (e.g., costs of the buffer zone, costs of underground water mains). Against this background, four approaches to establishing a fair market value (Table 1) were examined.

**Table 1—Residential Land Market in Rivière-des-Prairies**

Approaches	Features of the assessed land	Assumptions	Land price	Costs not taken into consideration
1. Standard size lot (4,500 ft. <sup>2</sup> )	Serviced, subdivided lot, uncontaminated and suitable for construction	N/A	\$12/ft. <sup>2</sup>	<ul style="list-style-type: none"> <li>Construction of a retention pond and bank</li> </ul>
2. Land sold in parcels of 130,000 ft. <sup>2</sup> (several transactions)	Un-serviced lots, on a surveyed street, suitable for construction	After the sale price of serviced land suitable for construction was taken into consideration, infrastructure costs in the range of \$8.8 M were subtracted (assuming a base rate of \$4,500 per linear metre of street multiplied by 1,955 linear metres for the whole project).  60% of the land is buildable area.	\$2.25/ft. <sup>2</sup>	<ul style="list-style-type: none"> <li>Rehabilitation costs</li> <li>Underground water mains</li> <li>Construction of a retention pond and bank</li> </ul>
3. Land sold in its entirety to a single tenant, not in sequence, with payment in cash on signing of the deed	Application of the subdivision method with the unit price of \$12/ft. <sup>2</sup> for serviced land suitable for residential construction	After the sale price of serviced land suitable for construction was taken into consideration, infrastructure costs of \$8.8 M were calculated assuming a base rate of \$4,500 per linear metre of street multiplied by a length of 1,955 linear metres for the whole project.  60% of the land is buildable area.	\$0.60/ft. <sup>2</sup>	<ul style="list-style-type: none"> <li>Rehabilitation costs</li> <li>Underground water mains</li> <li>Construction of a retention pond and bank</li> </ul>
4. Comparison with the sale of an 800,000 ft. <sup>2</sup> parcel of land located in RDP (single transaction)  Comparison with the sale of a vacant 300,000 ft. <sup>2</sup> parcel of land located in RDP (single transaction)	Un-serviced, uncontaminated land on a surveyed street, made up of surveyed lots  Partially serviced, uncontaminated land made up of surveyed lots	N/A  N/A	\$0.67/ft. <sup>2</sup> (Value from a recent sale)  For 100% of the total land area  \$1.92/ft. <sup>2</sup> (Value from a recent sale)	<ul style="list-style-type: none"> <li>Infrastructure costs</li> <li>Underground water mains</li> <li>Construction of a retention pond and bank</li> </ul>

**FINDING**

**Given the shortcomings in data and the existing assumptions, the approaches used did not enable the Section de l'expertise et de l'évaluation immobilières to properly determine a fair market value for the land concerned. Consequently, no opinion was given as to the establishment of the most appropriate market value.**

Despite this state of affairs, the Section des transactions immobilières nonetheless established a reserve price of \$1 million or \$0.47/ft.<sup>2</sup> for the purposes of the call for proposals. In the executive summary prepared for the approval of this reserve price, the Section des transactions immobilières noted that this amount was based on the market value. **Our examination of this market value assessment raised several concerns:**

- the use of a sale price of \$12/ft.<sup>2</sup> for a standard size serviced lot (approach #1) could not be justified. This price, from which an estimated infrastructure cost was deducted in order to establish a selling price for un-serviced land, was also used in approach #3;
- the Section de l'expertise et de l'évaluation immobilières assumed an estimated infrastructure cost of \$8.8 million (in 2004). However, the infrastructure cost that appears in the September 2008 development agreement with the developer was \$17 million;
- comparing the sales of similar lots is a recognized approach frequently used by accredited appraisers to establish a fair market value. For the purposes of this market value assessment, the results of the sales of two large parcels of land that took place in the borough were offered for additional reference (approach #4). We wondered whether these sales were truly representative, since one of them related to a parcel of land first sold in April 2004 following a court-ordered repossession for \$0.57/ft.<sup>2</sup> and then re-sold four days later to a related company for \$0.67/ft.<sup>2</sup>, far below the municipal assessment at that time of \$3.75/ft.<sup>2</sup>

**FINDING**

**Our audit failed to show with certainty that the reserve price corresponded to the fair market value of the land in question. We believe that the reserve price should have been documented to reflect the selected approach as well as the assumptions put forward. The situation is all the more ambiguous since the executive committee was not given this information when it authorized the call for proposals and approved the reserve price.**

Therefore:

- the original cost of the lots, the majority of which were acquired by the City between 1988 and 1992, was \$7.7 million or \$3.60/ft.<sup>2</sup> (information taken from the executive summaries prepared by the Service de l'habitation to obtain authorization for the first two calls for proposals in 2001);
- the market value was established at \$5 million during earlier calls for proposals in 2001;
- the 2004 municipal assessment was \$5/ft.<sup>2</sup>;
- the Section des transactions immobilières maintained a market value of \$0.60/ft.<sup>2</sup>, even though no opinion was ever given on the establishment of the market value at the time of the

assessment. According to Table 1, the market value of \$0.60/ft.<sup>2</sup> is similar to the one established using the subdivision method (approach #3) for the entire land area and for a total sale (as opposed to a sequential sale) with payment in cash on the signing of the deed. However, the borough's preference was to sell the land to a single developer, in successive parcels. Such an approach brings the market value closer to \$2.25/ft.<sup>2</sup> (approach #2).

### 3.1.B. Recommendations

**We recommend that the Direction stratégies et transactions immobilières document the reserve price calculation based on the market value in its working papers to show the appropriateness of the selected method and the elements considered (assumptions, costs, comparisons, estimates, others.)**

**In order for the executive committee to have all of the information needed to authorize a call for proposals and approve a reserve price, we recommend that the Direction stratégies et transactions immobilières prepare decision reports that reflect:**

- the accurate market value;
- the original cost of the land concerned;
- the municipal assessment.

### 3.1.C. Action Plan for the Business Unit Involved

- 1) *[Translation] "The market value records from the Section de l'expertise et de l'évaluation immobilières are readily available. In the future, a brief including the market value assessment results and rationale explaining the difference between the market value and the reserve price will be prepared. (Planned completion: April 30<sup>th</sup> 2010)*
- 2) *In general, this information is provided to the executive committee. It is also disclosed in the executive summary and the data sheet appended to the summary.*

*Exceptionally in this case, this information was not included in the summary. We recognize that it should have been." (Completed)*

### **3.2. CHOICE OF DEVELOPER AND INFORMATION DISCLOSED TO THE APPROPRIATE AUTHORITIES**

#### **3.2.A. Background and Findings**

The specifications of the public call for proposals provided for a winning proposal to be selected by a committee comprised mainly of representatives from the Rivière-des-Prairies–Pointe-aux-Trembles borough and the SMVTP. The specifications also stipulated that, once the proposals were studied, the selection committee would report to the director of the SMVTP and borough director with its recommended choice of proposal, if applicable. In addition, the specifications indicated that city council had 90 days from the date proposals were opened to confirm the recommended choice.

Following the public call for proposals for the sale of the Marc-Aurèle-Fortin land site, the submitted proposals were opened on December 7<sup>th</sup> 2005. A selection committee comprised of representatives from the Rivière-des-Prairies–Pointe-aux-Trembles borough and the SMVTP was formed to analyze them according to the evaluation criteria outlined in the public call-for-proposal documentation.

Three submitted proposals were judged to be compliant by the selection committee. The committee recommended the proposal with the highest score and purchase price (proponent #3). This proposal differed from the other two in that it advanced the construction of three multiplex dwellings (264 high-density condo-type units) in addition to single-family detached, semi-detached or town houses (232 units), for a total of 496 units. As for the other two proposals, one provided for the construction of multiplex dwellings with a maximum of three condo-type units only (proponent #2), while the other made no provision for any multiplex dwelling unit (proponent #1).

The selection committee's decision was then presented for approval to the City's strategic committee, which was created in March 2006. The latter questioned the validity of the recommended proposal because of the rules set forth in the specifications of the public call for proposals and turned for advice to the senior director of the Service des affaires corporatives, who in turn sought a legal opinion from an outside law firm.

The legal opinion, dated September 2006, concluded that the proposal recommended by the selection committee did not comply with the specifications of the public call for proposals because it failed to abide by the principle of equality between proponents. In fact, two sections in the call for proposals were not observed:

Section 3.2.1, entitled *[Translation] Type of buildings*: “The recommended residential development will be of medium density and the buildings will consist of one to three housing units. However, single family detached, semi-detached or town houses will be preferred for all or the majority of the site.”

Section 2.1.6, entitled *[Translation] Caution*: “Any failure to strictly comply with each of the listed conditions could lead to rejection of the proposal, unless the City deems it has merit and decides to overlook any formal defect or minor deficiency that it may contain.”

Based on the above, the proposal that included three buildings of more than 12 units each contravened the existing regulations and could not have been considered compliant with the specifications of the public call for proposals. It was also unfair to the other proponents for the City to accept a proposal that was based on different conditions than those laid out in these specifications, even if it was more advantageous for the City to do so.

Taking this legal opinion into consideration, the City’s strategic committee decided to reject proposal #3. As a result, the selection committee then had to choose a new proponent. The choice should have fallen to the proponent with the second highest score, but the selection committee mentioned in its report that the latter had not been able to provide irrefutable proof of sufficient financial capacity to complete the project.

It should be pointed out that a proponent’s financial capacity is assessed using the evaluation criterion “Profile of the proponent and professional teams,” which has a weighting of 15%.

**FINDING**

**Since other elements are also used to evaluate this criterion (technical expertise, project team and previous accomplishments), we believe that this weighting factor does not allow for the automatic rejection of a bid, even if the proponent fails to get a passing grade on an element as crucial as financial capacity.**

In this respect, we believe that the weighting assigned to this aspect should be re-evaluated when issuing future calls for proposals.

Given that the findings of the selection committee differed from those of the legal opinion and that the committee had expressed its disagreement with the choice of proponent #2, the hope

was that the authorities would provide guidance in this matter. The City's strategic committee once again turned for advice to the senior director of the Service des affaires corporatives.

A second legal opinion was therefore sought from the outside law firm about how to proceed in such a case. The legal opinion that was received suggested two options. The first was to cancel the existing call for proposals and issue a new one, while the other proposed creating a second selection committee. The strategic committee chose this option and decided to re-evaluate the two remaining tenders. Consequently, a new selection committee comprised of representatives from the borough and SMVTP management was created.

In spite of the first selection committee's reservations about the financial capacity of proponent #2, the second selection committee studied both remaining proposals (proponents #1 and #2).

**FINDING**

**Our review of the report issued by the second selection committee indicated that a qualitative evaluation was done using the analysis criteria set out in the specifications of the public call for proposals. Contrary to the report of the first committee, however, there was no numerical rating to show that the analysis was done in accordance with the established selection criteria and weighting system. According to the manager in charge at the Section transactions et services immobiliers, this evaluation was done but could not be found.**

Finally, 12 months after the opening of the proposals that had been received (from December 2005 to November 2006), the second selection committee chose proposal #1, with a sale price of \$1 million.

According to the information we received, the SMVTP later successfully negotiated an increase in the sale price to \$1.5 million. We found no evidence, however, of the exact dates of these negotiations.

**FINDING**

**Our audit revealed that, some 12 months after the opening of the proposals, an executive summary seeking approval for the selected proponent was presented to the executive committee on December 6<sup>th</sup> 2006. However, it was not submitted to city council.**

Our review of the executive summary that was prepared to secure the executive committee's approval for the selected proponent showed that the director of the DSTI told the executive committee about the decision of a selection committee comprised of representatives from the borough, SMVTP and the Service des affaires corporatives to declare proposal #3 non-compliant. The executive summary also gave a brief description of the two proposals that were compliant and mentioned that the SMVTP successfully negotiated with the proponent to increase its offer to \$1.5 million (\$0.73/ft.<sup>2</sup>) after the firm was retained by the selection committee. It should be pointed out that the submitted proposals were appended to the executive summary.

As mentioned above, the choice of proponent was not presented to city council as provided for in both the specifications of the public call for proposals and the executive summary prepared to secure the executive committee's approval for these specifications.

**FINDING**

**In addition, we noted that some relevant information had not been disclosed to the executive committee while it was approving the choice of proponent.**

In this regard, it should be noted that:

- two years passed between the market value assessment (November 2004) and the selection of the proponent (December 2006);
- the agreed-upon sale price (\$1.5 million) was to be collected by the City in sequence over the five-year period following the signing of the development agreement;
- there were reasons justifying the non-compliance of one of the proposals;
- two selection committees studied the submitted proposals;
- two legal opinions were obtained from an outside firm to provide guidance during the selection process;
- there was no evidence of a weighted evaluation grid to demonstrate how the selected proponent was chosen.

In conclusion, seeking the city council's approval at this stage of the process would have enabled it to voice its opinion about the proposal retained for the Marc-Aurèle-Fortin residential project, as well as the sale price at which the City would be transferring the land. At this point in time, we also believe that city council should have had a financial analysis showing the City's cash flow for the development of this land.

### 3.2.B. Recommendations

**We recommend that the Direction stratégies et transactions immobilières review the weighting system when establishing the bid evaluation grid as part of public calls for proposals so that any proposal with an unacceptable financial capacity score can be rejected.**

**We recommend that the Direction stratégies et transactions immobilières keep documents on file showing a numerical rating of proposals that complies with the selection criteria set out in the specifications of the public call for proposals to support its recommended choice of proponent.**

**In order for the executive committee to make informed decisions about the winning proposal following a public call-for-proposal process, we recommend that the Direction stratégies et transactions immobilières disclose, in its executive summaries, all relevant information in its possession, including:**

- any deviation from the normal process within the framework of a public call for proposals leading to the choice of proponent;**
- the findings obtained following the analysis of proposals in compliance with the evaluation criteria retained;**
- a financial analysis showing the City's cash flow for the duration of the project.**

**We recommend that the SMVTP comply with the provisions set out in the documentation relating to public calls for proposals, especially when seeking approval from the appropriate authorities.**

### 3.2.C. Action Plan for the Business Unit Involved

- 1) [Translation] "This weighting system is adjusted according to the development project at hand. In the case of the Marc-Aurèle-Fortin land site, a passing grade should have been*

*shown given the magnitude of the initial infrastructure investment. The passing grade would not be as important in the case of buildable land requiring no initial investment.*

*A weighting factor assigned to the developer's financial capacity, with a minimum passing grade in respect to its solvency, will be included in the economic analysis criteria. (Planned completion: April 30<sup>th</sup> 2010)*

- 2) *The first committee's analysis of the proposals was tabled and kept on file.*

*The second committee chose to assign a grade retaining the proposal it considered most compliant with the evaluation grid. This grade was entered in the file.*

*In the future, we will ensure that a numerical rating of the proposals examined according to the established selection criteria is always kept on file. (Planned completion: April 30<sup>th</sup> 2010)*

- 3) *We have taken the recommendations into account and will apply them in future calls for proposals. (Planned completion: April 30<sup>th</sup> 2010)*

- 4) *We have taken the recommendations into account and will apply them in future calls for proposals." (Planned completion: April 30<sup>th</sup> 2010)*

### **3.3. APPROVAL OF THE DEVELOPMENT AGREEMENT**

#### **3.3.A. Background and Findings**

According to the specifications of the public call for proposals, the land sale was conditional upon the borough council and city council approving a development agreement within eight months of the city council's decision to retain the proponent. The property sale would then have to be approved by the municipal authorities, as part of the development agreement and planned sale sequence.

The facts show that, in July 2007, a development agreement was reached between the SMVTP, the developer and the borough. In August 2007, the executive committee approved the development agreement in principle and authorized the start of construction of six model housing units before officially approving the agreement. In October 2007, the borough council approved the development agreement. However, the executive committee only approved the development agreement and the first deed of sale for 20 residential lots on February 13<sup>th</sup> 2008. On

March 31<sup>st</sup> 2008, 16 months after approving the choice of proponent, city council finally approved the development agreement. This was the first authorization obtained from city council for the sale and development of the Marc-Aurèle-Fortin land site.

Only then was city council told that, under the development agreement, the developer planned to build a residential project that would include a maximum of 331 dwellings (i.e. 67 single-family and 264 semi-detached units) upon completion.

In this executive summary, city council was informed that the proposal retained during the public call for proposals included an agreement to acquire all of the land for a sum of \$1.5 million, in addition to the costs for rehabilitating the ground. It was also mentioned that all sale transactions would be in cash and that the developer would be responsible for building, at its expenses, the infrastructures (sewers, water system, streets, sidewalks, paving and street lighting) intended to service the entire project in question.

**FINDING**

**Although city council approved the development agreement based on the information disclosed to it, it is our opinion that it was not informed about certain key elements.**

These elements include the following:

- in August 2007, the executive committee had already given its approval in principle to the development agreement, duly signed by the developer on July 13<sup>th</sup> 2007, to build six model housing units even before city council had authorized the development agreement, thus allowing the developer to build on the land;
- new elements (e.g., a buffer zone) were agreed upon with the developer at the time the development agreement was finalized;
- the decision had an impact on the City's financial statements due to the recording of a loss on the disposal of assets (for the lots sold in March 2008) and a provision to write down lots available for sale (assessed at more than \$8.6 million). Following a change to municipal accounting standards in 2007, the SMVTP had established the original cost for all available-for-sale land held by the City, including this land. At the time of authorizing the development agreement, the sale price of \$1.5 million (\$0.73/ft.<sup>2</sup>) should have been compared to the original write-down cost (\$4.71/ft.<sup>2</sup>). In addition, a depreciation allowance should have been recorded for this land.

In conclusion, city council should have received all relevant information explaining any new facts that emerged after the proponent was chosen up to the time the development agreement was finalized. Given that 28 months had elapsed between the opening of the proposals (December 2005) and the authorization of the development agreement (March 2008), it is our opinion that city council should have received an updated financial analysis showing the City's cash flow for the duration of the project.

### 3.3.B. Recommendations

In order to enable city council to make informed decisions when approving development agreements, we recommend that the Direction stratégies et transactions immobilières disclose all important new facts that emerge from the time the proponent is chosen, especially those that are likely to affect the ongoing financial assessment.

### 3.3.C. Action Plan for the Business Unit Involved

*[Translation] "We have taken the recommendations into account and will apply them in future calls for proposals." (Planned completion: April 30<sup>th</sup> 2010)*

## V.7. Preliminary Study on the Acquisition of Goods and Services



## V.7. PRELIMINARY STUDY ON THE ACQUISITION OF GOODS AND SERVICES

### 1. BACKGROUND TO THE PROCUREMENT FUNCTION

#### 1.1. LEGAL AND REGULATORY FRAMEWORK

The procurement function is subject to a certain number of laws and regulations, in particular the Charter of Ville de Montréal and the *Cities and Towns Act*. Section 573 of the Act deals with regulations governing purchasing methods. In other respects, the legal framework does not define any specific power or organizational structure in terms of procurement. Consequently, within the framework of their specific spending powers, the boroughs and central city are essentially autonomous.

In August 2006, the executive committee of the City of Montréal adopted its current procurement policy. It was approved through a resolution by six of the nine boroughs of the former City of Montréal and three of the ten boroughs created from former suburban municipalities. In its preamble, this policy states that *[Translation]* “the City of Montréal wishes to ensure the implementation of an effective, efficient and flexible procurement process.” In respect to performance, the policy declares that “the City seeks to [ . . . ] consolidate its purchases of goods, services and works both internally and with outside agencies whenever this can result in increased efficiency or significant savings [ . . . ] [and] to periodically reassess its procurement process.” In respect to accountability, the policy specifies that: “Corporate departments and partner boroughs are responsible for the application of the procurement policy principles in cooperation with the Direction de l’approvisionnement.” It adds: “Any deviation from this policy must be documented in decisions or recommendations presented for approval to the appropriate authorities.”

#### 1.2. ORGANIZATION AND MISSION OF THE DIRECTION DE L’APPROVISIONNEMENT

From a corporate point of view, the City of Montréal is endowed with a Direction de l’approvisionnement, whose mission is *[Translation]* “to ensure that corporate departments and boroughs have access to supplies, goods and state-of-the-art facilities enabling them to deliver quality urban services to citizens under the best conditions.” To achieve this goal, its management is “responsible for the development and application of regulations governing the acquisition of goods as well as general, technical, professional and construction-related services,

*in compliance with the legislation and regulations governing the municipal sector [ . . . ]. It collects, compiles and analyzes the consumption data of various client groups in order to identify opportunities for consolidating common assets.”*

The inherent values of the procurement process are based on the guiding principles set out on the intranet of the Direction de l’approvisionnement. One of these principles advocates effectiveness and efficiency with a view towards promoting the effectiveness of the municipal procurement process and measuring its contribution to the organization.

To put this guiding principle into action, the procurement function [Translation] “ensures [among other things] that it:

- *fosters healthy competition and enters into commercial agreements that benefit the City through favourable prices and conditions;*
- *promotes adherence to pre-negotiated corporate contracts, as well as group purchasing with boroughs, departments and other public agencies whenever doing so is economically beneficial;*
- *coaches clients on how to express their needs, using information concerning similar purchases [ . . . ];*
- *optimizes the use of public funds allocated to municipal purchases and maximizes the economic spin-offs for Montréal in compliance with the legislation.”*

### **1.3. PROCUREMENT MANAGEMENT FRAMEWORKS**

In January 2009, there was a total of seven Direction de l’approvisionnement management frameworks posted on the City’s intranet, all of which had been either released or revised at the end of 2005. These documents detail the various procurement steps and procedures and explain how to record the pertinent data into the City of Montréal’s integrated management system, known as SIMON, in order to ensure that suppliers are paid. Their control standards are limited to matching the various documents and performing the required approval process.

- Purchase requisitions (2005 12 09)

Purchase requisitions serve to express a procurement need. When a purchase requisition is entered into SIMON, the requisitioner is automatically informed of any standing offer that might meet this particular need.

Purchase requisitions are mandatory for the acquisition of goods and services exceeding \$10,000. They can only be initiated by authorized SIMON users who must select the item codes that correspond to their procurement needs from the goods and services classification (GSC) system. Once purchase requisitions are approved by the appropriate delegated authority level, they are sent to a buyer from the requisitioner's administrative unit or to the Direction de l'approvisionnement and the necessary funds are automatically reserved (or pre-allocated).

- Purchase orders (2005 12 09)

Purchase orders must be issued for all purchases, with the exception of those that are handled through a requisition for payment. Purchase orders must be approved by the appropriate delegated authority level.

- Receipt of goods, services or works (2005 12 09)

Receipt transactions are entered into SIMON without any formal authorization. This framework does *recommend* that the individuals who place orders not be the same as those receiving the goods or services. The purchase order number must appear on both the receiving slip and the invoice in order to record these transactions into SIMON. The Service des finances will issue payment to the supplier once the purchase order, receiving slip and invoice have been matched.

- Requisitions for payment (2005 12 09)

Requisitions for payment serve to record purchases that are made, received and used over a short period of time. They also allow for the reimbursement of fees as listed in the appendices to the *[Translation] Handling Invoices and Issuing Cheques* guidelines from the Service des finances. These fees include public utility costs, direct purchases of goods and services under \$1,000 as well as purchases made with acquisition or credit cards. Requisitions for payment must be approved by the appropriate delegated authority level.

- Internal purchase requisitions (2006 01 19)

Internal purchase requisitions are used exclusively for purchases from the municipal warehouse, i.e. the Centre de distribution Louvain. As of January 10<sup>th</sup> 2006, the intranet of

the Direction de l'approvisionnement listed some 115,000 products available from the warehouse with a total value of \$5 million.

- Internal billing (2006 01 09)

The City's central departments and boroughs can transact business with internal partners by entering purchase orders in SIMON. Once the goods are delivered or the services rendered, in-house suppliers prepare and send invoices for chargeback to the Service des finances without issuing any cheques.

- Standing offer and contractual agreements (2005 12 09)

Standing offer agreements cover certain goods and services whose unit costs are recorded in SIMON for a specified term. Requisitioners can enter calls for delivery in SIMON to request goods and services under these agreements. While calls for delivery are similar in many ways to purchase orders, they simplify the procurement process for users since most of the data required to create the calls for delivery is automatically generated by the system. In this case, the resulting supplier order number is comprised of the agreement number combined with the call for delivery number.

Contractual agreements provide for a negotiated discount on a set of goods and services that are based on a specified volume of business. Such goods and services are usually found in a catalogue. Requisitioners can enter purchase orders in SIMON to request goods and services under these agreements.

According to the information on the intranet of the Direction de l'approvisionnement, approximately 300 of these purchase agreements are currently active.

When SIMON was initially deployed, the Division des pratiques d'affaires of the Direction de l'approvisionnement issued a document entitled *[Translation] Procurement-related Management Principles and Internal Control Rules* on November 4<sup>th</sup> 2005. As its title suggests, this document includes a number of statements (12 in total) that govern internal procurement controls.

In particular, the third statement stipulates that *[Translation] "the segregation of duties pertaining to procurement documents (e.g., purchase requisitions, purchase orders and direct inventory purchases) is mandatory. A single person can request, issue, approve and receive purchases, but not on the same document and not for the same transaction."*

## 2. PRELIMINARY STUDY SCOPE

Management indicators reveal that a major portion of purchase orders, invoices and cheques are under \$100. This fact raises questions about the relevance and application of business practices and work methods concerning the procurement process for goods and services.

The objective of this study is to assess the relevance and scope of a detailed audit to determine whether existing business practices and work methods promote the acquisition of goods and services in the most efficient and cost-effective way possible. While doing so, it must respect the best industry practices and take into account current legislation and management frameworks.

The activities we examined cover the procurement process for goods and services – from placing orders to paying invoices – in both boroughs and central departments. Needs analysis and acquisition planning were excluded from our study. Information was collected mainly between December 2008 and May 2009. However, we were unable to submit this report to the Direction générale for comments prior to December 2009.

Our review consisted mainly in:

- listing and studying the legislation, regulations and management frameworks governing the acquisition of goods and services at the City of Montréal;
- documenting the key stages of the procurement process as well as any related business practices and work methods;
- meeting with representatives from the Direction de l'approvisionnement, the Service des finances, the boroughs and certain central departments;
- evaluating the control framework of the procurement function based on the gathered information.

## 3. FINDINGS

### 3.1. STRATIFICATION OF LOW-VALUE PURCHASES

Management indicators related to the finance or procurement components of the SIMON system were generated for 2007. They provided cumulative statistics on low-value purchases for the entire City, including the boroughs, as outlined below:

**Table 1—Cumulative Statistics for 2007**

	Total number	≤ \$100	≤ \$300	≤ \$1,000
		<i>In percentage</i>		
Cheques	160,812	23	41	62
Invoices <sup>1</sup>	353,427	35	56	77
Purchase orders <sup>2</sup>	115,304	23	48	71
Requisitions for payment <sup>3</sup>	37,110	n/a	n/a	n/a

<sup>1</sup> Invoices include those paid by requisitions for payment (37,110), i.e. without any purchase order, as well as invoices paid through subsystem interfaces (46,981).

<sup>2</sup> Purchase orders exclude those charged to inventory but include calls for delivery that generated a purchase order. They represent \$1.1 billion in purchases.

<sup>3</sup> The total number is 37,110. In all, 77% of invoices (i.e. 272,000) were under \$1,000.

**Table 2—Stratification of Acquisitions for 2007**

	Total	≤ \$100	≤ \$300	≤ \$1,000
Number of purchase orders	115,304	27,015	54,730	82,135
<b>Percentage in volume</b>	<b>100</b>	<b>23</b>	<b>48</b>	<b>71</b>
Value of corresponding acquisitions (in \$M)	1,076	1.3	6.4	21.6
<b>Percentage in value</b>	<b>100</b>	<b>0.1</b>	<b>0.6</b>	<b>2.0</b>

**Table 3—Volume of Purchase Orders by Business Unit for 2007**

	Total	≤ \$100	≤ \$300	≤ \$1,000
<b>Number of purchase orders</b>	115,304	27,015	54,730	82,135
<b>Volume percentage by business unit</b>				
<b>Affaires corporatives</b>	<b>26.3</b>	<b>43.4</b>	<b>36.2</b>	<b>31.4</b>
<b>SPVM<sup>1</sup></b>	<b>12.7</b>	<b>14.3</b>	<b>14.2</b>	<b>9.8</b>
SITE <sup>2</sup>	10.0	5.1	6.5	7.9
SMVTP <sup>3</sup>	7.4	3.9	5.2	6.4
SDCQMVDE <sup>4</sup>	6.4	4.6	4.8	5.2
Inventory	8.4	8.4	9.6	9.4
<b>Boroughs (former City)</b>	<b>21.3</b>	<b>16.5</b>	<b>18.6</b>	<b>19.7</b>
Boroughs (former suburban municipalities) <sup>5</sup>	0.6	0.0	0.0	0.1
Other business units	6.9	3.8	4.9	10.1
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Service de police de la Ville de Montréal

<sup>2</sup> Service des infrastructures, transport et environnement

<sup>3</sup> Service de la mise en valeur du territoire et du patrimoine

<sup>4</sup> Service du développement culturel, de la qualité du milieu de vie et de la diversité ethnoculturelle

<sup>5</sup> Some boroughs (former suburban municipalities) were not integrated into SIMON in 2007.

**Table 4—Value of Purchase Orders by Business Unit for 2007**

	Total	Total	≤ \$100	Rate of requisitions for payment <sup>1</sup>
	<i>In \$M</i>	<i>In percentage</i>		
<b>Affaires corporatives</b>	<b>74.9</b>	<b>7.0</b>	<b>43.4</b>	<b>5</b>
<b>SPVM</b>	<b>42.7</b>	<b>4.0</b>	<b>14.3</b>	<b>1</b>
SITE	314.9	29.3	5.1	5
SMVTP	199.2	18.5	3.9	4
<b>SDCQMVDE</b>	<b>59.3</b>	<b>5.5</b>	<b>4.6</b>	<b>48</b>
Inventory	11.9	1.1	8.4	n/a
<b>Boroughs (former City)</b>	<b>214.5</b>	<b>19.9</b>	<b>16.5</b>	<b>11</b>
<b>Boroughs (former suburban municipalities)<sup>2</sup></b>	<b>54.9</b>	<b>5.1</b>	<b>0.0</b>	<b>40</b>
Other business units	103.7	9.6	3.8	2
All business units	1,076.0	100.0	100.0	13.0

<sup>1</sup> Rate of requisitions for payment = number of requisitions for payment/number of paid invoices

<sup>2</sup> Some boroughs (former suburban municipalities) were not integrated into SIMON in 2007.

In May 2009, we obtained statistics on cheques, invoices and purchase orders issued in 2008. Essentially, they revealed trends similar to those observed in 2007.

### 3.2. OTHER INTERVIEW FINDINGS

#### 3.2.1. PERFORMANCE MEASUREMENTS, BENCHMARKS AND BUSINESS PRACTICE INTELLIGENCE

The Division des pratiques d'affaires of the Direction de l'approvisionnement was created in 2005 to promote consistency in city-wide procedures following the municipal mergers and demergers. Among others, it is responsible for gathering intelligence on best procurement practices and implementing performance indicators. However, the Division does not have access to any structured and systematic benchmarking studies. In other respects, it participates in more or less formal discussion groups with other cities in Québec regarding the use of ORACLE systems and acquisition cards.

The *Act to Amend the Charter of Ville de Montréal* (Bill 33) requires further decentralization from the City. As a result of these unique constraints, the Division does not see any value in collecting benchmark data on best practices and performance indicators from other cities.

At the present time, performance measurements are limited to user satisfaction surveys regarding certain master agreements. A project is currently underway with an outside firm to develop indicators that are more general. Although precise procurement process costs have not been assessed, the Division des pratiques d'affaires looked up some external studies that estimated the unit cost of processing an order to be in the range of \$80 to \$120. Interviews with representatives from other business units and the Service des finances suggested that they have virtually no procurement process analyses, measurements or mechanisms to track performance indicators, other than the statistics extracted from SIMON for 2007.

### **3.2.2. INTEGRATION AND CONSISTENCY OF THE PROCUREMENT FUNCTION**

The Direction de l'approvisionnement has no internal service contracts with its client units. The latter are not billed for order processing fees. There are no indicators, performance targets or formal action plans concerning interactions between the Direction de l'approvisionnement and its clients, except in respect to the consultation work conducted as part of the 2006 governance project.

Although most of the people we interviewed were key procurement stakeholders, they had limited knowledge of the cost issues associated with low-value purchases. They were also generally ill-informed about the solutions recommended by the Direction de l'approvisionnement to alleviate these costs, especially in respect to acquisition cards. The Direction is expending efforts to improve communications. Several projects are underway to increase the information available on its intranet and render it more user-friendly. A round table for procurement staff was created in 2008 to promote information sharing between those in charge of procurement for the boroughs and the Direction de l'approvisionnement. While this seems to be an interesting approach, it is likely to be overly complicated to function properly given the City's complex structure with its numerous boroughs.

As part of the vast review of activities, services, operations and programs (RASOP) performed in 2006, the executive committee entrusted the governance committee of the then Service des affaires corporatives with the optimization of the procurement function. Following two reviews of this function back in 2001 and 2003, some preliminary guidelines were established. The Direction de l'approvisionnement launched a consultation with its clients to fine tune and confirm these guidelines, the results of which were published in a November 2006 report.

This report uncovered a fragmented procurement function where the boroughs, the SITE, the Direction des immeubles of the SMVTP and the Direction des sports, des parcs et des espaces

verts of the SDCQMVDE tended to solicit bids on their own for required work. In fact, most boroughs that were created from the former suburban municipalities issued their own calls for tenders, with a few exceptions. Out of the \$1.2 billion in goods and services acquired for the City, only \$260 million worth was purchased centrally by the Direction de l'approvisionnement.

As for the procurement cycle, the report indicated that:

- there was a lack of consistency between the boroughs and the central city as they did not share a common vision for the planning of procurement needs;
- the procurement strategy was not a joint venture and there was no meaningful transfer of knowledge;
- tender documents were not standardized, thereby increasing the risk of claims;
- despite a number of existing master agreements, the procurement function was fragmented from a market standpoint and there was very little corporate solidarity;
- the lack of a systematic process meant that there was no way to ensure that all contractual conditions for the supply of goods were met, not to mention the complete lack of any formal user satisfaction survey mechanism as well as any performance indicators;
- the existing multiple inventory management systems did not provide a consolidated view of all items in stock, thus increasing locally established emergency stockpiles.

At the end of the consultation process, the Direction de l'approvisionnement developed three scenarios with varying levels of centralization. In November 2006, it finally recommended the mid-range scenario as offering the best option to consolidate and develop group purchases and strategic projects while giving boroughs and central departments greater autonomy for purchasing more specific goods.

### **3.2.3. PERFORMANCE OF THE SIMON SYSTEM**

The people we met were generally satisfied with SIMON as a procurement tool and would not revert to their previous systems. Some of them even feel like they now have better control over their budget. However, the system is clearly still in its stabilization and maturation stage. Certain users underscored problems in mastering specific processes (e.g., calls for delivery) and considered that they received insufficient training. Most of them knew about the 2007 report on management indicators and hoped for the release of systematic follow-up reports.

## 4. CONCLUSIONS, RECOMMENDATIONS AND ACTION PLANS

### 4.1. ISSUES WITH LOW-VALUE PURCHASES

#### 4.1.A. Conclusions

Business literature commonly discusses low-value purchases in large organizations. A study conducted by the Trésor public in France reveals that *[Translation]* “two thirds of order transactions represent approximately 4% of the total value of purchases in the public sector.” Furthermore, an American study indicates that, generally speaking, 80% of the total volume of transactions account for only 20% of their total value.

In the case of the City of Montréal, we know that **71% of all purchase orders (i.e. orders under \$1,000) represent only 2% of the total value of the corresponding purchases. These figures seem to indicate that the City has a greater problem than the norm.** However, we must be cautious when making any comparisons given the fact that the above statistics do not provide specifics about orders and that SIMON data includes internal orders.

Most of the people we met agreed with the contention that low-value purchases are primarily caused by the decentralization of the procurement function, the number of buyers and their geographic distribution, the incentives of local suppliers and the number of daily purchases. No one blamed shortages of stock in the warehouse or the non-existence of master agreements as possible causes. In addition, many of the orders used for internal purchases (between business units) generate a high number of low-value purchases that could skew the benchmarks. We were unable to isolate this type of purchase from the cumulative statistics.

There was no consensus on the causes of the lower frequency of requisitions for payment. One division head indicated that suppliers needed purchase orders so as to create order numbers in their billing systems. For its part, the Service des finances believes that managers encourage the use of purchase orders to facilitate the approval of purchases and to control the matching of documents.

Business-to-business (B2B) commerce with suppliers could help optimize the procurement process and reduce order processing costs. **This practice requires the ORACLE platform, but the City has still not implemented it.**

Finally, bulk billing (i.e. the production of a single monthly invoice for all deliveries to business units by the same supplier) is rarely used, even under master contracts. We were told that only one supplier employs this billing method.

In a nutshell, the methods to reduce the volume of low-value purchases or order processing costs are either:

- **poorly known:**
  - acquisition cards;
- **rarely or not systematically used:**
  - master contracts,
  - calls for delivery,
  - requisitions for payment,
  - bulk billing;
- **rarely available or simply unavailable:**
  - B2B transactions with suppliers,
  - management reports and indicators to follow up on purchases.

These methods and their implementation issues are known. To improve the situation, some more or less formal solutions are being put into action. **The main difficulty in conducting a detailed audit of these issues stems from the need to measure their financial impact. Order processing costs are not determined and the impact of mitigating actions has not been assessed nor quantified.** Consequently, even if we could demonstrate that certain practices should be implemented, we cannot assess their added value. Under these circumstances, we believe that it is irrelevant to further assess the efficiency of these solutions.

#### 4.1.B. Recommendations

**We recommend that the Direction de l'approvisionnement, jointly with the Service des finances, examine the relevance of assessing order processing costs as well as the economic justification for implementing or generalizing measures to reduce the volume of low-value purchases.**

#### 4.1.C. Action Plan for the Business Unit Involved

*[Translation] "As reiterated in section 4.2.C., given the governance framework established by Bill 33, we favour an awareness-building and persuasive approach to advance the adoption of best procurement and management practices."*

*Low-value purchases are intertwined with the daily operations of boroughs and departments. Consequently, any changes in processes necessarily imply changes in work methods, the sharing of responsibilities and duties, and other impacts specific to each business unit, and even each area of activity. For example, in the case of vehicle repairs that entail a high volume of low-value purchases, business units must create a link between the purchase of parts and the corresponding vehicles for potential billing (CSP-MRA) or the management of fleet maintenance costs (borough). The same principle applies to various projects for which business units want to track costs or maintain their procurement processes within an established sequence that includes various work.*

*As indicated in this audit report, a number of options are available to reduce the volume of low-value purchases, but their integration into daily business processes will require some time.*

*Consequently, the Direction de l'approvisionnement and the Service des finances will pursue their ongoing initiatives to raise awareness among managers about the importance of reducing low-value purchases and the options available to reach that goal." (Planned completion: December 31<sup>st</sup> 2010)*

## **4.2. CONTROL FRAMEWORK FOR THE PROCUREMENT FUNCTION**

### **4.2.A. Conclusions**

Given the risk factors that have been associated with the procurement function in recent years and the findings discussed earlier, an audit of the control framework for the procurement function was vital. We relied on the model that was designed by the Canadian Institute of Chartered Accountants (CICA), which determines the factors that might adversely affect the mission and business objectives of organizations. Our findings are summarized below. They are based on the documentation we reviewed, the testimonies we collected as well as accepted best practices in this area:

**Table 5—Evaluation of the Control Framework for the Procurement Function**

Criteria of control	Strengths	Weaknesses
<i>Goal</i>	<ul style="list-style-type: none"> <li>• The City has a procurement policy.</li> <li>• Some of the risks that could reduce effectiveness and efficiency are known.</li> </ul>	<ul style="list-style-type: none"> <li>• Half of the boroughs have not adopted the policy.</li> <li>• There are no formal risk analysis reports and limited action plans to address these risks.</li> <li>• The management frameworks are more descriptive than prescriptive.</li> <li>• Objectives and targets have not been formally determined.</li> </ul>
<i>Commitment</i>	<ul style="list-style-type: none"> <li>• The mission of the Direction de l'approvisionnement has been established and communicated.</li> <li>• Approval authorities have been adopted.</li> </ul>	<ul style="list-style-type: none"> <li>• The function is greatly decentralized, thereby weakening accountability.</li> <li>• Reporting is minimal.</li> <li>• The control culture is underdeveloped.</li> </ul>
<i>Capacity</i>	<ul style="list-style-type: none"> <li>• The intranet and round table for procurement staff promote communication.</li> <li>• Solutions to improve the effectiveness and efficiency of the procurement function have been identified and some are being implemented.</li> </ul>	<ul style="list-style-type: none"> <li>• These solutions are being implemented, but their effectiveness is not being assessed effectively.</li> <li>• Very few management reports and indicators are available.</li> <li>• The organizational structure of the function does not foster the consistency and coordination of actions and objectives.</li> </ul>
<i>Monitoring and learning</i>	<ul style="list-style-type: none"> <li>• The Direction de l'approvisionnement has created a division that is responsible, among others, for gathering intelligence on best procurement practices and monitoring performance.</li> <li>• The new SIMON system can provide high quality management information.</li> </ul>	<ul style="list-style-type: none"> <li>• External intelligence gathering is poorly structured and is not being reviewed rigorously.</li> <li>• There are minimal performance indicators.</li> <li>• The SIMON system has not reached its maturity and management information is still rarely used.</li> </ul>

**Our first observation is that Direction de l'approvisionnement tends to assume a weakened leadership role, acting mostly as adviser and service provider to business units rather than being a standard-setter and an integrator.** This translates into minimal management frameworks and leads to issues with the implementation of efficient practices, which are left to the discretion of users.

Secondly, **we noted a serious limitation with the performance measurement tools.** There are no set targets, other than the desire to improve the quality of service to business units. Furthermore, performance indicators for the procurement function have not been formally established and few management reports allow for any such measurement. Finally, **there is no formal reporting mechanism from the Direction de l'approvisionnement and its clients to validate compliance with legislation and the procurement policy of the City of Montréal.**

Under these circumstances, it seems that **the City does not have an adequate control framework that would ensure the efficiency of the procurement function, let alone operational compliance with the principles as set forth in the procurement policy.**

#### 4.2.B. Recommendations

**We recommend that the Direction générale:**

- **identify the main risks for inefficiency and non-compliance with the procurement policy of the City of Montréal;**
- **determine management practices and performance indicators that should be implemented to monitor and mitigate these risks;**
- **evaluate the relevance and legitimacy of imposing risk mitigation practices and strategies on all business units, including the boroughs, and make them accountable for them.**

The Direction générale of the City would benefit from a control framework to ensure that it has an appropriate organizational structure as well as adequate, relevant strategies needed to implement the procurement policy and monitor its proper application. A successful control framework should meet the following criteria and sub-criteria based on the CICA's control model:

- Clear and adequate administrative guidelines are drafted, approved and disseminated that specify how to apply the procurement policy principles, including:
  - a code of ethics that defines situations of conflicts of interest and the consequences of any ethical breach,
  - a process for planning needs and soliciting bids with corresponding benchmarks to ensure the availability of goods, services and works that are essential to the organization under ideal conditions,
  - benchmarks for grouping purchases of goods, services and works, both in-house and with outside agencies, especially whenever group purchases would result in improved efficiency or significant savings,

- a process for the implementation of procurement methods that foster a healthy competition between suppliers,
  - information guidelines on how to clearly specify the City's technical, commercial and environmental needs and requirements to external suppliers,
  - a process that evaluates the performance of suppliers based on known criteria in order to guide future purchase decisions,
  - a process to enable quality control of the goods, services and works received by requiring suppliers to demonstrate their own internal quality control,
  - a process that promotes effective and efficient inventory management,
  - benchmarks for the maintenance of the City's environmental integrity, the improvement of social equity and the achievement of cost-effectiveness through the procurement process,
  - the ability to report any deviation from this policy in decisions or recommendations submitted for approval to the appropriate authorities;
- The roles and responsibilities for applying the policy are defined, approved and disseminated to support the decision-making process and ensure clear, risk-based accountability:
    - approval authorities were reviewed in relation to the risks inherent in the principles of ethics, quality and performance,
    - authorities for the establishment of benchmarks are defined, assigned and publicized to avoid conflicts of interest, to group purchases together, to promote healthy competition, to make purchases at the lowest cost and to ensure sustainable development,
    - inventory management, supplier performance evaluation, control and reporting responsibilities are well defined, assigned and understood;
  - The City's procurement strategies and practices were re-evaluated in light of the stated principles:
    - a risk analysis was conducted to identify the main risks of policy non-compliance,
    - an action plan was established to identify non-compliance situations or those areas in need of significant improvements and its implementation is being monitored,
    - risk mitigation measures have been identified and implemented to respect the risk level approved by the appropriate authorities;

- Information systems and analysis tools have been developed to ensure compliance with the principles set forth in the policy:
  - a list of suppliers is available and updated with the results of their performance evaluations to ensure that they are duly qualified and fully capable of meeting requirements,
  - Before-and-after controls are incorporated into information systems to mitigate the main identified risks,
  - reports are available and distributed to support the decision-making process, measure compliance with the principles and identify avenues for improvement,
  - benchmarks are used to measure the effectiveness and efficiency of the procurement function, and major discrepancies are identified and analyzed to review strategies and practices,
  - service clients are surveyed to measure their level of satisfaction and identify avenues for improvement;
  
- A follow-up process is implemented to pinpoint deviations from the policy and produce systematic and reliable compliance reports:
  - targets and objectives are determined to help improve strategies and practices based on the policy's directions in terms of effectiveness, efficiency and equity,
  - results are measured against targets and subsequently reported,
  - management is accountable for achieving set targets,
  - deviations from the policy's principles are reported,
  - independent parties are responsible for confirming the reliability of reports.

#### **4.2.C. Action Plan for the Business Unit Involved**

*[Translation] "The Direction de l'approvisionnement will coordinate a complete review of the City's 2006 procurement policy based, among others, on the principles set forth by the Organisation for Economic Co-operation and Development (OECD) to provide guidance for any procurement policy and highlight potential risks to be mitigated. As a result of this review, inefficiency and non-compliance risks will be identified. (Planned completion: June 2010)*

*The Direction de l'approvisionnement will coordinate a survey of all the procurement practices used by departments and boroughs. This survey will provide valuable knowledge on current management practices and give an overview of risk areas as well as practices in need of improvement. Indicators will be identified and reports will be produced in compliance with the new procurement policy. (Planned completion: October 2010)*

*Given the governance framework established in the Act to Amend the Charter of Ville de Montréal (Bill 33), we favour an awareness-building and persuasive approach to disseminating best management practices in this area.”*

#### **4.2.D. General Auditor’s Comments**

**Our recommendations target the implementation of governance and reporting mechanisms to strengthen compliance with the purchasing policy adopted by city council.**

**The action plan tabled by the Direction générale reiterates that, under the governance framework established by Bill 33, the boroughs will not be subject to centralized administrative mechanisms. This forms a major obstacle for asserting and ensuring compliance with the policy, particularly as only half of the boroughs have adopted this policy.**

**Furthermore, control measures intended for the City’s central departments do not differ from those proposed for the boroughs, even though the former are not targeted by Bill 33 and account for close to 70% of the City’s purchases of goods and services.**

**In another vein, the action plan states that reporting will be done in compliance with the new policy. However, there is no indication of any formal reporting mechanisms to the Direction générale or elected officials.**

**Although the action plan provides for certain improvements, there is a risk that, upon completion, the City will still be lacking a control framework to ensure and assert compliance with its adopted policy.**



## V.8. Outsourcing Project for Telecommunications Services



## V.8. OUTSOURCING PROJECT FOR TELECOMMUNICATIONS SERVICES

### 1. INTRODUCTION

On July 9<sup>th</sup> 2007, the City of Montréal (the City) issued three calls for tenders with the goal of selecting one or more suppliers that could provide data transmission, landline telephone and cellular telephone services. The major contracts for these services were to expire in the fall of 2008.

These three calls for tenders were also intended to generate significant savings for the City.

The City had previously awarded a five-year contract to TELUS for activities related to the operation of its telecommunications network and Bell Canada had been the supplier of Centrex-type landline telephony for a number of years.

The City stated in the technical specifications used in the calls for tenders for landline telephony and data transmission services that it owned a private telecommunications network which it had developed over the past 20 years.

Because of the strategic importance that the telecommunications sector (data and voice) assumes in providing services to the public, the City sought a versatile, stable, reliable core network that would support shared services.

The City thus envisioned merging its service delivery channels, with an eye to migrating to VoIP telephony. To this end, it intended to entrust the management, operation and development of its telecommunications network to an outside supplier.

The City also sought a supplier that could take over its existing assets (for example, its telecommunications network and associated equipment, such as the switching equipment and servers supporting network operations), replace or upgrade them as needed and deliver the expected quality of service.

The City's objective in short was to select one or more suppliers that could provide landline telephone services, including migration to VoIP telephony, and data transmission services at the

lowest cost and with the expected levels of service, based on a [translation] “per-jack service” model.

According to the proposed scenario, the City would retain ownership of its assets at the end of the contract but would entrust the responsibility of designing the network to the supplier, provided that the latter delivered the requested service levels.

The specifications stated that the services should be available for the former suburban boroughs, the boroughs of the former City of Montréal, the reconstituted municipalities, the Service de police de la Ville de Montréal (SPVM), the Service de sécurité incendie de Montréal (SSIM) and the various municipal and paramunicipal bodies. It was, however, stipulated that the contracts resulting from the calls for tenders would only pertain to the central departments, including the SPVM, the SSIM and the boroughs of the former City of Montréal.

During its meeting of January 31<sup>st</sup> 2008, the agglomeration council awarded the contracts for data transmission and landline telephony to TELUS Québec (TELUS) for periods of 10 years and 7 years, respectively. It also awarded a four-year contract for cellular telephony to Bell Mobility.

**Table 1—Authorized Expenses Included in the Resolution**

Firm	Contract	Amount (including taxes)	20% contingency reserve (including taxes)	Total (including taxes)
TELUS Québec	Data transmission (10 years)	\$47,483,284	\$9,496,656	\$56,979,940
TELUS Québec	Landline telephony (7 years)	\$35,000,790	\$7,000,158	\$42,000,948
Bell Mobility	Cellular telephony (4 years)	\$7,486,818	\$1,497,364	\$8,984,182
	<b>Total</b>	<b>\$89,970,892</b>	<b>\$17,994,178</b>	<b>\$107,965,070</b>

In March 2008, the Direction des systèmes d’information (DSI), which is now part of the Service des immeubles et des systèmes d’information, launched the Centre d’expertise en télécommunications (CET). Its primary function was to manage these contracts and ensure a smooth transition to the new telecommunications services.

In addition to the CET and the DSI, the following stakeholders were involved in various phases of the project:

- the Direction de l'approvisionnement of the Direction générale;
- the Division du droit contractuel of the Service des affaires juridiques et de l'évaluation foncière;
- the Service des finances.

## 2. AUDIT SCOPE

Our mission initially focused on the management of outsourcing resulting from the telecommunications service contracts that were awarded, as well as the policies, controls, guidelines and monitoring procedures that had been instituted.

However, since the outsourcing was not yet being effectively managed when our work began, we fell somewhat behind schedule in examining the project's status, analyzing the causes of the delay and identifying the challenges associated with the operational phase, which was to begin in 2011.

In addition, the discovery of fraudulent billings by several companies providing alternate services to the DSI led us to examine the process for purchasing telecommunications services, which is the subject of this audit.

In accordance with the practices of the general auditor's office, we performed our audit based on those documents available to the City and information obtained from its employees. Consequently, we did not consult TELUS's staff during this audit.

We conducted the audit from October 2009 to February 2010. This report does not accordingly reflect events subsequent to the latter date.

We used the City's policies and directives as well as best industry practices as our evaluation criteria.

After assessing the risks and issues related to the cellular telephony portion of the project, we decided to exclude it from the scope of our audit.

We will begin by presenting an overview of the current project status in the next section. Afterwards, we will review the chronological sequence of events that led to the awarding of the

contracts, highlighting certain problems that arose at each step. Finally, we will discuss the current and future issues that these problems have caused, together with our recommendations for addressing them.

### **3. FINDINGS AND RECOMMENDATIONS**

#### **3.1. ACCOUNT OF THE PRESENT SITUATION**

##### **3.1.1. DELAYS IN COMPLETING THE PROJECT**

###### **3.1.1.A. Background and Findings**

The winning bidder for the landline telephony contract was obliged to take control of this service once the Centrex telephone contract expired on October 31<sup>st</sup> 2008. The bidder that won the data transmission contract was required to assume responsibility for that service on November 30<sup>th</sup> 2008.

A transition period had been scheduled following the approval of the two agreements for landline telephony and data transmission before the actual start of service delivery. This would allow TELUS to perform a due diligence on city-held information that had not been available to TELUS when it prepared its bid. If the authenticated information differed substantially from the information that the City had provided, TELUS could request a concomitant adjustment to its proposed unit prices. As a result, it would have been necessary to negotiate an amendment and submit it to the appropriate authorities.

Each agreement also stipulated that TELUS would draft a detailed transition plan within 45 days. In this plan, TELUS was to present its strategy and methods, as well as the management and governance processes that would be instituted to control and monitor the transition rigorously. TELUS was to state the risks associated with the transition and their impact on service delivery and the overall schedule. TELUS was also responsible for the risks associated with the proposed transition plan and for the measures needed to manage them.

According to the schedule presented in the executive summary for the two contract awards, the period for taking charge of landline telephony and data transmission services was to conclude at the end of 2008.

Furthermore, according to the landline telephony specifications, TELUS was to carry out the migration to VoIP telephony in accordance with the terms stated in the price chart. The specifications did, however, mention that the company could reach an agreement with the City to alter the plan for migration to VoIP telephony.

**FINDING**

**We nonetheless found that the transition plans for taking charge of landline telephony and data transmission are still incomplete, although the contracts were awarded over two years ago.**

**FINDING**

**At the time of our audit, approximately 11% of the Centrex telephone lines and 20% of the network jacks for data transmission had been migrated. We also found that migration to VoIP telephony had not been started.**

### 3.1.2. FINANCIAL CONDITION OF THE PROJECT

#### 3.1.2.A. Background and Findings

As shown above in Table 1, the total amount of authorized expenses for the three contracts stands at \$108 million, including a 20% contingency reserve for the delivery of additional goods and services.

The amounts allocated in the agreements are maximum amounts and they apply to the full duration of the contracts. Any changes to these financial allowances that prove necessary must be addressed in an addendum.

The executive summary for the contract awards stated that the effort to outsource telecommunications services was among the objectives targeted in the city-wide review of activities, services, operations and programs (RASOP). One of these objectives was to optimize use of the City's telecommunications networks. **To this end, the executive summary specified that these contract awards would result in savings of some \$50 million over a 10-year period.**

According to the executive summary, the main cost savings would involve landline telephony services and were largely predicated on the use of VoIP telephony, which was to begin gradually in the first year following the contract awards.

**FINDING**

As we shall discuss in greater detail in Section 3.4.3 of this report, our review of current project cost forecasts for data transmission and landline telephony revealed that the budgetary allowance initially provided by the municipal authorities, including the contingency reserve for delivering additional goods and services, has for all practical purposes been exhausted.

### 3.1.3. LIST OF UNRESOLVED ISSUES BETWEEN THE CITY AND TELUS

#### 3.1.3.A. Background and Findings

Several factors have contributed to the delay in carrying out the transition plans. To iron out the issues encountered and stimulate progress towards completing the plans, a joint problem-solving committee was established, with the task of recommending solutions to disagreements between the City and TELUS.

**FINDING**

At the time of our audit, 13 issues had been identified and were still under discussion, including especially the:

- need for clarification pertaining to the “per-jack service” model and the dedicated lines;
- inclusion of the SPVM under the data transmission contract;
- need for clarification on the active port model;
- management of the project’s security aspect;
- third-party billings.

It should be noted that the resolution of these issues could have major consequences on the project’s financial framework.

We will discuss the project’s history in the following section to achieve a better understanding of the various factors that have led to the current issues.

## 3.2. PROJECT HISTORY

### 3.2.1. STRATEGIC TELECOMMUNICATIONS PLAN

#### 3.2.1.A. Background and Findings

In 2003, the executive summary for the contract awards stated that the DSI, formerly known as the Direction des technologies de l'information (DTI) of the Service des affaires corporatives, gave CGI a contract to prepare a strategic telecommunications plan.

The contract awarded to CGI required several deliverables, the most important of which are listed below:

- taking an inventory of:
  - all telecommunications assets and functions used by the City,
  - service contracts and internal resources dedicated to telecommunications functions,
  - current telecommunications expenditures and the value of assets in use;
- designing the City's master plan for telecommunications over the short, medium and long terms;
- comparing the City's various options for acquiring telecommunications solutions;
- preparing specifications for acquiring the required telecommunications resources.

For each proposed acquisition option, CGI was also required to evaluate the nature of the technological and financial risks that the City would have to assume.

The process was conducted in six phases over a two-year period, from June 2003 to June 2005:

1. Start-up .....June 2003
2. Inventory of features .....October 2003
3. Identification of future needs .....October 2003
4. Strategic directions .....June 2004
5. Purchasing scenarios .....January 2005
6. Specifications.....June 2005

After completing its inventory of telecommunications assets, functions and needs in May 2004, CGI issued its diagnostic report, which highlighted the following findings:

- the network's limited capacity to support an expanding range of applications;
- an insufficient level of reliability for critical corporate applications;

- a high degree of obsolescence in the network and related equipment;
- the inability of the current network to provide remote access to data.

In addition, CGI recommended the following strategic directions, namely to:

- provide sufficient capacity to meet new business needs;
- ensure the availability of critical corporate applications;
- plan network updates and the associated investments;
- deploy remote data access over the entire territory;
- benefit from economies of scale by adopting a unified planning approach;
- institute a security framework to ensure data confidentiality, integrity and availability;
- establish an annual revision cycle for the plan.

At the conclusion of its work in June 2005, CGI submitted proposed specifications for use in the next call for tenders. These specifications covered all of the following services: data networks, landline and wireless telephony, security and call centres. CGI confirmed the aforementioned strategic directions in these specifications and proposed the [translation] “user-planner” method of acquisition, which involves transferring the telecommunications services and their operation, including ownership of the assets, to the winning bidder. Under this method, the City would retain its planning and tactical management roles.

One year later, in May 2006, the DSI presented the chair of the executive committee with conclusions from the process involved in drafting the strategic plan and recommended an acquisition process that will be discussed in Section 3.2.3.

Pursuant to its contract, CGI completed the six designated phases for drafting a strategic telecommunications plan and recommending the best acquisition method. The conclusions of each phase were included in presentation materials submitted to the DSI.

**FINDING**

**No formal strategic plan was drafted or subsequently adopted by the municipal authorities. Furthermore, we found that the strategic directions referred to in the executive summary were only distributed to a limited number of DSI employees. These directions had not been updated when the specifications of the call for tenders were adopted, neither had they been subjected to a risk analysis that would assess the consequences of the selected outsourcing method and possible mitigating measures.**

### 3.2.2. DRAFTING OF SPECIFICATIONS

#### 3.2.2.A. Background and Findings

In August 2005, the DSI consulted the Gartner firm to determine whether the specifications proposed by CGI complied with best industry practices. Based on its study, Gartner recommended that the specifications be revised and that an outsourcing approach be adopted in which the City would be responsible for defining its needs and expressing them in terms of service levels, rather than merely retaining the right to have a say on network solutions.

According to the information obtained, a contract worker under the supervision of a DSI manager was responsible for amending the specifications. A second contract worker assisted with the preparation of a set of specifications whereby the contract would go to the lowest compliant bidder and with the subsequent drafting of three sets of specifications.

#### **FINDING**

**In fact, the responsibility for preparing the specifications that had led to these three calls for tenders was for all practical purposes limited to this team of three people.**

#### **FINDING**

**Moreover, key city experts in telecommunications and computer security were hardly consulted, if at all. In one case, they were even excluded from the project.**

**As a result, various needs were not considered or remained ill-defined when the specifications were drafted.** Here are a few examples:

- the landline telephony specifications stated that the City owned all of its Centrex telephone sets and all of the telephone cables in its buildings, which proved to be untrue;
- the City did not have a complete inventory of the services that it received from its former landline telephony supplier;
- the City did not have a complete, up-to-date inventory of its Centrex lines, telephone jacks and network (Ethernet) jacks;
- the data transmission specifications stated that only the (PC) workstations used network jacks, whereas a great many peripherals (such as printers and photocopiers) used network jacks as well. These specifications excluded one of the City's main security systems under the pretext that it ran on an independent network, while it actually relied partly on the data transmission network.

Furthermore, it had already been decided even prior to the date set for the opening of the bids that any major change to the information provided to potential bidders or to the requirements stated in the tender documentation would require the writing of an addendum.

**FINDING**

In this regard, we found that potential bidders raised many questions after receiving the two tender documents, forcing the Direction de l'approvisionnement to issue several addenda. We also noticed that multiple inventory statements were sent to the bidders during this period. Moreover, some of these statements were revised<sup>1</sup> and had to be sent again.

**FINDING**

During our audit, we also observed that the landline telephony specifications required bidders to take into consideration the new "311" call centre, which would serve as a single point of contact for all requests from the public. Through an addendum, however, this call centre was excluded from the specifications without any explanation or notification to those in charge. Moreover, this exclusion was extended to all other municipal call centres in operation (such as the DSI help desk).

**FINDING**

According to the specifications, the management of the SPVM's data transmission network should have been entrusted to the designated supplier. The SPVM objected, however on grounds of its high security standards. According to information obtained from the SPVM's head of telecommunications, the SPVM objected on several occasions to outsourcing the management of its network. The head of telecommunications also told us that many changes were made to the specifications in the weeks preceding the calls for tenders, although they were never submitted to him for verification.

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<sup>1</sup> See Section 3.6.4. of this report.

### 3.2.3. ACQUISITION PROCESS

#### 3.2.3.A. Background and Findings

Different directions were considered throughout the process that led to the three calls for tenders. Note that the opinion of the Division du droit contractuel was sought at various stages of the acquisition process.

First, CGI prepared specifications for acquiring the telecommunications resources. At this point, the selected procurement strategy was to go to the market with a single call for tenders that included all resources and to use the tender weighting and assessment system.

During the summer of 2006, according to the information we obtained, the DSI recommended retaining the single call for tenders but using the lowest qualified bidder as the basis of selection. The specifications prepared by CGI were not used in the tender process.

#### **FINDING**

**However, during a presentation in the fall of 2006 to the chair of the executive committee, the director general and the director of the Service des affaires corporatives, the fundamental directions set forth in the strategic plan (i.e. awarding all telecommunications services to a single supplier through a single call for tenders) were challenged.**

#### **FINDING**

**During a subsequent presentation, the DSI asserted that issuing multiple calls for tenders would require revising the specifications and would delay completion of the tender process. The DSI was also of the opinion that operational logistics would be more complex, since there would be several contracts to manage. It also believed that the selection of more than one supplier would further complicate the project because of the perceived need to manage the relationships between the various suppliers, who are often competitors.**

In parallel, within the scope of the city-wide review of activities, services, operations and programs (RASOP), the IT committee recognized the project to outsource telecommunications as a potential source of major savings and recommended that a call for tenders be issued as soon as possible.

Finally, according to the information we obtained, city management decided during the spring of 2007 to split the specifications and conduct three calls for tenders.

**The foregoing situation with respect to the acquisition process resulted in the following issues:**

- The decision to split the specifications into three calls for tenders, combined with the upcoming expiration of two major service contracts (telephony and network operation), created a situation that lent itself to the drafting of specifications that were difficult to interpret and that could therefore lead to some confusion.
- The DSI's commitment to optimizing telecommunications services within the framework of the city-wide review of activities, services, operations and programs (RASOP), which should have yielded major savings, helped to increase the pressure to issue a call for tenders as quickly as possible.
- The specifications stated that the City wanted a model that would enable it to pass on the costs of telecommunications services to the business units according to a shared service centre (SSC) model. Yet the fact that the billing model had not been adequately defined in the specifications led to differing understandings of this need by the City and TELUS.
- The objective of the specifications was to select a supplier capable of providing the desired services according to a "per-jack service" model. However, the fact that the "per-jack service" concept had not been defined in the specifications prevented the City and TELUS from agreeing on a joint definition of this concept. At the time of our audit, this item was one of the unresolved issues between the City and TELUS.
- According to the desired objective, the choice of solutions was left to the supplier who would, however, become responsible for meeting service levels. Although the specifications suggested that service levels were result-oriented, they introduced factors pertaining to solutions that the winning bidder would have to implement.

Among these factors, we noted the statement that *[translation]* "the bidder shall assume that each LAN port shall require 32 Kbps MAN per port. This arbitrary figure establishes common assumptions for comparison purposes". Indicating this type of value went against the very objective of the specifications, as it absolved the supplier of responsibility for service levels to be achieved. Furthermore, the inclusion in a single set of specifications of factors

imposing obligations in terms of solutions and results could lead to conflicts and disputes between the parties. At the time of our audit, this item was one of the unresolved issues between the City and TELUS.

- More than two years after the contracts were awarded, a lack of understanding persists between the needs that the SPVM expressed and those stated in the data transmission specifications.
- In the data transmission specifications, the supplier was required to replace all of the equipment that had been in use for more than five years. To satisfy this requirement, TELUS proposed replacing the City's switching equipment with hardware that did not correspond with the City's established practices. However, we found that this requirement was not mentioned in the specifications, nor was it raised by the committee during the technical compliance analysis.

Furthermore, we were informed that the SPVM's telecommunications network was subject to security policies from its partners, including the Royal Canadian Mounted Police and the Sûreté du Québec. However, the equipment that TELUS proposed did not correspond with the long-established practices of the SPVM.

### **3.2.4. ANALYSIS OF BIDS**

#### **3.2.4.A. Background and Findings**

Analysis of the bids is a two-part process consisting of an administrative and a technical analysis. This is the stage at which criteria for acceptability and compliance, if defined in the tender documents, are verified to determine any non-compliant bids to be rejected.

After opening the bids, the Direction de l'approvisionnement performs an analysis of administrative compliance for each bid received. Several factors in particular are verified, such as:

- the price list (multiplication, addition and applicable taxes);
- the bid form (signature and original copy);
- the inclusion of a bid security that must correspond with the tender document requirements with respect to its form, period of validity and value.

Only bids deemed compliant in the course of this administrative analysis are to be submitted for technical analysis. Although the project leader is responsible for this analysis, it is conducted under the aegis of the Direction de l'approvisionnement. In this case, the DSI was responsible for conducting the technical compliance analysis.

According to the information we obtained, the technical compliance assessment begins with the lowest bid whenever the contract is to be awarded to the lowest qualified bidder. If that bid is declared technically compliant, the process ends without assessing the compliance of the other bids.

With regard to the compliance of bids, Section 2.1.15 of the specifications stipulated that *[translation] "for the purposes of compliance, for every clause marked with an \*, the bidder must specifically identify in its bid the solutions that it proposes for meeting the City's requirements relative to the clause in question and any sub-clauses thereof, under penalty of rejection of the bid"*.

**FINDING**

**In this regard, we found that the bidders were not required to demonstrate their technical compliance with all clauses in the specifications. Owing to this omission, the technical assessment committee was not required to verify each bidder's compliance with respect to these clauses (such as the clauses in Section 4 of the specifications, pertaining to management of inventory, service levels and billing).**

**The aforementioned situation with respect to analysis of the bids caused the following problems:**

- the City had set out the criteria for eligibility and compliance that it intended to apply to determine the bids' compliance in the case of the two calls for tenders. However, although the City asked the suppliers to submit a price for service according to the "per-jack service" model, we found that TELUS added a rate based on a "per-port model" to the price chart in its bid for the data transmission component;
- TELUS's addition of this rate altered the terms of the tender documents because the bidders had been asked to propose a maximum monthly price for each of the items on the price chart, which was to include all costs, charges, professional fees and royalties, etc., required for delivering the service. By adding this item to the price chart, TELUS introduced \$500 in non-recurrent fixed charges for the installation of new ports, which would also apply when TELUS initially took over all of the City's existing ports;

- the port concept introduced by TELUS relates to a model involving the management of network equipment, in this case switches. The City, however, wanted a “per-jack model”, involving the management of network (Ethernet) jacks;
- through our work we found that the DSI never verified the bidders’ understanding of what “per-jack service” meant or asked them to explain how they interpreted the term;
- preventing the technical committee from examining the billing clause relieved the committee of its responsibility for ensuring that TELUS was able to produce a bill in accordance with the “per-jack service” model. At the time of our audit, however, TELUS still had not submitted a billing model that met the City’s requirements;
- this finding also applies to the clause pertaining to the management of service levels. In this case, the committee was not required to ensure that TELUS would be able to generate the reports needed to verify fulfilment of the service levels and that those reports would be available from a secure Web site. At the time of our audit, these reports still were not available.

### 3.2.5. TECHNICAL COMPLIANCE

#### 3.2.5.A. Background and Findings

As previously noted, a committee had been tasked with analyzing the technical compliance of the bids for telephone services and data transmission.

**FINDING**

**The committee’s report stated in both cases [translation] “that the TELUS bid had been reviewed and appeared to be compliant with the requirements set forth in the specifications”. The committee reported, however, that TELUS had issued comments on several occasions after accepting the requirements and was developing scenarios that could lead to confusion. The committee recommended confirming that TELUS fully accepted the requirements in the specifications and that it would deliver the services in accordance with the specifications at-hand and not on the basis of its own scenarios. For both reports, the committee attached a list of the clarifications to be obtained.**

After receiving these recommendations, the Direction de l’approvisionnement, together with the Division du droit contractuel, requested TELUS to participate in two meetings—one on landline telephony, the other on data transmission—to obtain these clarifications. When the agreements between the City and TELUS were subsequently drafted, the clarifications that had been

obtained were recorded in an appendix prepared by the Division du droit contractuel for each of the two agreements.

In the notes that it prepared in advance of the clarification meetings, the Direction de l'approvisionnement finally stated that *[translation]* "the points at which you would offer cost savings to the City if you were awarded the two contracts will be discussed, since the City remains at liberty to negotiate a lower price with the lowest qualified bidder".

**This situation regarding the issue of technical compliance caused the following problems:**

- In the course of our work, we were unable to determine that the City had requested a lower price based on TELUS's comment that *[translation]* "should TELUS be selected in the calls for tenders for landline telephony services and data transmission services, a pooling of the resources listed in these two specifications would enable TELUS to offer the City of Montréal much more attractive prices for these activities".
- Based on our work, we found that the committee also recommended that other items be clarified, although these items were not clarified with TELUS. The following are among the most important items that the committee recommended:
  - To obtain confirmation from TELUS that TELUS was responsible for supplying the survival kits<sup>2</sup>. At the time of our audit, however, the item concerning the terms for the survival kits was one of the unresolved issues between the City and TELUS.
  - *[Translation]* "[T]o obtain confirmation from TELUS that it understood the City's requirements for the issue of the CMDB (database of inventories and configurations) and would fulfil them". In this respect, the specifications provided that the supplier had to maintain an up-to-date CMDB that the City could access in real time.

TELUS still has not provided the City's representatives with the required access to the CMDB. This situation stems from the fact that TELUS has never been required to demonstrate (prove) that it met the requirements, despite the committee's recommendation in this regard.

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<sup>2</sup> UPS equipment that can supply back-up power in the event of a power failure.

### 3.2.6. FINANCIAL ANALYSIS

#### 3.2.6.A. Background and Findings

When the contracts were awarded, the agglomeration council, in conjunction with the Service des finances, recommended that the DSI review the financing and the budgetary allocation of these three contracts to:

- reap their expected gains;
- apportion investment and operation costs over the coming years;
- find the best financial solution for financing the entire project.

We should recall that the project to outsource telecommunications service had been identified as a major source of cost savings for the City as part of the city-wide review of activities, services, operations and programs (RASOP). The project's executive summary furthermore stipulated that awarding the three contracts would yield cost savings on the order of \$50 million over a 10-year period.

The designated model for billing the various business units should have been set up as follows:

- The existing account assignment model would be maintained for telephony;
- As appears in Table 2, the data transmission costs currently assumed by the DSI would be transferred to the business units according to the user pays principle, once Centrex telephony was migrated to VoIP telephony, without impact on their budget funds.

**Table 2—Cost Transfers Assumed by the DSI**

	Centrex telephony*	IP telephony*
Line	\$28.13	\$8.50
Voicemail	\$0.00	\$0.20
Data port	<u>\$0.00</u>	<u>\$19.00</u>
Total	\$28.13	\$27.70

\* Monthly cost.

**FINDING**

During our meetings with representatives of the Direction des opérations budgétaires (DOB) of the Service des finances, we were informed that the DOB had been under pressure to conclude its work as quickly as possible because of the anticipated size of the savings and the impending expiration of the two large service contracts (telephony and network operations).

**FINDING**

We were also informed that no financing package had been prepared before the contracts were awarded and that the \$50 million savings estimate was unsubstantiated. Furthermore, there were no funds allocated to the CET's operating expenses in the initial project budget.

**FINDING**

Our analysis of the documents which we were provided revealed that the DOB had expressed reservations with respect to statements in the executive summary prepared by the DSI, the standard-bearer for this issue. The cited items indicated that:

- the average savings of \$5 million per year had been based on a 10-year reference period, whereas the three agreements had durations of 10, 7, and 4 years;
- the savings forecast had been [translation] "estimated" based on information supplied by the DSI;
- the file revealed neither a source for, nor an allocation of, the appropriations;
- the current budget process would not allow for the recovery of savings resulting from the establishment of new agreements in the boroughs. In particular, the City could not recover savings from the boroughs, as it could from the central departments.

**FINDING**

Additionally, we found that the DOB, despite openly expressing its serious concerns, had nevertheless issued a favourable opinion of the recommendation to award the contracts. Ultimately, the DOB's work on this case ended in November 2008, although the requirements in the council's resolution had not been met.

**The above situation with respect to the financial analysis caused the following problems:**

- In the absence of a financial framework at the time the contracts were awarded, the City could not have considered the possibility of funding the equipment supplied by TELUS under the two contracts. However, the City, with its very attractive borrowing rate, could have secured lower prices;
- The discussions between the Service des finances and the DSI reached an impasse because the DSI had not been able to:
  - Reconstruct the details of the annual telecommunications expenses used in the executive summary to justify savings of \$50 million, thereby casting doubt upon the expected gains,
  - Find the best financial solution for financing the overall project, including allocation of data transmission costs to the business units;
- The information used to establish the amount of savings listed in the executive summary did not take into account the contingency reserve of \$18 million (or 20%), including taxes. The municipal authorities were accordingly advised that savings would be \$50 million when in fact the figure was closer to \$32 million.

### **3.2.7. CENTRE D'EXPERTISE EN TELECOMMUNICATIONS (CET)**

#### **3.2.7.A. Background and Findings**

As previously noted, the DSI established the CET with the mission of conducting strategic planning, overseeing service levels, managing contracts and optimizing telecommunications services.

According to the documents obtained, the CET is expected to become *[translation]* “a program consisting of multitalented resources that can simultaneously demonstrate and exercise the following skills:

- *contract management;*
- *project management;*
- *change management;*
- *communications management;*
- *technological watch;*
- *specialization in monitoring service level agreements (SLA);*
- *specialization in benchmarking”.*

The DSI asked the firm Secor to develop an appropriate organizational model for the CET. In its final report, dated June 12<sup>th</sup> 2008, Secor emphasized the need for an evolving team that would:

- switch from a resource-management to a results-management mode;
- be able to ensure compliance with the service level agreements (SLAs) and costs set out in the contract;
- be able to issue appropriate second expert opinions on the solutions recommended by TELUS.

Secor also recommended that the CET, as manager of outsourcing, be set up to maintain its role of [translation] “exerting leverage” over the outsourcer. It also suggested a change-management strategy to adopt in response to the transitional challenge represented by the implementation of a project of that type.

Once TELUS had taken control, therefore, the CET’s work was to be limited to ensuring that:

- the services were being rendered properly, according to the service level agreements (SLAs).
- bills matched the rates stipulated in the contract.
- the solutions recommended by TELUS corresponded with the City’s needs and interests (technological watch).

During its first few months, the CET was staffed by nine people, the great majority of whom were outside consultants. Nonetheless, after the *en masse* departure of contract resources in December 2008 and the departure of several members of the DSI’s management team, the new DSI management team was compelled to set up a new staff for the CET.

At the time of our audit, the CET’s staff consisted of 25 people, all of them internal and most working on the transition of services to TELUS. The City’s hiring freeze caused a delay of almost 12 weeks before the CET obtained permission to fill 12 of the positions on its staff.

**The above situation concerning the CET highlighted resistance to change with respect to Secor’s mission.**

To remedy this situation, Secor recommended that change occur through the establishment of a new organization, the hiring of personnel with the additional qualifications required and the gradual transfer of existing staff to that organization with a training plan, where appropriate. To this end, change-management and human resources management teams would be involved throughout the transition process.

**FINDING**

**We found that Secor's recommendations have still not resulted in a formal action plan, as we shall show in Section 3.5.1 of this report.**

### 3.2.8. DUE DILIGENCE

#### 3.2.8.A. Background and Findings

Two months after being awarded the contracts, TELUS submitted a document containing the transition plan and the report on changes in discrepancies, which is usually known as the due diligence report.

The DSI, however, rejected this report. The main reason for the DSI's negative response was that TELUS was requesting adjustments that would entail additional costs to the City of some \$11 million. Moreover, contrary to the established process, TELUS was requesting a monetary adjustment per [translation] "port", whereas it had been agreed that only the unit prices submitted could be changed.

After the due diligence report was rejected, an effort was launched to clarify issues between TELUS and the DSI. This initiative resulted in TELUS's filing a revised version of the due diligence report on July 3<sup>rd</sup> 2008, which was approved by the DSI on July 9<sup>th</sup> 2008.

**FINDING**

**With respect to the due diligence report approved by the DSI, we found that TELUS had not requested any adjustment to the proposed unit prices. However, the report did refer to the discovery of digital lines, which resulted in a monthly surcharge of \$8.33 per line and a reduction in the number of VoIP telephones.**

Furthermore, the DSI did not approach the Direction de l'approvisionnement for its approval until negotiations had concluded.

**FINDING**

The Direction de l'approvisionnement, which did not take part in the negotiations, brought the following two points to the DSI's attention:

- the City had correctly notified the bidders of the existence of digital lines and was questioning the validity of the \$8.33 monthly per line surcharge that TELUS was seeking;
- the reduction in the number of VoIP telephones would have an effect on the City's total bill, and any major discrepancy between the forecast rollout of VoIP technology and the number of lines actually installed would have a budgetary impact.

**FINDING**

Despite the points that were raised, the DSI nonetheless signed the due diligence report without obtaining the approval of the Direction de l'approvisionnement.

**FINDING**

Moreover, despite the fact that several items had a financial impact on the project costs, the due diligence report provided no overall cost assessment to the City.

The situation discussed above regarding the due diligence report caused the following problems:

- Two outside consultants defended the City's interests during the issue clarification process. Although these consultants kept the head of the CET well informed, they did not have all of the information required, since they lacked an in-depth knowledge of the case and of the City's activities and internal workings;
- The consultant that took part in drafting the specifications and who had acted until that point as the project's principal contractor had been dismissed shortly before the negotiations;
- Our work led us to observe that several items mentioned in the due diligence report have a financial impact on the project cost. The following are among the most important:
  - The call centre and auto-attendant solutions that could distribute calls were excluded from the proposal, for both Centrex and VoIP telephony,
  - A \$500 fee for taking over each existing port applied when TELUS initially took charge of the network,

- A \$500 fee applied for each additional port in excess of the upper limit of active ports established in the due diligence report,
- A monthly surcharge of \$8.33 per line was billed to the City after the discovery of some 3,000 digital analogue lines,
- The Evergreen program to update the equipment covered only 500 switches over five years, whereas due diligence had set this number at more than 790. If the SPVM's switches, which were not considered during due diligence, are included, this number exceeds 1,100;
- After due diligence, the then-director of the DSI estimated that the anticipated savings of \$50 million would have to be revised downward to \$40 million. According to the director, this reduction was attributable to the following factors:
  - A reduction in the number of Centrex lines to be converted to VoIP telephony,
  - Costs associated with the discovery of the digital lines,
  - Costs associated with the increase in the number of ports that the winning bidder would have to support,
  - The cost of improvements required to municipal facilities.

### 3.2.9. MIGRATION OF THE TELECOMMUNICATIONS SYSTEM

#### 3.2.9.A. Background and Findings

Summary transition plans for the migration from Centrex landline telephony to data transmission and VoIP telephony were accepted at the management committee meeting on June 20<sup>th</sup> 2008, with TELUS and DSI representatives attending.

Under these plans, TELUS would conduct pre-visits to approximately 250 sites housing telecommunications infrastructure and to approximately 112 additional landline telephony sites. These visits were intended to prepare the facilities to accommodate new equipment, to enhance certain switches as needed and to bring the sites' electrical facilities up to standard.

TELUS, however, had to upgrade the telecommunications rooms. However, contrary to the information provided by the City during the tender process, it was the City, not TELUS, that assumed the cost of more than \$306,000, including taxes, to upgrade the facilities.

The pre-visits occurred over a period much longer than had been anticipated, however, because of TELUS's difficulties accessing the sites. These problems were partly due to a lack of planning. At the same time, in October 2008, TELUS replaced its project director.

**FINDING**

**As stipulated in the contract, TELUS had to take over the Centrex telephone services on November 1<sup>st</sup> 2008. Difficult negotiations with the former supplier, however, delayed resale<sup>3</sup> of the City's telephone lines, leading to complications in the processing of requests for changes, additions and moves (CAMs) for the City's telephone services.**

During the November 6<sup>th</sup> 2008 meeting between the CET and TELUS, the City expressed its reservations about the project. These concerns were magnified by the problems that occurred after the resale. The CET therefore requested a plan for corrective action, which TELUS produced on November 13<sup>th</sup> 2008.

In a letter to TELUS dated November 7<sup>th</sup> 2008, the DSI's representative stated that the City would continue to deal with its former supplier until the conclusion of the resale agreement and that all bills received from its former supplier would be charged against the amounts that the City had to pay to TELUS. The agreement for the resale of the City's Centrex lines was finally concluded between Bell and TELUS in November 2008.

After receiving TELUS's plan for upgrading and taking charge of the data transmission network as of December 1<sup>st</sup> 2008, the new acting director of the DSI requested in a letter dated November 21<sup>st</sup> 2008 that TELUS submit a new plan for corrective action to replace the one received on November 13<sup>th</sup>, which had been deemed unacceptable.

Furthermore, after the discovery of anomalies in the management of general agreements at the DSI and the departure of the consultants in charge of deploying contracts at the CET, the DSI sent TELUS a request for a moratorium to suspend the project for three months so that:

- TELUS could catch up;
- The CET could rebuild its team, which was composed almost exclusively of outside consultants.

On December 24<sup>th</sup> 2008, in reply to the request for a moratorium, TELUS's vice president, public and parapublic markets invoked the terms of the agreement and sent the City a notice of delay.

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<sup>3</sup> Resale is the sale by a supplier of a telecommunications service—in this case, telephone lines—to another supplier of telecommunications services.

After receiving the notice of delay, the acting director of the DSI outlined the situation during a meeting with the director general on January 12<sup>th</sup> 2009. An assessment of various options for breaking the deadlock was also made at that meeting.

In January 2009, after the DSI appointed a new project head, the City and TELUS held meetings to define a joint remedial plan.

**FINDING**

**Nonetheless, the delay in the migration plans and the fact that TELUS was still completing the landline telephony resale created heavy pressure to initiate the migrations as soon as possible. Under these circumstances, the proofs of concept were limited to the migration of the site at 465 Saint-Jean Street.**

**FINDING**

**Once the site was ready, the other migrations began. However, after the emergence of technical problems that occasionally resulted in service interruptions or operational failures, the migration of Centrex telephony was suspended on August 5<sup>th</sup> 2009.**

At the time of the suspension, approximately 11% of the Centrex-type lines had been migrated.

After this halt, a meeting between DSI management and TELUS was held on August 26<sup>th</sup> 2009 to clarify the situation and encourage resumption of the work. An exchange of correspondence then ensued between the City and TELUS on expected results following this meeting.

The situation for data transmission was similar: migration had begun but was also suspended on September 18<sup>th</sup> 2009. At the time migration was halted, 20% of the network jacks had been migrated.

In October 2009, the City and TELUS held a meeting to create a new game plan. This meeting led to the establishment of a joint issue-solving committee. During our audit, we obtained a list of the 13 issues that the committee was to address, some of which have already been mentioned in this report.

In addition, the DSI announced a second phase of migration of the Centrex telephone lines to TELUS on February 24<sup>th</sup> 2010. According to the release issued on this subject, this second phase was expected to end on June 30<sup>th</sup> 2010. Finally, a third and last phase would be initiated.

We were also advised that the data transmission migrations were scheduled to resume on April 6<sup>th</sup> 2010.

According to the information obtained, however, the migration of [translation] “sensitive” sites, such as the SPVM and the SSIM, would not be performed until TELUS had supplied, and the City’s management had approved, the required analyses of risks and impact.

According to the information obtained, no date has yet been set for the migration to VoIP telephony.

**This situation concerning the takeover of the telecommunications system caused the following problems:**

- According to the person in charge of migration for the City, migration was suspended after various technical problems and issues of verification, organization and project monitoring were observed that affected the work of users or prevented the delivery of high-quality services;
- The underlying reasons for the suspension of migration were numerous. Among the most prominent was the absence of analyses of risks and impact that would have resulted in more attention to “sensitive” sites. In this respect, a migration project should not only address technical matters but also take into account the continuity of the City’s services and operations. These problems also stemmed from the lack of a complete inventory of the equipment and features that the City used;
- Following these events, it was evident that the City did not wish to continue with the migration until the prerequisites had been met. Among the most important preconditions were these:
  - TELUS’s taking charge of security aspects,
  - Analyses of risks and impact incorporated into the migration plans,
  - A project plan meeting the City’s expectations;
- Since no analysis of risks and impact had yet been produced, the City requested that analyses pertaining to landline telephony and data transmission be performed for the SPVM, the SSIM and some of the City’s critical sites. TELUS produced these analyses, but the City has not yet received the additional information that it requested from TELUS;

- As for the project plan, the City once again asked TELUS, as outsourcer, to provide a project organization manual (POM) covering the entire project, including a detailed list of all activities, resources and expertise required and the implementation timetable;
- Because of the delay in migration, the former suppliers continued to deliver services to the City as before. In the absence of a contract with these suppliers, the City has been obliged to pay for the services rendered so as not to lose service, especially for landline telephony but more specifically for data transmission, although this responsibility falls to TELUS.

Moreover, with regard to the project's history, we made recommendations for some of the problems mentioned above in our prior reports and the City took action accordingly. Also note in particular the *Cadre de gestion des projets et des programmes*, which was in the approval process at the time of our audit. In principle, this framework should have reduced the risk of more problems like these during future projects or programs. We shall examine this framework during our future audits.

### 3.3. INDICATIONS OF IRREGULARITIES DURING THE PURCHASING PROCESS

#### 3.3.A. Background and Findings

We have examined the process for purchasing telecommunications services, paying special attention to the warning signs of possible departures from the applicable laws and regulations, of conflicts of interest and of irregularities. Specifically, some parties involved in the frauds mentioned in the "Audit Scope" section of this report also played leading roles in the process for purchasing the services in question.

Our audit included in particular a review of the tender documents, the bids and the information obtained during the City's investigations of the aforementioned frauds, as well as other measures that we deemed necessary under the circumstances. Otherwise, we did not meet the representatives of the parties concerned or any of the aforementioned parties that were no longer employed by the City or under contract to the City at the time of our audit.

**FINDING**

Our review revealed serious indications of irregularities surrounding the process of awarding the telecommunications service contracts that are the subject of this audit. Under the circumstances, and in consideration of the limited investigative powers vested in the City's general auditor, we have notified the police of this matter in accordance with the *Cities and Towns Act* and have offered them our full cooperation. To avoid interfering with any police investigation, we shall abstain from commenting further on this matter.

### 3.4. ISSUES OF IMMEDIATE CONCERN

#### 3.4.A. Background and findings

Our analysis of the facts presented in Section 3.2.2, concerning the history of the project, has exposed a number of problems and issues. The following are among the most significant:

- no strategic plan for telecommunications was ever drafted or approved by the municipal authorities;
- the strategic directions for telecommunications have been only disclosed to a limited number of DSI employees, have not been updated and have not been subjected to any risk analysis;
- the purchasing strategy and the specifications have been modified several times;
- key stakeholders have hardly been consulted, if at all;
- a number of needs were not considered or were ill-defined when the specifications were being drafted;
- the decision to split the specifications into three calls for tenders created a situation that lent itself to the writing of specifications that were hard to interpret and that could lead to some confusion;
- the DSI's commitment to achieving major savings within the framework of the city-wide review of activities, services, operations and programs (RASOP) contributed to the decision to issue calls for tenders as quickly as possible;
- more than two years after the contracts were awarded, there are still disagreements on the needs expressed by the SPVM;
- although the City had requested a price for services based on the "per-jack service" model, TELUS proceeded to provide a rate based on a "per-port" model;
- the DSI neither verified the bidders' understanding of what "per-jack service" meant nor asked them to explain how they interpreted the term;

- the comments of the Direction des opérations budgétaires of the Service des finances, which expressed a number of reservations concerning the decision to award the contracts, were removed from the decision file without the consent of the DOB;
- no financing package was prepared before the contracts were awarded, and the estimate of \$50 million in savings was unsubstantiated;
- approximately 11% of the Centrex-type lines and 20% of the network jacks for data transmission had been migrated;
- no migration toward VoIP telephony was performed, and no date for this migration has been determined to date.

Furthermore, on February 24<sup>th</sup> 2010, the DSI announced a second phase for migrating the Centrex telephone lines to TELUS and another phase for data transmission that was scheduled for April 6<sup>th</sup> 2010.

We shall address issues that particularly caught our attention in this section, by describing their impact on the project and, in some cases, consequences for the project's financial structure.

We shall also present recommendations arising from our audit in this section.

### 3.4.1. PRIORITIZATION OF OUTSOURCING OBJECTIVES

#### 3.4.1.A. Background and Findings

##### **FINDING**

**We found that the objectives and the issues related to the outsourcing of telecommunications services are interpreted and prioritized differently by the various groups of stakeholders. Specifically, the people that we consulted have different opinions on the philosophy of outsourcing and therefore do not agree on the respective roles and responsibilities of the City and the winning bidder. These differences are creating some confusion about the ways to resolve current issues.**

First of all, let us emphasize that the drafting of a strategic plan for telecommunications is at the root of the desire to outsource telecommunications services. As previously noted, this plan, to which the recommendation for outsourcing refers, was never formally adopted, was never distributed to the stakeholders, has not been updated since 2006 and has not been monitored. In other words, everyone can rightly or wrongly find arguments to support his or her understanding of the issues and their solutions.

This lack of a formal plan was exacerbated by the departure of resources that contributed to its design and to the drafting of the specifications. This factor has left a huge hole in the organization's collective memory. Indeed, we had trouble obtaining, and even reconstructing, all of the information that we deemed relevant to an understanding of the reasons behind the contract documents. Thus, it comes as no surprise that the current stakeholders have also had trouble developing a clear vision of the objectives and impact of the outsourcing strategy, especially since the DSI's management team, concerned as it is with rebuilding the CET's staff, has not been able to devote much attention to managing change among the stakeholders.

Second, the retention in each call for tenders of strictly operational and day-to-day aspects related to services and of much more strategic aspects related to the development of the networks has created problems of interpretation between the obligations of results and the obligations of means imposed upon the winning bidder and in light of the prerogatives that the City intends to retain.

This problem was raised by Gartner in its analysis of the preliminary tender documents in 2005 and has been confirmed by the experts whom we asked to analyze the current contracts. It has inevitably led to discrepancies in the various stakeholders' understanding of the priorities to set for the performance indicated in the contract documents, the winning bidder's margin of manoeuvre with respect to resources available to it and the role that the municipal authorities should play in managing and supervising the contracts.

Divergent positions and interpretations of the objectives of these outsourcing contracts and the two parties' responsibilities have emerged ever since the due diligence was performed. Efforts have been made over the past few months to structure these discussions and drive them forward. The respective teams have been reorganized, a mixed issue-solving committee has been established and a more propitious atmosphere for discussions has prevailed. Nonetheless, two years after these contracts were awarded, these difficulties of interpretation persist.

**Without a clear vision of the objectives of the outsourcing contracts and their priority level, the issues that were identified by the two parties are likely to continue or, at best, be resolved inconsistently.**

#### 3.4.1.B. Recommendations

**We recommend that the Direction générale determine which outsourcing objectives shall be prioritized.**

**We further recommend that the Direction des systèmes d'information of the Service des immeubles et des systèmes d'information:**

- **ensure that both parties understand and acknowledge these objectives;**
- **take the necessary measures to incorporate them in the resolution of issues affecting network migration and contract management.**

### 3.4.2. PROJECT GOVERNANCE

#### 3.4.2.A. Background and Findings

We paid special attention to governance of the project to outsource telecommunications. In accordance with the supervisory model developed and distributed by the ICCA, we assessed the extent to which the project's current governance framework enjoys:

- A clear vision at all levels of the organization;
- Accountability and leadership that facilitate efficient decision-making;
- Sufficient available resources, expertise and managerial information;
- A process for oversight and learning that can guide activities toward the targeted objectives.

#### **FINDING**

**Beyond the problems linked to the clarity of vision and objectives that we discussed in the previous section, we agree with the Direction générale sur la gestion des projets majeurs on the need to strengthen the entire governance framework.**

First of all, for various reasons described above, the project has not incorporated best practices in resource management. The establishment of a transition team at the CET was difficult and entailed major delays, minimal change management within the team and limited expertise in the management of outsourcing contracts. Various organizational changes occurred and are expected to occur in the coming months, not only within the team but also throughout the accounting structure between the DSI and the Direction générale.

Limited expertise of the available outsourcing resources has imposed a weak form of management and accountability: the various co-ordinating committees are left to make decisions and monitor the work. DSI management is aware of these limitations but feels that it has no option but to maintain this modus operandi. In view of the constraints that the budget and the market impose on the recruitment of expert managers of outsourcing contracts, the DSI's management team believes that it cannot institute more effective project management.

Furthermore, the DSI has designed a monitoring and oversight system based on management dashboards and a log of outstanding issues. It has completed an exercise in risk assessment at the CET that helped enhance mobilization of its staff. This effort has not yet been incorporated, however, into a formal oversight and reporting structure that would not only foster a better understanding of issues by the chain of command but also the adoption of targeted, prioritized means of mitigating these issues. Finally, oversight of the migration effort and reporting to the Direction générale have so far been done on an essentially *ad hoc* basis.

**This transformation project is critical to the efficiency of all City operations and has major financial impacts given the duration of the contracts at stake. Consequently, a clear and rigorous governance framework strikes us as being essential to its completion.**

The DSI must, however, have the necessary resources to achieve this goal and has to reach an agreement with the Direction générale on a formal, simple and effective means of monitoring and accountability.

#### **3.4.2.B. Recommendations**

**We recommend that the Direction générale establish a governance framework that will formalize the frequency and content of reports, especially with respect to financial structure, high priority issues and meeting the objectives sought by outsourcing telecommunications services.**

**We also recommend that the Direction des systèmes d'information of the Service des immeubles et des systèmes d'information update the major risks and issues pertaining to the ability to manage the migration effort and the awarded contracts, as well as the mitigation tools that already exist or that will be established in accordance with a precise schedule.**

### 3.4.3. ANALYSES AND THE PROJECT'S FINANCIAL MODEL

#### 3.4.3.A. Background and Findings

##### Drafting of Specifications

As we know, City management decided in the spring of 2007 to split the specifications and to issue three calls for tenders.

**We believe that the division of one set of specifications into three introduced its share of inconsistencies. One inconsistency worth mentioning is the different durations of the contracts: the City awarded a 10-year contract for data transmission but only a 7-year contract for landline telephony.**

The inconsistencies in this case stem from the difficulty of managing these two contracts separately, since they are closely related. In particular, VoIP telephony, which is part of the contract for landline telephony, relies on the same technological infrastructure as data transmission.

Furthermore, by leaving VoIP telephony and landline telephony in the same set of specifications, the City was forced to deal with two competing suppliers, thereby running the risk of having to settle disputes between them.

It would have been more appropriate to separate the calls for tenders by going to the market with one set of specifications solely for Centrex landline telephony and another solely for data transmission and VoIP telephony.

**Furthermore, as previously noted, the City did not have a complete inventory of all services that it used from its former landline telephony service supplier.**

For instance, the City had privileged access to the infrastructure of its former supplier, which enabled it to program all lines in the City (for call forwarding, changes to the information on the call display, etc.) 3,000 to 4,000 times per year. The loss of this functionality will entail additional costs estimated at \$250,000 per year.

With respect to 311 service, it should be noted that an addendum excluded everything pertaining to call centres, including this service, from the call for tenders. As it happens, the 311 service ordinarily uses a shared platform, independent of the City, provided by the Centre de services partagés du Québec (CSPQ). In the event of a failure, however, a backup system belonging to the City could be called upon as a substitute.

The 311 service and the backup system, both currently served by Bell Canada, may nonetheless be compromised by their exclusion from the call for tenders. The change of telephone service supplier is likely to have a significant impact on call routing, which would require major changes to the configurations of the two platforms.

Finally, this system is also used on a daily basis by the Municipal Court, the SPVM and the DSI's service centre. The City will incur additional expenses to maintain the service provided by the former supplier.

As previously noted, the City sought a model that would enable it to pass on telecommunications costs to its business units under the CSP model. **However, inadequate definition of the billing model in the specifications caused the City and TELUS to interpret this need differently.**

**As a result, it has been impossible to apportion expenses among users properly, thereby delaying implementation of a user-pay model.**

With respect to the SPVM, it should be noted that differences in the understanding of its expressed needs persist more than two years after the contracts were awarded.

According to the data transmission specifications, migration to "per-jack service" was scheduled for completion by the end of the fifth year and the SPVM was to be involved in the migration process. The contract provided no budget after that period to cover the cost of circuits that did not satisfy the "per-jack service" model.

**In our opinion, if the SPVM's decision not to adhere to the "per-jack service" model is maintained, the documented problems could compromise the project's financial viability since this model did not provide for the maintenance of dedicated lines. Additional costs over the initial overall forecasts would inevitably result under such circumstances.**

### Analysis of Bids

As previously noted, although the City had requested a price for services according to a “per-jack service” model, TELUS added a rate to the price chart based on a “per-port” model.

Moreover, TELUS’s addition of this rate ran counter to the City’s requests. Although the City had requested a maximum monthly price, TELUS added non-recurrent fixed charges of \$500 for the installation of new ports and for existing ports.

**In light of these facts, we believe that TELUS, by adding this item, altered the characteristics of the “per-jack service” model that the City had requested.**

Finally, the concept of the specifications was based on the “per jack service” model, which would have enabled the City to develop according to its needs. Under this principle, the choice of solutions is left to the supplier, which must, however, meet expected service levels.

**Establishing or setting precise values of speed per port to be attained or maintained altered the basic principle of the specifications. The City sought through its call for tenders to set up a “per-jack service” model with specific service levels, rather than to continue managing solutions.**

Accordingly, the inclusion of a 32 kbps MAN per port figure in the specifications ran counter to their basic concept by effectively relieving the supplier of responsibility for achieving the desired service levels.

Furthermore, our work revealed that “per-jack service” is among the issues unresolved between the City and TELUS, despite the statement in the agreement to the effect that TELUS *[translation]* “accepts the various service level requirements in the project specifications”.

**In our opinion, the resolution of this issue, which could call into question the City’s primary objective of optimizing its telecommunications services, is imperative. Major financial consequences can also be foreseen, as the financial model does not include rates based on the addition of circuits required to upgrade the network, which would inevitably be needed if the “per-jack service” principle were abandoned.**

## Financial Analysis

As previously mentioned, the executive summary stated that the contract awards would yield savings on the order of \$50 million over a 10-year period.

### **FINDING**

**Since these contracts were awarded, no one has been able to substantiate the amount of these projected savings. Furthermore, there are indications that the method employed for determining the amount of the savings was flawed, because:**

- **the cost of the bids recorded in the executive summary did not take into account the 20% contingency provision;**
- **the savings were calculated through a straight-line extrapolation of telephony and cellular telephony contract costs over 10 years, rather than over 7 and 4 years, respectively;**
- **total savings were calculated by multiplying the amount of savings expected for the first year by the number of years in the contract of longest duration (\$5 million x 10 years = \$50 million);**
- **it is impossible to confirm that the allocation of prior costs reflected all of the telecommunications costs incurred by the various business units of the City.**

**Therefore, we found that the \$50 million estimate of savings was unsubstantiated, as did the Service des finances.**

## Due Diligence

In its due diligence report, TELUS claimed to have discovered some 3,000 digital Centrex lines. This discovery led to the signing of a change request (CR) to add this item to the price chart. Because of this addition, the City is required to pay a monthly surcharge of \$8.33 per line now that the CR has been signed.

As we shall see later in this section, a re-evaluation of the numbers reduced this figure to 2,006 lines. This surcharge still has a major financial impact on the City, since it involves an additional expenditure estimated at \$1.4 million before taxes, for the duration of the contract. This item will be discussed again in the next part of this section, which addresses the project's

financial model. Note, however, that this estimate will decline substantially as soon as the migration to VoIP telephony is complete.

Furthermore, we conducted an analysis to check the validity of the warning that the Direction de l'approvisionnement sent to the DSI expressing disapproval of this surcharge.

**After analyzing the information and inventory reports sent to potential bidders, we believe that they had adequate information regarding the use of this type of lines by the City. Accordingly, we consider this \$8.33 surcharge unjustified and think that it should have been taken into account in the actual quote rather than being the subject of a change request.**

As previously noted, the purpose of due diligence was to verify the information supplied by the City during the tender process. This information included the number of Centrex telephone lines, the number of Ethernet-type network jacks and the number of IP telephone lines for which the City wanted "per-jack service".

As appears in Table 3, the City provided in its price charts the figures on which the calls for tenders were based.

**Table 3—Amounts Listed in the Price Charts**

Year	Data transmission	Telephony	
	Network jacks	Centrex lines	VoIP lines
1	9,555	16,500	1,500
2	9,610	12,500	5,000
3	9,525	7,500	10,000
4	9,540	2,000	15,000
5	9,550	2,000	15,000
6	9,570	2,000	14,500
7	9,580	2,000	14,000
8	8,970	—	—
9	9,175	—	—
10	9,200	—	—

The City also indicated in these price charts that its inventory consisted of 16,500 Centrex telephone lines and 9,555 network jacks. The City also mentioned its need for VoIP telephony by requesting the migration of 15,000 Centrex lines to VoIP telephony.

**FINDING**

We noticed an inconsistency with respect to the requirements that the City indicated in its price charts. This inconsistency stems from an underestimation of the number of network jacks relative to the number of IP lines requested. Specifically, an IP line requires the use of a network jack to function. However the City requested in its price charts the migration of 15,000 VoIP telephony lines, although it stated that only 9,555 network jacks were required.

TELUS made note of this discrepancy during due diligence and requested the addition of network jacks to meet the City's requests. Given the costs of adding so large a number of network jacks, TELUS agreed to reduce the number of Centrex lines that would be migrated to VoIP telephony and to fix that number at 12,918, thereby setting the number of additional network jacks at 3,363. We could not, however, obtain justification for establishing the number of VoIP telephones at 12,918.

**FINDING**

Furthermore, as Table 4 shows, VoIP telephony becomes beneficial from an economic perspective only when a VoIP telephone is coupled with a workstation (PC). However, not all VoIP telephones can actually be coupled with a workstation. For example, telephones in waiting rooms or conference rooms and those with limited access to a workstation cannot be linked in this manner.

**Table 4—Telephone Charges**

Monthly charges	TELUS Centrex	TELUS VoIP telephony (with a PC)	TELUS IP telephony (without a PC)
Line <sup>1</sup>	\$28.13	\$8.70	\$8.70
Network jack	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$19.00</u>
Total—Cost of telephone	\$28.13	\$8.70	\$27.70

<sup>1</sup> Includes voice mail.

**FINDING**

**Furthermore, given the fixed charge of \$500 that TELUS added for each new or existing port, the installation of a VoIP telephone that is not coupled with a workstation becomes more expensive than a Centrex line.**

Specifically, to function properly, a device (a VoIP telephone, whether coupled to a workstation or not) connected to a network jack must be connected to a communication port, which acts as the interface between the equipment and the communications network. A data transmission communication port is thus considered to be an [translation] “asset”.

**FINDING**

**We were also informed that 4,000 lines were expected to remain on Centrex after the migration to VoIP telephony was complete, although the price chart indicated that only 2,000 lines would remain on Centrex. According to the information received, one reason for this discrepancy is TELUS’s unwillingness to offer VoIP telephony at sites with eight or fewer users.**

**FINDING**

**Our study also revealed that a problem was detected during due diligence following an analysis of the telephone line inventory report that the City had provided during the call for tenders. This analysis enabled us to determine that a large number of Centrex lines belonged to affiliated entities or to paramunicipal corporations rather than to the City itself.**

During the July 4<sup>th</sup> 2008 meeting of the CET’s strategic committee, which at the time oversaw the project, the unilateral decision was made to include the Centrex lines of affiliated entities and paramunicipal corporations in the project to maintain a sufficient number of Centrex lines that could be transferred to VoIP telephony.

When the former supplier of telephone services refused to transfer these lines on the ground that they did not belong to the City, letters were sent to the affiliated entities and paramunicipal corporations to obtain their agreement.

However, the Office municipal d'habitation de Montréal (OMHM) and the Centres locaux d'emploi (CLE) refused to be parties to the contract for telephony; thus 2,127 Centrex lines were withdrawn.

We were also informed that the DSI signed a change request to withdraw 825 Centrex lines used by the 911 emergency service. The specifications stipulated that, in accordance with the law, all lines used to route emergency calls to 911 were excluded from the call for tenders.

However, the withdrawn lines were [translation] "administrative" lines that 911 operators used to communicate with the emergency response network. Since these lines were physically located on the same telephone sets as those used to receive emergency calls, they should have been withdrawn from the contract concluded with TELUS and restored to the former supplier.

Because of this situation, the former supplier now charges a monthly rate that is twice what the City paid previously, when it had a contract with that supplier.

Finally, we were informed that the DSI had signed a change request to withdraw 400 lines for LaSalle borough. The specifications mention that the quantities in the price list exclude the former suburban boroughs.

**FINDING**

**The actual number of Centrex lines withdrawn was 3,352, including this last batch and the ones mentioned earlier. In addition, we learned that the target of 12,918 VoIP telephones established during due diligence cannot be attained if it turns out that 4,000 Centrex lines cannot be migrated to VoIP telephony.**

The Project's Financial Model

As we mentioned in Section 3.2 on the project's history, no financing package was prepared before the contracts were awarded. The DSI is, however, currently drafting a financial model, although it has not yet been ratified by the municipal authorities.

After the departure of the DSI's director in November 2008 and in response to the need to obtain a tool suitable for monitoring the project's expenses, in May 2009, the DSI's new acting director assigned a member of his team with the task of formulating a financial model for the project.

According to the information obtained, the model is primarily based on the costs of the contracts, which are spread over the contracts' durations.

Several factors, however, have affected the model, including:

- The CET's operating costs, which were not initially taken into account;
- Fees resulting from the addition of network jacks and an equivalent number of ports that were established through the due diligence.

Our analysis of this model demonstrated that it only takes into account costs associated with change requests (CRs) made between the City and TELUS. These are not, however, the only CRs that could have been analyzed by now to determine their financial impact.

Nonetheless, we believe that this model is currently an adequate method for estimating project costs, although it will have to evolve over time because factors too numerous to quantify today will affect it. Among the most important of these factors are the following:

- The evaluation of CRs that have not yet been completed;
- The financial impact that may result from negotiations currently in progress on resolving issues between the City and TELUS.

**FINDING**

**As illustrated in Table 5, our analysis of the DSI financial model demonstrated that the forecast project cost already equalled the budget initially authorized by the municipal authorities, including the 20% contingency reserve for the delivery of additional goods and services.**

It bears mention that the amounts awarded for these contracts are maximum amounts for all goods and services and these amounts apply to the entire durations of the contracts.

Table 5—Analysis of the Financial Model

Forecast cost of project to outsource telecommunications services <sup>1</sup> as at February 11 <sup>th</sup> 2010	
Cost of the data transmission and landline telephony <sup>2</sup> contracts	78,830,294
Discounted cost, according to the financial model	<u>(91,382,569)</u>
Deficit before the CET and contingencies	(12,552,275)
Operating expenses of the CET—2008	(1,590,144)
Operating expenses of the CET—2009	<u>(1,685,733)</u>
Deficit before contingencies	(15,828,152)
20% contingency reserve for data transmission and landline telephony	<u>15,766,059</u>
Forecast deficit	(62,093)

<sup>1</sup> The model takes into account the amounts allocated to the TYCWP and to the operating budget, and it presents the project's expenses at "net cost"—that is, including taxes but subtracting the GST recovery to which the City is entitled.

<sup>2</sup> Taking note 1 into account, this explains the discrepancies in the authorized expenses that appear in Table 1.

The "Deficit before the CET and contingencies" of approximately \$12 million is primarily due to:

- Expenses of \$8.2 million resulting principally from the addition of network jacks and a number of corresponding ports, which were established after the due diligence;
- Expenses of \$3.3 million resulting from the evaluation of CRs to date. These include:
  - \$1.5 million for the abovementioned additional charge for digital lines discovered by TELUS,
  - \$1.6 million for additional directory entries.

Our analysis of the financial model, illustrated in Table 5, does not take into account bills from third parties totalling \$6.6 million paid or payable from funds due to TELUS, although these bills are included in the model. The City may have to cover part of this expense as these bills are being discussed by the mixed issue-solving committee.

**FINDING**

**Several stakeholders also told us that the contracts were financially attractive because the City obtained maximum unit prices (price ceilings). This report demonstrated, however, that the City did not properly define all of its needs at the time of the calls for tenders and that it lacked completely accurate inventories. These factors may entail additional expenses.**

We were informed after TELUS's pre-visits to the City's sites during due diligence that there were 16,759 active ports, which would imply that the same number of network jacks would have to be active.

As previously noted, this situation is due to the fact that the data transmission specifications indicated that only the (PC) workstations used a network jack, whereas in reality many computer peripherals also use a jack to connect to the network. Examples include printers and photocopiers.

**FINDING**

**Should this number be confirmed, the addition of 3,841 ports (16,759—12,918) and an equal number of network jacks would entail an additional expense for the City in excess of \$10.6 million. The project's financial model did not take this additional expense into account.**

**FINDING**

**Furthermore, once the (maximum) number of active ports has been established, the City will be obliged to monitor the modifications (installation and removal) for all of its jacks to avoid non-recurring fixed charges of \$500 per port whenever this threshold is exceeded. Under such circumstances, the maximum will be reassessed to take the number of additional ports into account.**

**FINDING**

**Finally, our review also identified other factors that may have a financial impact, but could not be taken into account in the project's financial model.**

- 1) TELUS deemed that the need for VoIP telephony survival kits, which the CET estimates at \$2.6 million, lay beyond the scope of the contracts. This item is one of the unresolved issues between the City and TELUS.
- 2) According to the information obtained, the CET secured the addition of [translation] "free" Centrex features, but nothing suggests to us that there will be no charge for these features during the migration to VoIP telephony.

- 3) Since the migrations of Centrex landline telephony and the data transmission network are not finished, there is a risk that new forms of impact may arise as the migrations progress, given the City's unawareness of its own inventory and of the services that it was using.
- 4) According to the information obtained, a lack of awareness of the services that the City uses for its network of copper cables led the City's former supplier to notify the City of charges estimated at \$1.2 million per year, before taxes. This factor is one of the unresolved issues between the City and TELUS.
- 5) As previously noted, internal disagreement persists as to whether the SPVM should or should not entrust the management of its data transmission network to the designated supplier.

We believe that this issue bears considerable financial risk. On the one hand, if the SPVM decides to entrust its network to the supplier and thereby subscribes to the "per jack service" model, the City will have to assume an additional expense resulting from taking charge of the SPVM's active ports and an equal number of network jacks.

We have in fact been advised that no pre-visit to the SPVM's facilities has been performed. Consequently, 3,750 network jacks and an equal number of active ports have not been taken into account, since the City stated in its specifications that it was requesting the takeover of 1,500 network jacks, although the SPVM has 5,250.

On the other hand, if the SPVM does not subscribe to the "per jack service" model, the City will have to incur costs for replacing dedicated links that do not come from the designated supplier, as well as the possible addition of links of this type. However, no budget for these charges was allocated in the project beyond its fifth year.

Furthermore, if the SPVM is not allowed to subscribe to the "per jack service" model, it will be impossible to migrate up to 5,000 Centrex lines to VoIP telephony.

We believe that an assessment should be made of the costs associated with the decision of whether or not to maintain the "per-jack service" model for the SPVM. Furthermore, we believe that this assessment should take into consideration the SPVM's obligation to respect security standards.

- 6) As previously noted, the administration authorized a transfer of funding so that 20 temporary positions could be created in the CET for a period of one year as part of the process involved in implementing the contracts for outsourcing telecommunications services.

We were also informed that since the migrations have not yet been completed, these positions would be funded once again in fiscal year 2010.

In this regard, we believe that although the current number of positions cannot be maintained after the migrations are finished, a certain number of employees will nonetheless be needed to ensure the monitoring of service levels and billing and to provide technological watch.

It is in fact generally recognized that management expenses for outsourcing amount to 5% to 10% of the value of the awarded contracts. Yet no budget has been allocated to the CET beyond fiscal year 2009.

- 7) As previously noted, a disagreement between the City and TELUS over the billing model is delaying implementation of the “user pays” principle.

Furthermore, the City does not have an exact inventory of the number of active jacks and their locations. Consequently, the DSI has not been able to charge the business units for the costs of the data transmission services that they use.

**Since this activity has run a deficit for the past few years, the DSI foresees that it will have to incur a deficit of \$3.5 million, before taxes, for data transmission in the 2009 fiscal year because it does not have any budget to absorb this expense.**

#### 3.4.3.B. Recommendations

**We recommend that the Direction des systèmes d’information of the Service des immeubles et des systèmes d’information review the price chart change request pertaining to the addition of a monthly fee for digital lines.**

We recommend that the Direction des systèmes d'information of the Service des immeubles et des systèmes d'information:

- conduct an assessment of the expenses associated with the decision to preserve or abandon the “per-jack service” model for the SPVM;
- take into account the SPVM’s obligation to meet specific security standards;
- incorporate the results of this assessment into the project’s financial model.

We recommend that the Direction des systèmes d'information of Service des immeubles et des systèmes d'information, in conjunction with the Service des finances, complete the financial model. Upon completion, it should request the assistance of the Direction générale in presenting this model to the municipal authorities for approval.

We recommend that the Direction générale set down rules prescribing the inclusion of a financing package or framework endorsed by the Service des finances in any large project or program before it can be submitted to the appropriate authorities for approval.

### **3.5. POST-MIGRATION ISSUES**

The initial objective of our mission concerned the management of outsourcing resulting from the contract awards, as well as the policies, oversight, directives and monitoring procedures that were instituted.

To this end, we examined certain factors for which the DSI must assume responsibility as quickly as possible, despite the current state of the project.

#### **3.5.1. MANAGERIAL FRAMEWORK FOR CONTRACTS**

##### **3.5.1.A. Background and Findings**

The CET’s current structure is temporary, as it originally focused primarily on system migration. As this migration still is not finished, several controls set out in the outsourcing contracts, such as various co-ordinating committees, reports on network performance and details of billing for

services not yet been established. Moreover, CET officials are still in discussion with TELUS about the terms, conditions and procedures for managing the work.

Secor was hired in 2008 to recommend the changes needed for effective management of the outsourcing contracts to the DSI. In its final report, Secor made several recommendations of functions, skills and organizational structures to establish. The organizational structure selected must ensure effective communications among stakeholders, oversight of performance and network security and monitoring of billing and budgets. It is nothing short of a transformation project, since it requires changing from the operations-based method of management that was in place before the services were outsourced to a contract-based method of management, which will require the development or acquisition of new expertise.

**FINDING**

**These recommendations have not translated into a formal action plan for the selected options. Given the lack of any management framework for the operations-based approach, we cannot assess the relevance or the adequacy of the controls that will be used to manage the outsourced telecommunications services effectively.**

**FINDING**

**We also believe that this management framework must be developed and adopted as soon as possible, in view of the changes that it implies. Any delay in this respect might weaken the control structure significantly, complicate the management of changes and drive implementation costs higher.**

### 3.5.1.B. Recommendations

We recommend that the Direction des systèmes d'information of the Service des immeubles et des systèmes d'information immediately develop its management framework to manage outsourcing contracts in the operational phase. Specifically, it should:

- identify activities to undertake, according to the nature and objectives of these contracts;
- identify gaps between the skills needed to undertake these operations and the available resources;
- identify and design the controls to be instituted to ensure compliance with the service levels, security requirements and billing rules for services provided to client units;
- establish, in conjunction with the Service des finances, the operating budget for this organizational framework and incorporate it into the corresponding financial framework.

## 3.5.2. CONTINUITY AND EVOLUTION OF THE NETWORK

### 3.5.2.A. Background and Findings

The specifications included in the outsourcing contracts state that the City wishes to have an evolving network that will meet its current and future needs. The winning bidder is responsible for installing, maintaining and replacing the network's equipment at the bidder's own expense for the duration of the contract and ensuring that the City owns the equipment even if it is housed at the bidder's facilities.

To maintain the required service levels, the City depends on the fact that it will be in the winning bidder's interest to maintain and develop a high-performance network and to replace obsolete equipment. The specifications also mention that the equipment shall be replaced at an agreed frequency to avoid its obsolescence and the lapsing of manufacturer warranties.

The winning bidder thus becomes the principal contractor for the network's management and evolution. As such, it may combine the links of the City's network to those of its own network or decide to stop maintaining and developing the City's network and instead replace it with the links of its own network, provided that it meet the required service levels.

The agreement stipulates that the City may request the addition of new dedicated links to meet needs that may arise from time to time. In these cases, however, the City may be called upon to defray costs of construction and installation. As long as TELUS satisfies the required service levels, it may use this new infrastructure for its own needs and therefore claim ownership thereof at the end of the contract, since these links would not be used exclusively by the City. For this reason, some people believe that the ownership of the links is not clear and that this issue may raise questions of interpretation when the contracts expire.

On the other hand, some stakeholders state that the City should have a right of review over the type and origin of the equipment being installed, so that it can verify technical support and manufacturer warranties. In this respect, we found that there is currently significant concern among the stakeholders involved about the continuity of the equipment when the contracts expire, despite the requirements set out in the specifications.

**FINDING**

**All of these items require the City to have a monitoring ability so that it can maintain a current inventory of installed or replaced equipment and develop a detailed protocol for the transfer of assets when contracts end. However, such mechanisms do not yet exist.**

**3.5.2.B. Recommendations**

**We recommend that the Direction des systèmes d'information of the Service des immeubles et des systèmes d'information:**

- **institute a process for watching and monitoring the evolution of the network and related equipment to ensure their survivability;**
- **specify and formalize the criteria and conditions for the transfer of assets upon contract expiration.**

**3.5.3. CONTINUITY OF TELECOMMUNICATIONS**

**3.5.3.1. DISASTER RECOVERY PLAN**

**3.5.3.1.A. Background and Findings**

Certain events could jeopardize the continuity of telecommunications operations and thus the City's ability to provide the services for which it is responsible. From this perspective, we

examined the mechanisms to be deployed in the event of a breakdown of the facilities, an emergency or disputes with the winning bidder.

Under Section 3.1.3.6 of the specifications, the winning bidder must demonstrate that it has the facilities and disaster recovery plan to ensure 24/7 operation of the telecommunications and telephony services that the City requires.

**FINDING**

**As we mentioned in Section 3.2.5 of this report, the technical compliance assessment committee recommended obtaining clarification from TELUS about this issue. However, some of its concerns were not addressed. Consequently, the committee was unable to secure proof from TELUS that it had the facilities and disaster recovery plan needed to comply with the specifications.**

Furthermore, an interruption on August 24<sup>th</sup> 2009 to the water supply at the site that houses TELUS's main telephony infrastructure demonstrated an area of vulnerability in the solution deployed. TELUS claimed to have taken the necessary steps to avoid another incident of this kind and said that its Centrex solution *[translation]* "is not a redundant solution but a robust solution".

**Since any major incident at the site that houses TELUS's facilities might cut off the City's telephone services, we feel that the DSI must ensure that TELUS satisfies the requirements expressed in the specifications, i.e. having the required disaster recovery plan and testing it annually.**

**3.5.3.1.B. Recommendations**

**We recommend that the Direction des systèmes d'information of the Service des immeubles et des systèmes d'information obtain from TELUS Québec the required disaster recovery plan as per the specifications and a promise that this plan will be tested annually.**

### 3.5.3.2. EMERGENCY ACTION PLAN

#### 3.5.3.2.A. Background and Findings

A plan under the authority of the Centre de sécurité civile was developed for adequate response to emergency situations.

To avoid any delays in the plan execution, numerous stakeholders, including the City's supplier of telephony and telecommunications services, must be involved in the process.

#### **FINDING**

**Despite the delivery of an emergency measures escalation list, a TELUS representative stated that the company's ability to respond immediately could be limited since Montréal is not in its traditional service area (not ILEC). Depending on the nature of the required intervention, a third party might have to be involved. He also said that the need for contingency planning was not defined in the contract, that the details would have to be discussed and verified and that a change request would be sent in due time.**

We therefore believe that there should be a coordination plan between the City and TELUS to avoid any delay once the plan for emergency measures is activated. Furthermore, having TELUS sit on one or more committees set up by the Centre de sécurité civile would allow for a contingency plan to be completed.

#### 3.5.3.2.B. Recommendations

**We recommend that the Direction des systèmes d'information of the Service des immeubles et des systèmes d'information, together with the Centre de sécurité civile, set up a coordination plan in conjunction with TELUS Québec to avoid any delays in the execution of the plan for emergency measures when needed.**

### 3.5.3.3. MEDIATION MECHANISMS

#### 3.5.3.3.A. Background and Findings

The contract specifications stipulate certain mechanisms for communication and co-ordination, as well as certain conditions for transition periods when the contracts begin and end.

**FINDING**

We consulted with experts who emphasized that these specifications provided very little information about transition plans and did not include any mediation mechanism in the event of a dispute. Should a transition-related problem or dispute arise during the contracts, operational efficiency could be compromised.

**FINDING**

In addition, the current contractual framework provides for the possibility of default by the winning bidder and, consequently, contract cancellation. However, the business resumption plan under these circumstances is not sufficiently developed to ensure efficient services. A lack of preparation is likely to result in late responses, delays and disputes that would not only compromise the efficiency of telecommunications services, but incur additional expenses.

**3.5.3.3.B. Recommendations**

We recommend that the Direction générale, together with the Service des affaires juridiques et de l'évaluation foncière:

- examine the appropriateness of formalizing a mediation procedure with the winning bidder to minimize both the expenses incurred by both parties in the event of a dispute;
- identify steps and strategies for resuming operations should the winning bidder be unable to meet its contractual obligations.

### **3.6. ISSUES EXTERNAL TO THE PROJECT**

Our work led us to examine certain aspects surrounding the processes currently in effect in the City.

After completing this work, we identified certain concerns that go beyond the scope of this report's initial audit. Accordingly, we felt that it would be better to present them in a separate section.

### 3.6.1. DECISION FILE MANAGEMENT SYSTEM

#### 3.6.1.A. Background and Findings

As we mentioned in Section 3.2.6 of this report, we have attempted to obtain explanations for the unauthorized removal from the decision file of the comments that the Direction des opérations budgétaires made with respect to the contract awards. **As a result of this removal, the authorities approved the awarding of these contracts based on incomplete information.**

Our task first involved meeting the person in charge of the Système de gestion des dossiers décisionnels (GDD or Decision File Management System) at the Direction du greffe.

The GDD was developed on the Lotus Notes platform. In the Lotus Notes environment, an application such as the GDD is developed in a document database. Only users with access rights can access information in the document database.

During our meeting, the official explained to us that a completed file is a file that is finished and ready to be placed on the agenda for a decision by the borough council, executive committee or city council. In principle, a completed file is “frozen”; that is, it can no longer be modified.

Sometimes, however, a member of the team in charge of the GDD at the clerk’s office returns a completed file to its author for the addition of specific information. When that happens, the file may be modified.

#### **FINDING**

**Our work revealed that comments by the Direction des opérations budgétaires were removed after the file was locked, even though the official we interviewed clearly indicated that this type of action was forbidden. Additional research showed that people with deletion rights over the GDD database had unrestricted powers. In other words, these users could delete comments in files that had been locked.**

#### **FINDING**

**Our work also revealed that 19 people enjoyed these deletion rights. We did, however, observe that a monitoring process over logged user actions (e.g. reading, editing, deletion) but that the history of actions was limited to the current day.**

**FINDING**

In conjunction with the official we interviewed, we determined that the deletion of comments in the document in question had not been done [translation] “according to the rules”. Consequently, information remained recorded in the database, thereby proving that the Direction des opérations budgétaires had indeed intervened in the decision file.

Furthermore, we feel that oversight and the associated mechanisms in the GDD should ensure that no comments by one of a file’s stakeholders should be removed without that stakeholder’s prior consent.

**3.6.1.B. Recommendations**

We recommend that the Direction du greffe of the Direction générale, together with the Direction des systèmes d’information of the Service des immeubles et des systèmes d’information, take the necessary measures to:

- better control deletion rights granted to users of the decision file management system;
- limit, upon analysis, the number of users who have granted these rights;
- create a retention schedule for data stored in the system log for audit purposes.

**3.6.2. THREE-YEAR CAPITAL PROGRAM**

**3.6.2.A. Background and Findings**

According to the executive summary on the contract awards, the DSI stated that the expenses would be distributed with \$33 million charged to the three-year capital program (TYCP) and \$75 million to the operating budget.

It should be noted that the inclusion of an allotment to the TYCP demonstrates that capitalized expenditures not in excess of \$33 million can be financed by a borrowing by-law. To ensure adequate monitoring, disbursements are compiled in a separate project account.

In addition to the fact that we were unable to obtain documents that would establish a contingency reserve of 20% for each of the contracts, we were also unable to obtain documents supporting the \$33 million assignment of expenditures to the TYCP and the \$75 million to the operating budget.

We then performed an analysis of the amounts charged to the project's TYCP account, which resulted in the following findings.

**FINDING**

Borrowing by-laws have already been applied to the entire amount of the authorized expenditure, although the awarded contracts have durations ranging from four to ten years.

**FINDING**

From a technical point of view, there is no obstacle to prevent the full use of the funding granted in a single year, although the contracts have durations of four, seven and ten years.

**FINDING**

An analysis of the transactions in the project's TYCP showed that expenditures were recorded without being authorized by the agglomeration council:

- an expenditure totalling \$45,508 was recorded for studies on the CET's organizational and operational models;
- an expenditure totalling \$121,629 was posted for the maintenance and acquisition of Lotus Notes user licences.

**FINDING**

As we mentioned in Section 3.2.9 of this report, the City has incurred charges exceeding \$306,000, taxes included, for work to upgrade its telecommunications rooms. This expenditure reduces the originally anticipated savings because it was not initially foreseen.

**FINDING**

Within the scope of the implementation of the telecommunications service outsourcing contracts, the administration authorized the creation of 20 temporary positions for a one-year period. These positions were allocated to the CET.

The administration authorized a total transfer of \$1.7 million in additional funds to the project's TYCP account to finance these positions. These funds, which were not initially foreseen, reduced the originally anticipated savings.

**FINDING**

During its meeting on December 9<sup>th</sup> 2009, the agglomeration council authorized an expenditure of \$468,000, taxes included, to buy back equipment required for Centrex landline telephony from its former supplier.

The City had stated in its specifications for the landline telephony service contract awarded to TELUS that it owned all of its telephone assets. This statement turned out not to be true. To correct the situation, the City had to purchase this equipment. This expense reduced the originally forecast savings, since it had not been initially foreseen.

**3.6.2.B. Recommendations**

We recommend that the Direction des systèmes d'information of the Service des immeubles et des systèmes d'information:

- rectify the project's TYCP account by reversing the allocation of expenditures that had not been authorized by the agglomeration council;
- ensure that only capitalizable expenditures are allocated to the project's TYCP account.

**3.6.3. ADMINISTRATIVE MANAGEMENT OF CONTRACTS**

**3.6.3.A. Background and findings**

After examining the administrative clauses, we found that the amounts of the performance bonds were set at \$2.5 million for the landline telephony contract and at \$2.37 million for the data transmission contract, said bonds being good for the first three years of the contracts.

**FINDING**

In view of the importance of the awarded contracts and their impact on the City's operations, these amounts strike us as being too low in the event that the supplier cannot fulfil its obligations adequately.

**FINDING**

According to the information obtained, these bonds comply with the usual rules for long-term contracts. However, there are no formal controls supporting this practice.

**FINDING**

Although the bonds are scheduled to expire on December 31<sup>st</sup> 2010, we found that the Direction de l'approvisionnement has not, within the 12-month period stipulated in the agreement, asked TELUS to provide a letter of commitment to renew them.

With respect to the administrative management of the contracts, responsibility also falls to the unit in charge of the project, in this case the DSI.

**FINDING**

In this regard, we found that the DSI did not take the necessary measure to obtain the following from TELUS:

- a valid employer's certificate from the CSST;
- proof of third-party liability insurance;
- a Type II audit report as defined in Section 5970 of the *CICA Handbook*, which shall be delivered to the City no later than January 31<sup>st</sup> and shall cover the previous calendar year.

**FINDING**

The DSI is also required to obtain the name of all subcontractors working for TELUS, as well as their individual contribution to contract fulfillment. In addition to the name of the two subcontractors that appeared in TELUS's bid, we noticed that TELUS had hired four additional subcontractors. However, we did not find any evidence indicating that TELUS had notified the DSI about these individuals.

**FINDING**

Furthermore, the DSI must ensure that TELUS's personnel comply with the safety standards and procedures in effect in municipal buildings. In the case of some city departments, however, we found that:

- the DSI was unable to get TELUS's personnel to sign a non-disclosure agreement to authorize the assignment of personnel to the project;
- the DSI did not ensure that TELUS had provided the list of all regular personnel and substitute personnel assigned to carry out the portion of the contract to which the safety requirement applies.

Finally, we examined the documents in the possession of the Direction du greffe that pertained to the files for the calls for tenders and the contract awards.

**FINDING**

Through our analysis, we observed that:

- contrary to standard practice, there was no original document on file from TELUS in response to the call for tenders for data transmission ;
- contrary to standard practice, there was no original document on file from TELUS in response to the call for tenders for landline telephony ;
- none of the addenda issued after the call for tenders, specifically 7 addenda for landline telephony and 11 addenda for data transmission, were kept on file;
- no document pertaining to TELUS's performance bonds for its landline telephony and data transmission bids was on file.

In the course of our study, however, we did find the following documents:

- Two photocopies of TELUS's landline telephony bid;
- Two acknowledgements of receipt of the bids, one for landline telephony and the other for data transmission, that were signed by a representative of the Direction de l'approvisionnement;
- Two acknowledgements of receipt of bonds for the tenders, one for landline telephony and the other for data transmission, that were signed by a representative of the Direction de l'approvisionnement.

In this respect, to facilitate the search for original documents and to ensure adequate administrative management of the contracts, we believe that the DSI should, in conjunction with

Direction de l'approvisionnement and the Direction du greffe, institute mechanisms to ensure that:

- All administrative requirements are fulfilled;
- Originals of all documents are sent to the Direction du greffe for safekeeping.

#### **3.6.3.B. Recommendations**

**We recommend that the Direction des systèmes d'information of the Service des immeubles et des systèmes d'information, in conjunction with la Direction de l'approvisionnement of the Direction générale:**

- **institute mechanisms to ensure that all administrative clauses in the contracts are observed;**
- **send all original documents to the Direction du greffe of the Direction générale for safekeeping.**

**We also recommend that the Direction de l'approvisionnement of the Direction générale, after consultation with the relevant business units, prepare and distribute a framework identifying the rules for determining the value of the performance bonds.**

### **3.6.4. ISSUANCE OF ADDENDA**

#### **3.6.4.A. Background and Findings**

The *Guide de référence de la fonction Approvisionnement*, which appears on the Direction de l'approvisionnement's intranet site, stipulates that before the opening date of a call for tenders, any major change to the information supplied or to the requirements stated in the tender documents may require the production of an addendum.

We found that recipients of the tender documents raised many questions with respect to them and that these questions led the Direction de l'approvisionnement to issue several addenda. We also found that several inventory files were sent to the bidders during this period and that files in some cases were sent more than once, after being revised, as the statistics in Table 6 show:

**Table 6—Addenda Statistics**

	<b>Data transmission</b>	<b>Landline telephony</b>
Number of addenda issued	11	7
Number of questions raised by recipients	306	82
Number of files accompanying the original specifications	7	2
Number of additional files sent to recipients	12	0
Number of revisions to the original files	14	4

We also found that two extensions were issued at the end of the question period and one extension was issued on the due date for tenders, in the cases of both calls for tenders.

**FINDING**

**Based on the large number of changes, clarifications and pieces of information that were transmitted, we believe that the specifications might have been incomplete and that they did not clearly express the City’s needs.**

Furthermore, it is stipulated that the full set of documents issued by the City must be considered should problems of interpretation arise.

According to the information obtained, the inclusion of numerous addenda made the documents difficult to read, thereby leading to differing interpretations.

**3.6.4.B. Recommendations**

**We recommend that the Direction de l’approvisionnement of the Direction générale anticipate the possibility of ending the tender process after the issuance of a predetermined number of addenda when they significantly alter the information or the requirements stated in the tender documentation, and that a maximum number of addenda be set.**

**3.6.5. COMPATIBILITY WITH 911 SERVICE**

**3.6.5.A. Background and Findings**

Following the appearance of articles in *La Presse* in the fall of 2009, we tried to determine whether the claim that [translation] “the VoIP telephone sets purchased at great expense under the TELUS project are incompatible with the City’s 911 service” was correct or not.

Our study determined that at the time of our audit, the City had not purchased any VoIP telephone sets, because migration to VoIP telephony had not yet begun.

Furthermore, as we mentioned in Section 3.2.5 of this report, clarifications were obtained from TELUS during the drafting of the agreements between the City and TELUS, and these clarifications were recorded in an appendix to each of the two agreements.

**FINDING**

**When reading the appendix prepared as part of the agreement for awarding the landline telephony contract, we found that TELUS agreed to comply with the legislation on providing the street address of 911 callers.**

Finally, the specifications stipulate that the winning bidder must perform a proof of concept for its solution in an environment that the City accepts. The proof of concept must satisfy the City's needs and expectations. **In this regard, we believe that the DSI is entitled to require TELUS to demonstrate that its VoIP telephony solution is compatible with the 911 service.**

**3.6.5.B. Recommendations**

**During the proof of concept for VoIP telephony, the Direction des systèmes d'information of the Service des immeubles et des systèmes d'information should ensure that TELUS uphold its promise to provide the street address of 911 callers.**

**3.6.5.C. Comments by the Direction Générale**

Given that the department managers concerned by our audit had very little time to give us their remarks, we were unable to obtain their action plan by the production deadline for this annual report. However, the opinions we did receive from them expressed their consensus with our recommendations.

Under the circumstances, we also asked the Direction générale to provide us, to the extent possible, with a collective commentary on this chapter and, particularly, our recommendations. This is the director general's response:

*[Translation] "The Cadre de gouvernance des projets et des programmes de gestion d'actifs municipaux that was tabled in April 2010 emphasizes the harmonization of project delivery practices,, from assessment through completion, for all business units.*

*I am pleased to observe that the most sweeping recommendations submitted to the Direction générale correspond with the directions and practices already advocated by the new Cadre de gouvernance.*

*For example, the establishment of milestones that are aimed at clarifying expected objectives and benefits for major projects, particularly in their initial phases, as well as the project's financial model, will improve the planning and supervision of projects.*

*Furthermore, soon after the new director of the Direction des systèmes d'information was appointed in early 2009, he quickly installed governance mechanisms for IT projects. We drew on his work in formulating the Cadre de gouvernance.*

*Such mechanisms include conducting a risk analysis to ensure a reliable transition without unpleasant surprises before migrating or modifying data transmission or telephony services.*

*Finally, a workgroup involving the Service des finances was also created in the fall of 2009 to completely revise the financial model and develop at the same time an approach to financial analysis that could be employed in other major projects. The Direction de l'approvisionnement and the Service des affaires juridiques et de l'évaluation foncière also participated in the contract management workgroup.”*

#### **3.6.5.D. Comments by the General Auditor**

**It should be noted that the comments by the Direction générale only pertained to those recommendations that were specifically addressed to its representatives. They emphasize the intended impact on future projects of implementing the *Cadre de gouvernance des projets et des programmes d'actifs municipaux* that was tabled in April 2010.**

**With respect to governance of the telecommunications service outsourcing project, the entire framework must, as previously noted, be strengthened through the adoption of measures aimed particularly at:**

- **establishing a governance framework that standardizes the frequency and content of reports, particularly in terms of monitoring the financial framework, key issues and the attainment of the target objectives for the outsourced telecommunications services;**
- **updating the main risks and issues involved in administering the migration and management of awarded contracts as well as mitigation measures that were, or will be, instituted according to a precise timetable.**

**The city administration should also take action with respect to other important issues involved in delivering this outsourcing project, including its financial framework.**

**In view of the significant costs of this transformation project and its critical importance to the efficiency of all municipal operations, we intend to monitor very closely the measures taken in response to our recommendations.**



Bureau du  
vérificateur  
général

## VI. Appendices





## VI.1. Appendix 1 – Excerpts from the *Cities and Towns Act*



## VI. APPENDICES

### VI.1. APPENDIX 1 – EXCERPTS FROM THE *CITIES AND TOWNS ACT*

#### IV.1. — *Chief auditor*

Chief auditor.	<b>107.1.</b> The council of every municipality having 100,000 inhabitants or more shall have an officer called the chief auditor. 2001, c. 25, s. 15.
Term.	<b>107.2.</b> The chief auditor shall, by a resolution approved by a two-thirds majority of the votes of the members of the council, be appointed for a term of seven years. The term may not be renewed. 2001, c. 25, s. 15.
Ineligibility.	<b>107.3.</b> In no case may the following persons act as chief auditor: 1) a member of the council of the municipality and, where applicable, of a borough council; 2) the associate of a member mentioned in subparagraph 1; 3) a person who, personally or through an associate, has any direct or indirect interest in a contract with the municipality or a legal person referred to in paragraph 2 of section 107.7.
Disclosure of interest.	The chief auditor shall disclose in every report produced any situation that could cause a conflict between the chief auditor's personal interest and duties of office. 2001, c. 25, s. 15.
Inability or vacancy.	<b>107.4.</b> If the chief auditor is unable to act, or if the office of chief auditor is vacant, the council shall, 1) not later than at the sitting following the inability to act or the vacancy, designate a person qualified to replace the chief auditor, for a period of not more than 180 days; 2) not later than at the sitting following the inability or the vacancy, or not later than at the sitting following the expiry of the period fixed under paragraph 1, appoint a new chief auditor in accordance with section 107.2. 2001, c. 25, s. 15.
Expenses.	<b>107.5.</b> The budget of the municipality shall include an appropriation to provide for payment of a sum to the chief auditor to cover the expenses relating to the exercise of the chief auditor's duties.
Amount of appropriation.	Subject to the third paragraph, the appropriation must be equal to or greater than the product obtained by multiplying the total of the other appropriations provided for in the budget for operating expenses by 1) 0.17% where the total of those appropriations is less than \$100,000,000; 2) 0.16% where the total of those appropriations is at least \$100,000,000 and less than \$200,000,000;

	<p>3) 0.15% where the total of those appropriations is at least \$200,000,000 and less than \$400,000,000;</p> <p>4) 0.14% where the total of those appropriations is at least \$400,000,000 and less than \$600,000,000;</p> <p>5) 0.13% where the total of those appropriations is at least \$600,000,000 and less than \$800,000,000;</p> <p>6) 0.12% where the total of those appropriations is at least \$800,000,000 and less than \$1,000,000,000;</p> <p>7) 0.11% where the total of those appropriations is at least \$1,000,000,000.</p>
Exception.	<p>Where the budget of the municipality provides for appropriations for operating expenses related to the operation of a system of production, transmission or distribution of electric power, 50% only of those appropriations shall be taken into account in establishing the total of the appropriations referred to in the second paragraph.</p> <p>2001, c. 25, s. 15; 2001, c. 68, s. 5.</p>
Duties.	<p><b>107.6.</b> The chief auditor is responsible for the application of the municipality's policies and standards relating to the management of the human, material and financial resources assigned to auditing.</p> <p>2001, c. 25, s. 15.</p>
Duties.	<p><b>107.7.</b> The chief auditor shall audit the accounts and affairs</p> <ol style="list-style-type: none"> <li>1) of the municipality;</li> <li>2) of every legal person in respect of which the municipality or a mandatary of the municipality holds more than 50% of the outstanding shares or voting shares or appoints more than 50% of the members of the board of directors.</li> </ol> <p>2001, c. 25, s. 15.</p>
Audit.	<p><b>107.8.</b> The audit of the affairs and accounts of the municipality and of any legal person referred to in paragraph 2 of section 107.7 comprises, to the extent considered appropriate by the chief auditor, financial auditing, auditing for compliance of their operations with the Acts, regulations, policies and directives, and auditing for value-for-money.</p>
Audit.	<p>The audit must not call into question the merits of the policies and objectives of the municipality or legal persons referred to in paragraph 2 of section 107.7.</p>
Documents and information.	<p>The chief auditor in the performance of his duties is authorized</p> <ol style="list-style-type: none"> <li>1) to examine any document concerning the affairs and accounts relating to the objects of the audit;</li> <li>2) to require from any employee of the municipality or any legal person referred to in paragraph 2 of section 107.7 all information, reports and explanations the chief auditor considers necessary.</li> </ol> <p>2001, c. 25, s. 15; 2001, c. 68, s. 6.</p>
Audit.	<p><b>107.9.</b> Any legal person receiving an annual subsidy from the municipality of at least \$100,000 is required to have its financial statements audited.</p>

Copy.	The auditor of a legal person not referred to in paragraph 2 of section 107.7 that receives an annual subsidy from the municipality of at least \$100,000 shall transmit to the chief auditor a copy of <ol style="list-style-type: none"> <li>1) the annual financial statements of the legal person;</li> <li>2) the auditor's report on the statements;</li> <li>3) any other report summarizing the auditor's findings and recommendations to the board of directors or the officers of the legal person.</li> </ol>
Documents and information.	That auditor shall also, on the request of the chief auditor, <ol style="list-style-type: none"> <li>1) place at the disposal of the chief auditor any document relating to the auditor's audit and its results;</li> <li>2) provide all information and explanations the chief auditor considers necessary concerning the auditor's audit and its results.</li> </ol>
Additional audit.	Where the chief auditor considers that the information, explanations and documents provided by an auditor under the second paragraph are insufficient, the chief auditor may conduct such additional audit as he considers necessary. 2001, c. 25, s. 15.
Audit.	<b>107.10.</b> The chief auditor may conduct an audit of the accounts or documents of any person having received financial assistance from the municipality or from a legal person referred to in paragraph 2 of section 107.7, as regards the use made of such assistance.
Accounts and documents.	The municipality and the person having received the financial assistance are required to furnish to or place at the disposal of the chief auditor any accounts and documents that the chief auditor considers relevant to the performance of the chief auditor's duties.
Information.	The chief auditor is authorized to require from any officer or employee of the municipality or from any person having received financial assistance any information, reports and explanations the chief auditor considers necessary to the performance of the chief auditor's duties. 2001, c. 25, s. 15.
Audit.	<b>107.11.</b> The chief auditor may conduct an audit of the pension plan or pension fund of a pension committee of a municipality or a legal person referred to in paragraph 2 of section 107.7 where the committee requests the chief auditor to do so with the approval of the council. 2001, c. 25, s. 15.
Duties.	<b>107.12.</b> The chief auditor shall, every time the council so requests, investigate and report on any matter within the competence of the chief auditor. In no case, however, may the investigation take precedence over the primary responsibilities of the chief auditor. 2001, c. 25, s. 15.

Report.	<p><b>107.13.</b> Not later than 31 August each year, the chief auditor shall transmit to the council a report presenting the results of the audit for the fiscal year ending on the previous 31 December and indicate any fact or irregularity the chief auditor considers expedient to mention, in particular in relation to</p> <ol style="list-style-type: none"> <li>1) control of revenue including assessment and collection;</li> <li>2) control of expenditure, including authorization, and compliance with appropriations;</li> <li>3) control of assets and liabilities including related authorizations;</li> <li>4) accounting for operations and related statements;</li> <li>5) control and safeguard of property owned or administered;</li> <li>6) acquisition and utilization of resources without sufficient regard to economy or efficiency;</li> <li>7) implementation of satisfactory procedures to measure and report effectiveness in cases where it is reasonable to do so.</li> </ol>
Report.	<p>The chief auditor may also, at any time, transmit to the council a report of the findings and recommendations that, in the opinion of the chief auditor, warrant being brought to the attention of the council before the filing of the annual report.</p> <p>2001, c. 25, s. 15.</p>
Report.	<p><b>107.14.</b> The chief auditor shall report to the council on the audit of the financial statements of the municipality and the statement fixing the aggregate taxation rate.</p>
Report.	<p>In the report, which shall be transmitted to the treasurer not later than 31 March, the chief auditor shall state, in particular, whether</p> <ol style="list-style-type: none"> <li>1) the financial statements faithfully represent the municipality's financial position on 31 December and the results of its operations for the fiscal year ending on that date;</li> <li>2) the effective aggregate taxation rate was fixed in accordance with Division III of Chapter XVIII.1 of the <i>Act respecting municipal taxation</i> (chapter F-2.1).</li> </ol> <p>2001, c. 25, s. 15; 2006, c. 31, s. 16.</p>
Report.	<p><b>107.15.</b> The chief auditor shall report to the boards of directors of the legal persons referred to in paragraph 2 of section 107.7 on the audit of the financial statements before the expiry of the time within which they are to produce their financial statements.</p>
Report.	<p>In the report, the chief auditor shall state, in particular, whether the financial statements faithfully represent their financial position and the results of their operations at the end of their fiscal year.</p> <p>2001, c. 25, s. 15.</p>
Testimony.	<p><b>107.16.</b> Notwithstanding any general law or special Act, neither the chief auditor nor the employees under the chief auditor's direction or the professionals under contract may be compelled to give testimony relating to any information obtained in the performance of their duties or to produce any document containing such information.</p>

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Immunity.	Neither the chief auditor nor the employees under the chief auditor's direction may be prosecuted by reason of any act they have done or failed to do in good faith in the performance of their duties.
Immunity.	No civil action may be instituted by reason of the publication of a report of the chief auditor prepared under this Act or of the publication in good faith of an extract or summary of such a report.
Immunity.	Except on a question of jurisdiction, no recourse under article 33 of the Code of Civil Procedure (chapter C-25) or extraordinary recourse within the meaning of that Code may be exercised nor any injunction granted against the chief auditor, the employees under the chief auditor's direction or the professionals under contract acting in their official capacity.
Annulment.	A judge of the Court of Appeal, on a motion, may summarily annul any proceeding instituted or decision rendered contrary to the provisions of the first paragraph. 2001, c. 25, s. 15.
Audit committee.	<b>107.17.</b> The council may establish an audit committee and determine its composition and powers.
Audit committee of the urban agglomeration of Montréal.	Despite the first paragraph, in the case of the urban agglomeration of Montréal, the council must establish an audit committee composed of not more than 10 members appointed on the proposal of the mayor of the central municipality. Two of the committee members must be council members representing the reconstituted municipalities. Those two members shall take part in deliberations and votes of the committee on any matter related to an urban agglomeration power.
Opinions and information of the committee.	In addition to the other powers that may be entrusted to it, the committee established in the case of the urban agglomeration of Montréal shall submit opinions to the urban agglomeration council on the requests, findings and recommendations of the auditor general concerning the urban agglomeration. It shall also inform the auditor general of the interests and concerns of the urban agglomeration council with respect to the audit of the accounts and affairs of the central municipality. On an invitation by the committee, the auditor general or a person designated by the auditor general may attend a sitting and take part in deliberations. 2001, c. 25, s. 15; 2008, c. 19, s. 11.

V. — *External auditor*

External auditors.	<b>108.</b> The council shall appoint an external auditor for not more than three fiscal years, except in the case of a municipality with a population of 100,000 or more, where the external auditor shall be appointed for three fiscal years. At the end of the term, the external auditor shall remain in office until replaced or reappointed.
Information sent to the Minister.	If the external auditor appointed for a fiscal year is not the external auditor in office for the preceding fiscal year, the clerk shall inform the Minister of Municipal Affairs and Regions of the name of the new external auditor as soon as possible after his appointment. R. S. 1964, c. 193, s. 104; 1975, c. 66, s. 11; 1984, c. 38, s. 11; 1995, c. 34, s. 12; 1996, c. 27, s. 12; 1999, c. 43, s. 13; 2001, c. 25, s. 17; 2003, c. 19, s. 110, s. 250; 2005, c. 28, s. 196.
Vacancy.	<b>108.1.</b> If the office of the external auditor becomes vacant before the expiry of his term, the council shall fill the vacancy as soon as possible. 1984, c. 38, s. 11; 2001, c. 25, s. 18; 2003, c. 19, s. 111.
Duties.	<b>108.2.</b> Subject to section 108.2.1, the external auditor shall audit, for the fiscal year for which he was appointed, the financial statements, the statement fixing the aggregate taxation rate and any other document determined by the Minister of Municipal Affairs and Regions by regulation published in the <i>Gazette officielle du Québec</i> .
Report.	The auditor shall make a report of his audit to the council. He shall state in his report, in particular, whether 1) the financial statements faithfully represent the municipality's financial position on 31 December and the results of its operations for the fiscal year ending on that date; 2) the effective aggregate taxation rate was fixed in accordance with Division III of Chapter XVIII.1 of the <i>Act respecting municipal taxation</i> (chapter F-2.1). 1984, c. 38, s. 11; 1996, c. 2, s. 209; 1999, c. 43, s. 13; 2001, c. 25, s. 19; 2003, c. 19, s. 250; 2005, c. 28, s. 196; 2006, c. 31, s. 17.
Duties.	<b>108.2.1.</b> In the case of a municipality having 100,000 inhabitants or more, the external auditor shall audit, for each fiscal year for which the external auditor has been appointed, 1) the accounts relating to the chief auditor; 2) the financial statements of the municipality and any document determined by the Minister of Municipal Affairs and Regions by regulation published in the <i>Gazette officielle du Québec</i> .
Report.	The external auditor shall make a report of the audit to the council. The external auditor shall state in the report on the financial statements, in particular, whether the financial statements faithfully represent the municipality's financial position on 31 December, and the results of its operations for the fiscal year ending on that date. 2001, c. 25, s. 20; 2001, c. 68, s. 7; 2003, c. 19, s. 250; 2005, c. 28, s. 196.

Report to the treasurer.	<b>108.3.</b> The external auditor shall transmit to the treasurer, not later than 31 March following the expiry of the fiscal year for which the external auditor was appointed, the report referred to in section 108.2 or, as the case may be, the report referred to in subparagraph 2 of the first paragraph of section 108.2.1.
Report to the council.	The report referred to in subparagraph 1 of the first paragraph of section 108.2.1 shall be transmitted to the council on the date determined by the council. 1984, c. 38, s. 11; 2001, c. 25, s. 21.
Audits.	<b>108.4.</b> The council may require any other audit it considers necessary, and require a report. 1984, c. 38, s. 11.
Access to books and information.	<b>108.4.1.</b> The external auditor shall have access to the books, accounts, securities, documents and vouchers and may require the employees of the municipality to furnish any information and explanations necessary for the performance of the external auditor's mandate. 2001, c. 25, s. 22.
Documents.	<b>108.4.2.</b> The chief auditor shall place at the disposal of the external auditor all books, statements and other documents prepared or used by the chief auditor during the audit conducted under section 107.7 and that the external auditor considers necessary to carry out his mandate. 2001, c. 25, s. 22; 2005, c. 28, s. 49.
Ineligibility.	<b>108.5.</b> In no case may the following persons act as external auditor of the municipality; 1) a member of the council of the municipality and, where applicable, of a borough council; 2) an officer or an employee of the municipality; 3) the associate of a person mentioned in paragraph 1 or 2; 4) a person who, during the fiscal year for which the audit is carried out, has, directly or indirectly, personally or through his associate, any participation, interest or commission in or under a contract with the municipality or in respect of such a contract, or who derives any benefit from the contract, unless his connection with the contract arises from the practice of his profession. 1984, c. 38, s. 11; 1996, c. 2, s. 209; 1999, c. 40, s. 51; 2001, c. 25, s. 23.
Partnership.	<b>108.6.</b> The external auditor may be an individual or a partnership. The external auditor may entrust his employees with his work but his responsibility is then the same as if he had performed all the work personally. 1984, c. 38, s. 11; 1999, c. 40, s. 51; 2001, c. 25, s. 24.

VII. — *Director general*

- Status. **113.** The director general is the chief officer of the municipality.
- Authority. The director general has authority over all the other officers and employees of the municipality, except the chief auditor, who reports directly to the council. With respect to an officer or employee whose duties are prescribed by law, the authority of the director general is exercised only within the framework of his duties as the administrator of human, material and financial resources of the municipality and may in no case hinder the carrying out of duties that are prescribed by law.
- Suspension. The director general may suspend an officer or employee from his duties. He shall immediately make a report of the suspension to the council. The council shall decide the case of the suspended officer or employee, after inquiry.  
R. S. 1964, c. 193, s. 109; 1968, c. 55, s. 5; 1983, c. 57, s. 50; 2001, c. 25, s. 27.

## VI.2. Appendix 2 – List of Audit Reports Issued (Financial Statements or Other Financial Data)



## VI.2. APPENDIX 2 – LIST OF AUDIT REPORTS ISSUED (FINANCIAL STATEMENTS OR OTHER FINANCIAL DATA)

The audit of the financial statements of the City of Montréal as at December 31<sup>st</sup> 2009, allowed us, as well as the external auditors, to issue an unqualified report in this respect.

By the time this report went to press, we had also produced a number of unqualified audit reports on financial statements or financial information, as listed here:

	2009	2008
Conseil des arts de Montréal	X	
Conseil interculturel de Montréal		X
Fonds des conduits souterrains		
Office de consultation publique de Montréal		X
Office municipal d'habitation de Montréal	X	
Tableau des dépenses mixtes – Ville de Montréal	X	
Taux global de taxation	X	
Anjou 80	X	
La Corporation d'habitations Jeanne-Mance	X	
La Société de transport de Montréal (covérificateur)	X	
Société d'habitation et de développement de Montréal	X	
Société de gestion Marie-Victorin	X	
Société du parc Jean-Drapeau	X	



## VI.3. Appendix 3 – Employees of the General Auditor's Office as of December 31<sup>st</sup> 2009



### VI.3. APPENDIX 3 – EMPLOYEES OF THE GENERAL AUDITOR'S OFFICE AS OF DECEMBER 31<sup>ST</sup> 2009

<b>General auditor of the City of Montréal and director</b> Jacques Bergeron, CA, MBA, M. SC.	<b>Executive secretary</b> Josiane Mauriello
<b>Assistant general auditors</b> Robert Duquette, CA Denis Tremblay, CGA Serge Vaillancourt, CGA	<b>Administrative support</b> France Benny
	<b>Programmer</b> Yolaine Levasseur
<b>Audit professionals</b> Martine Beauregard, CGA Régent Bilodeau, CGA Johanne Boudreau, BAA Jacques Brisson, CA, CISA Maryse Brunetta, CGA Marie Cormier, CA Julien Faucher André Gagnon, CMA, CISA (on union leave) Lucie Gauthier, CGA Bernard Goyette, CGA, CMA Gilles Grimard, CGA Jocelyne Laperrière, CA Éric Laviolette, CA Chantal L'Heureux, CGA Joanne Major, CA Victor Marchand, CGA, CISA Philippe Pitre, CGA Michel Proulx, CGA Ronel Rocher, CGA André Sergerie, CA André St-Pierre, CGA (on union leave)	

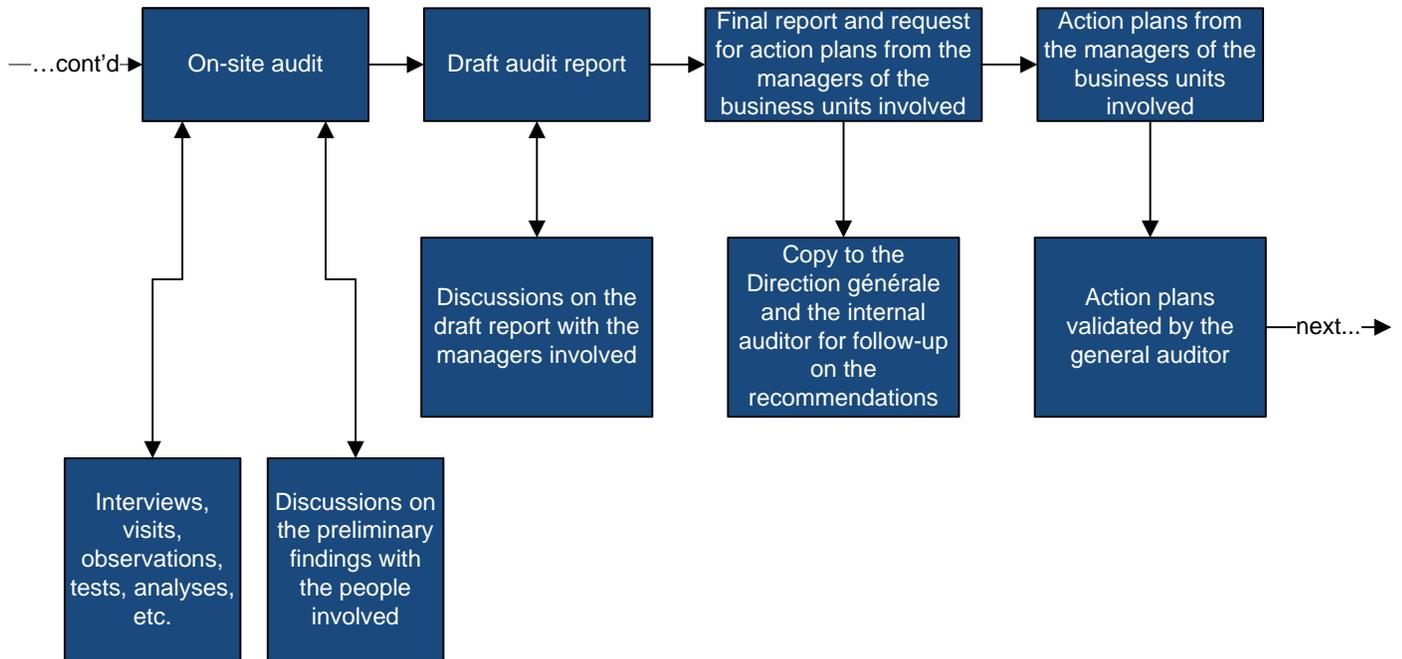


## VI.4. Appendix 4 – Information Flow Charts – Value-for-money Audit

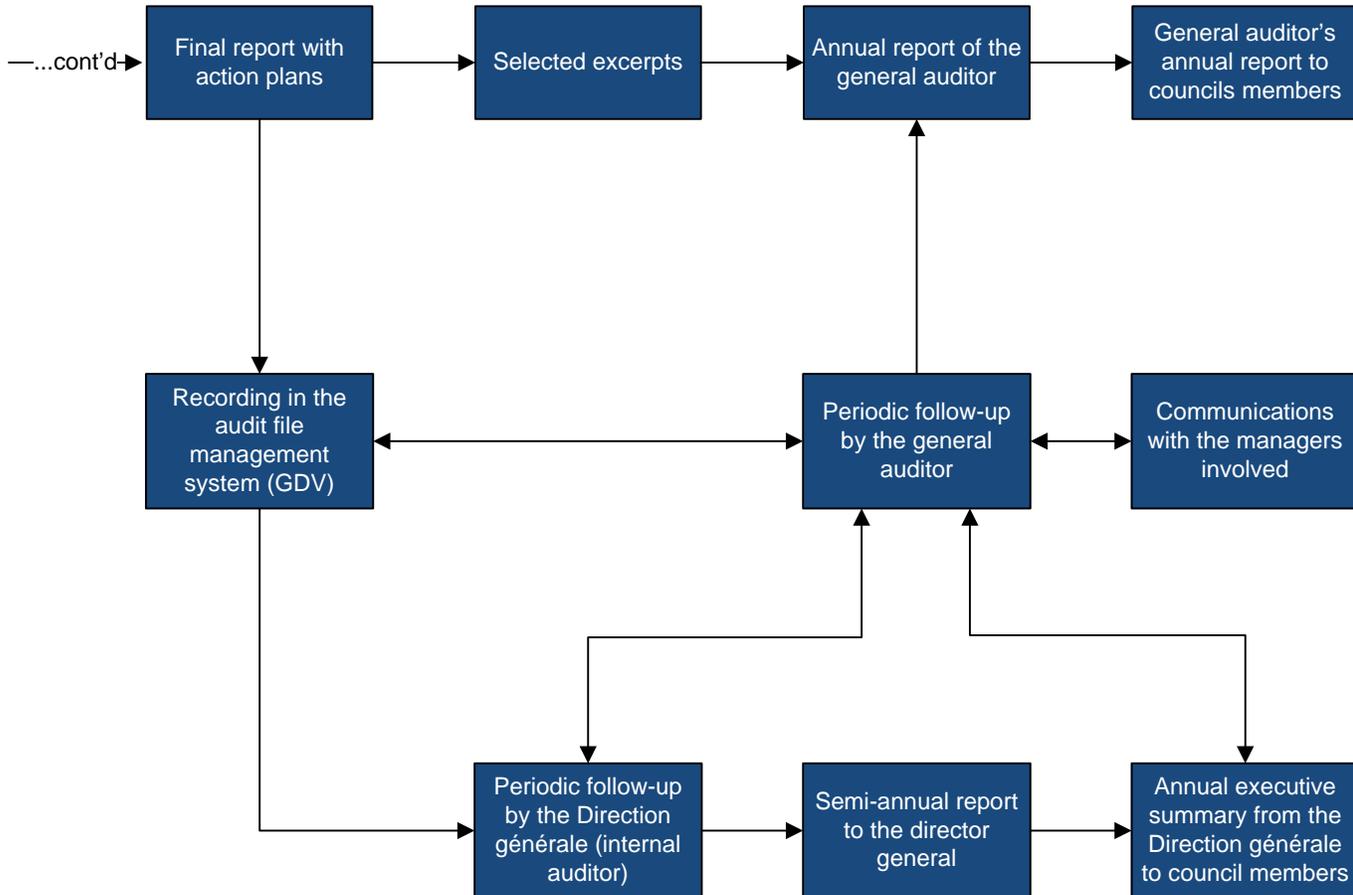




**AUDITING AND REPORTS**



**ANNUAL REPORT AND FOLLOW-UPS**





## VI.5. Appendix 5 – Schedule of Expense Accounts of the General Auditor's Office



*Schedule of Expense Accounts of the*

**General Auditor's Office of the  
Ville de Montréal**

*December 31, 2009*

## Auditors' Report

To the Mayor,  
the Chairman and Members of the Executive Committee,  
the Members of the Council of the Ville de Montréal,  
the Members of the Montréal Agglomeration Council

In compliance with the provisions of section 108.2.1 of the *Act respecting cities and towns*, we audited the expense accounts related to the Office of the General Auditor of the Ville de Montréal ("the City") for the year ended December 31, 2009. This financial information is the responsibility of the City's administration. Our responsibility is to express an opinion on this financial information based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In our opinion, these expense accounts, in the amount of \$5,723,073, present fairly, in all material respects, the costs incurred by the Office of the General Auditor of the City during the year ended December 31, 2009 in accordance with generally accepted accounting principles for local governments published by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, as described in Note 2 to the financial statements of the City.

*Samson Bélair/Deloitte & Touche s.e.n.c.r.l.*<sup>1</sup>

March 15, 2010

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<sup>1</sup>Chartered accountant auditor permit No. 18190

# SCHEDULE OF EXPENSE ACCOUNTS OF THE GENERAL AUDITOR'S OFFICE OF THE VILLE DE MONTRÉAL

year ended December 31, 2009  
(in thousands of dollars)

	Budget <sup>(1)</sup>	Actual	Actual
	2009	2009	2008
	\$	\$	\$
Compensation of personnel			
Salaries	2,330	2,451	2,722
Fringe benefits	819	634	741
	<b>3,149</b>	<b>3,085</b>	3,463
Professional, technical and administrative services	2,237	2,106	696
Other operating expenses	577	532	504
<b>TOTAL</b>	<b>5,963</b>	<b>5,723</b>	4,663

<sup>(1)</sup> Approved budget, as modified, presented in the accounting system of the Ville de Montréal for the Office of the General Auditor and approved by the executive committee of the Ville de Montréal.

This schedule of expense accounts of the Office of the General Auditor of the Ville de Montréal was prepared in accordance with Canadian generally accepted accounting principles for local governments published by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, according to the same accounting policies described in Note 2 to the financial statements of the Ville de Montréal for the year ended December 31, 2009.

