

Bureau du
vérificateur
général

Report of the Auditor General of the Ville de Montréal to the City Council and to the Urban Agglomeration Council

For the Year Ended December 31, 2010



Montréal 

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

**For the Year
Ended December 31, 2010**

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May 12, 2011

Mr. Gérald Tremblay
Mayor of the Ville de Montréal
275 rue Notre-Dame Est
Suite 1.113
Montréal, QC H2Y 1C6

**Subject: Auditor General of the Ville de Montréal's annual report for the year ending on
December 31, 2010**

Dear Mr. Mayor,

Please find enclosed the *Report of the Auditor General of the Ville de Montréal to the City Council and to the Urban Agglomeration Council* for the year ended December 31, 2010 as per Article 107.13 of the *Cities and Towns Act* (R.S.Q., chapter C-19) to be tabled at the next regular City Council meeting on May 16, 2011 and the next Urban Agglomeration Council meeting on May 19, 2011.

Yours truly,

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

Jacques Bergeron, CA, MBA, M.Sc.
Auditor General of the Ville de Montréal

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Bureau du
vérificateur
général

I. Comments and Recommendations of the Auditor General



I. COMMENTS AND RECOMMENDATIONS OF THE AUDITOR GENERAL

When I was appointed the city's Auditor General, I decided to carry on my predecessor's practice of including certain comments and recommendations for the municipal administration in the introduction to my annual report. I am continuing this tradition by addressing the following items of interest in this section:

- A. Intrusion into the Auditor General's electronic communications
- B. Auditing of accounts related to the Bureau du vérificateur général
- C. Inappropriate basis for calculation of the Auditor General's budget
- D. Professional services contract for the external financial audit of the Ville de Montréal and the Société de transport de Montréal
- E. Auditor General's budget – operating surplus and surplus allocation
- F. Cost of handling reports being processed at the time the ethics hotline was transferred to the Service du contrôleur général
- G. Titles of certain positions within the Service du contrôleur général

A. INTRUSION INTO THE AUDITOR GENERAL'S ELECTRONIC COMMUNICATIONS

I feel it is necessary to return to the illegal intrusion into my electronic communications that we discovered in January.

You will understand that I cannot currently discuss my version of the facts surrounding the allegations against me contained in the [TRANSLATION] "Reid document," presented during a special meeting of the audit committee and submitted to City Council in February. An application instituting nullity proceedings and a permanent injunction was brought to the Superior Court in March. Recall that this motion is asking the Court to, among other things:

- declare that the defendants illegally and without right copied and collected my e-mail files, including both those sent and received, as well as their content, including attachments, and my calendar;
- order the defendants or their official representatives, agents, employees and all those under their control, as well as any person aware of the judgment to be rendered, to return all copies in all forms of all the documents or information copied between March 2010 and January 2011 that were in my electronic mailbox and on the city server, and to indicate to whom the defendants have sent a copy of said documents or their content;

- revoke the [TRANSLATION] “Reid document”;
- revoke resolution CM05-357, adopted February 22, 2011.

I am outraged by this intrusion, which was carried out untimely, without any prior diligent verification, by perpetrators who believed they had every right and would not get caught. In the paragraphs that follow, I feel it is important that I briefly recount the events surrounding the intrusion into my electronic communications, present the significant repercussions of this intrusion on the way my office operates as well as on its corporate image and that of the Ville de Montréal, and lastly, formulate certain recommendations.

However, before I do so, I would like to state that I have always acted diligently and in good faith in the best interest of the Bureau du vérificateur général (BVG) and the Ville de Montréal. At no time did I benefit from a direct or indirect personal gain during the awarding of contracts or in any other situation. Once the current legal proceedings are over, I plan on providing all the necessary explanations to set the record straight. The BVG has met and is cooperating with representatives of the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT), who are currently in the process of reviewing all the contracts that I awarded from the time I began my duties, June 3, 2009, to April 1, 2011. I firmly believe that the decisions made in this matter were always based on principles of sound administration.

BRIEF RECAP OF THE EVENTS

On January 20, 2011, the Ville de Montréal BVG discovered that several e-mails addressed to me and sent well before January 20 had been opened by a city employee working for the Service du contrôleur général whose known position is that of division manager—Investigations and Analyses.

This employee was never an intended recipient of the e-mails in question.

This highly unusual and abnormal situation suggested the possibility that confidential e-mails addressed to me may have been intercepted and read by one or several individuals who were not authorized to do so.

An investigation was therefore undertaken to shed light on this issue. This investigation confirmed that messages in my electronic mailbox had, in fact, been intercepted and viewed. The investigation also revealed the probable extent of the intrusion and identified the perpetrators of this act, or at least some of them, and the methods used. Our verifications also confirmed that these copies were made

repeatedly and over a long period of time, following a *modus operandi* that shows that the acts were neither isolated nor accidental, but rather planned long ago. The actions taken to conceal these intrusions and attempt to erase any trace of them in the city computer network show that the perpetrators of these attacks knew that what they were doing was illegal. In this sense, these acts are similar to espionage and hacking.

The perpetrators of these intrusions attempted in vain to justify their actions through allegations of wrongdoings on my part that would constitute very serious offences in their eyes, but for which they did not see a need to inform City Council until after I had uncovered their operation. All this shows that the purpose of the operation was solely to mount a case against the Auditor General, an unprecedented attack against the position that I hold.

CONSEQUENCES OF THE INTRUSION

The intrusion had, and continues to have, serious consequences on my office's activities, in addition to having greatly tainted its corporate image. Recently, the newspaper *La Presse* reported on the espionage of an elected official by the Service du contrôleur général. The illegal actions committed by the Service du contrôleur général had, and continue to have, serious consequences not only on my office, but also on the whole of the city administration. Media coverage has resulted in a loss of confidence on the part of citizens toward Montréal municipal institutions. City employees, elected officials and unions are wondering, and understandably so, whether they too may have been victims of systematic and unjustified espionage in the past months.

Moreover, since January 20, we have had to devote a great deal of energy to following the trail of the intrusions left by the perpetrators and compiling the proof to support the various recourses we have taken against them. This energy has translated mainly into a significant mobilization of our management personnel and some of our information technology specialists, as well as the use of experienced external resources, mainly in the legal field and forensic accounting. These resources were necessary in order to take the appropriate legal recourse to protect the institution of the BVG. As of March 31, 2011, we have had to invest more than 900 hours of internal resources and incur professional fees in the order of \$288,000 for this purpose.

Of course, our internal resources will have to devote additional efforts to this issue in the coming months. Additional professional fees are also to be expected for representation before the Superior Court for the application instituting nullity proceedings and a permanent injunction. It is clear that the BVG will not be able to cover all of these fees from the operating budget originally allocated for 2011.

Considering that it is a sizeable and unforeseeable expense that is entirely out of our control, I plan on submitting a request to City Council shortly for additional funds to cover these fees.

Obviously, this situation has caused significant delays in the progress of our regular audit work and in the handling of reports from the ethics hotline, to the point of even compromising the publication of this annual report in May, when it is usually tabled. However, massive efforts on the part of the employees of my office have allowed us to make up these delays for the most part. We have nonetheless managed, as you can see, to produce what I believe is an annual report of the utmost quality. We also managed to issue the necessary financial audit opinions for the city and other municipal agencies under its control on time.

Unfortunately, two audit operations, the conclusions of which should have been included in this annual report, were not completed in time due to disruptions caused by the special investigation and preparation of legal recourse. We hope to produce a special report for the June 2011 City Council meeting that will include the results of these two audit operations. We have also had to interrupt our work following up last year's recommendations regarding the "Outsourcing Project for Telecommunications Services." We wanted to include an update of this situation in this report because this project is strategically important to providing services for citizens. This update will be published in my next annual report instead.

Also, it bothers me tremendously that we have not been able to complete, as intended, planning our mandates for 2011. Usually, this planning is carried out in the month of January, following a risk analysis that has to be updated every year. This year's update was not done due to the efforts that we had to devote to the issue of my electronic communications intrusion.

The discovery of this intrusion destroyed my office's trust in the security of the city computer and telecommunications network as well as that of our offices. I had to make immediate temporary changes not only to guard us against this type of intrusion, but also to detect whether we had been victims of other possible types of espionage.

This intrusion also caused stakeholders to doubt the ability of the BVG to ensure the confidentiality of the information that it receives and what it does with this information. We have irrefutable proof that a Service du contrôleur général employee opened e-mail messages pertaining to audit subjects, contrary to what was stated by the city Director General in his letter dated February 15, 2011 addressed to the Ministre des Affaires municipales, des Régions et de l'Occupation du territoire. In fact, the subject of one of these e-mail messages was a draft audit report, which was attached to the

e-mail itself. This draft report contained highly sensitive details on the activities of the business units targeted by this audit. I therefore had to inform the heads of these business units of the situation.

This affair is unprecedented in the history of the BVG. Once again, I cannot stress the extreme seriousness of this intrusion enough. It violates the principles of independence and confidentiality necessary to the unhindered completion of the mandate entrusted to the Auditor General pursuant to the *Cities and Towns Act* (C.T.A.). In fact, the confidentiality of the Auditor General's communications are so essential and inviolable that, under the C.T.A., no member of my office or expert whose services I retain may be compelled to disclose any information or produce any document collected as part of their mandate.

Yet, through its wrongdoings, the Service du contrôleur général completely disregarded this protection the C.T.A. confers on the Auditor General.

The intrusion has also had significant repercussions on the individuals who may have wanted to contact my office confidentially. Have they lost confidence in the mechanisms currently in place? Are they refraining from contacting us due to the situation described earlier and knowing that one of the elevator doors leading to our offices is monitored by a camera belonging to the Service du contrôleur général, whose offices are next to ours? It is undeniable that any fairly well informed person might worry that the confidentiality of the information he or she reports to the Auditor General may be breached. It is, in fact, impossible, without the support of City Council in agreeing to the recommendations that follow, to guarantee the anonymity of individuals who wish to contact us. This situation is all the more worrying, as we no longer have the ethics hotline, a mechanism that was highly secure for anyone wishing to contact the Auditor General confidentially. We are currently considering the possibility of introducing an alternative mechanism to the ethics hotline of the Service du contrôleur général.

In addition, the discovery of the intrusion committed by the Contrôleur général, the response to this intrusion by the municipal administration, and the allegations against me, sent a shock wave through my staff. I was even worried that new employees that were supposed to join my office at the time would change their minds, which thankfully was not the case. In fact, several members of my staff questioned me because they were concerned about the future of the institution of the BVG. These circumstances forced me to work very hard to reassure them that the role played by the Auditor General remains a vital part of city democracy and that we can count on the support of City Council, at least I hope we can, to carry out the mandate that I have been given by virtue of the C.T.A.

Lastly, words cannot describe the trying times that I have experienced over the past few months, especially since I could not, without supporting what had been done, respond to the numerous allegations that the perpetrators of this intrusion spread against me to justify their illegal actions after the fact. Despite the seriousness of the acts committed against me and my office, I can guarantee you that all the audits contained in this report were conducted with complete thoroughness and objectivity, in accordance with the mandate entrusted to me by the C.T.A., the professional standards that govern the exercise of my responsibilities and the high degree of professionalism that characterizes my office staff.

Recommendations

I recommend that City Council consider the following actions:

- **Support the principle that the Bureau du vérificateur général have a separate computer network from that of the city as well as its own protection mechanisms, such as an exclusive firewall administered by us. In the coming weeks, we will conduct a study to determine the best configuration, the equipment and software needed, and the related costs. We will submit a budget request backed by this study. It is not as easy to put an independent messaging service for the Bureau du vérificateur général in place, as we must use the same infrastructure as the city. We will therefore have to resign ourselves to using city e-mail services, while adopting the appropriate measures for the circumstances. In terms of information that a third party may want to share with the Bureau du vérificateur général confidentially, we will look at an alternative solution to the ethics hotline and submit the budget requests to City Council accordingly.**
- **Adopt a motion for a short-term relocation of the Service du contrôleur général to a building other than the one housing the Bureau du vérificateur général.**
- **Give formal instructions to the Direction générale so that the investigations conducted by the Service du contrôleur général are carried out in accordance with the laws and regulations in effect and subject to the appropriate management frameworks and accountability measures. We understand, however, that this aspect will likely be covered by the legislation that the Ministre des Affaires municipales, des Régions et de l'Occupation du territoire intends to incorporate into municipal laws and, eventually, by the mandate recently given to the anti-corruption squad by the Ministre de la Justice.**

B. AUDITING OF ACCOUNTS RELATED TO THE BUREAU DU VÉRIFICATEUR GÉNÉRAL

The external auditing firm designated by the city, Samson Bélair/Deloitte & Touche (SBDT), expressed the following reservation in their report dated March 31, 2011 (see Appendix 4) as regards auditing BVG accounts, as per Article 108.2.1 of the C.T.A.:

“We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Given a difference in interpretation by the Bureau du vérificateur général of the Ville de Montréal relating to the scope of a mandate to audit accounts related to the auditor general, in compliance with the provisions set out in Section 108.2.1 of the Cities and Towns Act, we were refused access by management to certain supporting evidence. Consequently, we were unable to obtain sufficient appropriate audit evidence about the process of attributing contracts that must comply with Section 573 of the Cities and Towns Act. As a result, we were unable to determine whether a non-compliance situation should have been subject to disclosure.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial information presents fairly, in all material respects, the costs incurred by the Bureau du vérificateur général of the Ville de Montréal during the year ended December 31, 2010 in accordance with Canadian public sector accounting standards, as described in Note 2 to the financial statements of the Ville de Montréal.”

With this qualification, SBDT maintains that its mandate includes checking and identifying any BVG contract-transaction “noncompliance” with the C.T.A.

The legal advice that I obtained and conveyed to SBDT during its audit is unequivocal: the scope of the external auditor, as set out in Article 108.2.1 of the C.T.A., excludes auditing compliance in the contract-awarding process. In other words, nowhere in the external auditor’s mandate are they authorized to audit procedural compliance of decisions taken by my Office under Article 573 of the C.T.A. In fact, as stated more explicitly in Me Yvon Duplessis’s legal opinion, reproduced below in its entirety, any audit conducted by the external auditor under the provisions of Article 108.2.1 and the resulting opinion, is limited to the following three elements:

- Are the expenses incurred by the Auditor General and posted to his accounts accurate, authentic and verifiable?
- Are said expenses related to the performance or exercise of the Auditor General’s function?
- Are these expenses accounted for in the correct fiscal year?

LEGAL OPINION BY YVON DUPLESSIS, ATTORNEY AT LAW

"I have been mandated by the Auditor General of the Ville de Montréal, Mr. Jacques Bergeron, to prepare a legal opinion on the application and interpretation of section 108.2.1 of the Cities and Towns Act.¹ Briefly stated, the question may be put as follows: what is the extent of the external auditor's powers when auditing the accounts of the chief auditor? In other words, what is meant by the expression "auditing accounts"?"

At the very beginning, it should be pointed out that I have consulted all of the relevant legislation and doctrine as well as all of the documents that were transmitted to me.² However, a warning is in order. Given that the legislation that applies to the municipal chief auditor and to the external auditor is very recent,³ there exists no jurisprudence dealing specifically with this issue to my knowledge. This is why I will attempt to interpret section 108.2.1 so as to provide limited answers without, however, giving any assurance as to what the results would be if the matter were heard before the courts.

This being said, section 108.2.1 of the Cities and Towns Act reads as follows:

"108.2.1. *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, Regions and Land Occupancy by regulation published in the Gazette officielle du Québec.

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; 2009, c. 26, s. 109."

To answer the question that has been put to me, it is necessary to interpret the first sub-paragraph of the first paragraph of section 108.2.1 of the C.T.A.

For this purpose, I have identified the various provisions of the C.T.A. dealing with financial administration and auditing as well as the various expressions and terms that will provide clues to the answer.

¹ R.S.Q., c. C-19 (hereafter the "C.T.A.").

² We have given particular attention to the following documents that are part of the Canadian Institute of Chartered Accountants' Handbook: "Preface to the CICA Handbook – Certification, Part I (2010 Edition)"; the following Canadian audit standards: CAS 200 "Overall objective of the independent auditor and the conduct of an audit in accordance with Canadian auditing standards"; CAS 250 "The auditor's responsibilities relating to laws and regulations in an audit of financial statements"; CAS 805 "Special considerations – audits of single financial statements and specific elements, accounts or items of a financial statement. It should be pointed out immediately that the lawmakers make a clear distinction, notably in the Cities and Towns Act, between the expressions "financial statements" and "accounts", these being two different notions or concepts that must not be confused. To use one example among many others, section 108.2.1 of the C.T.A. refers in the first sub-paragraph of the first paragraph to the word "account" whereas the second sub-paragraph refers to "financial statements". The statute is referring to two different notions.

³ Sections 107.1 to 107.16, 108.2.1 and 108.4.1 of the Cities and Towns Act became effective on January 1, 2002; see: An Act to amend various legislative provisions respecting municipal affairs, S.Q. 2001, c. 25, sec. 15, 20, 22 and 512.

First, the treasurer is bound to keep books of account in which he enters receipts and expenditures by date (sec. 100 of the C.T.A.). Furthermore, he must keep vouchers for all payments he has made for the municipality and produce them for audit and inspection (sec. 100 of the C.T.A.). Furthermore, the council may call upon the treasurer, at any time during the year, to produce a detailed account of the revenues and expenditures of the municipality (sec. 105.3 of the C.T.A.).

Pursuant to section 107.7 of the C.T.A., the chief auditor must audit the accounts and affairs of the municipality and of every legal person that is covered by it. Section 107.8 of the C.T.A. expressly provides that the chief auditor may, to the extent he considers appropriate, proceed with financial auditing and auditing for operational compliance with acts, regulations, policies and directives that are relevant or applicable. There is no mention of this type of auditing in section 108.2.1 of the C.T.A. Moreover, section 107.8 of the C.T.A., consistent with section 108.4.1, also provides that the chief auditor may examine any document concerning the affairs and accounts of the audit objects and may 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.

Section 107.10 of the C.T.A. states that the chief auditor may conduct an audit of the accounts or documents of any person having received financial assistance from the municipality. The municipality and those having received financial assistance are required to provide the chief auditor with any accounts and documents he considers relevant to the performance of his duties, just as he can require all municipal employees to provide any information and explanation that he considers necessary to the performance of his duties.

Finally, section 109 of the C.T.A. mentions that the ad hoc auditor shall perform a special audit of the accounts of the municipality if the municipal council so orders as a result of a written request by at least fifty ratepayers.

As we can see, the word “account” appears on several occasions in various provisions of the Cities and Towns Act. Granted, but what is meant by the expressions “vérification” (“audit” or “verification” in English), “compte” and “livre de comptes” (“account” and “book of account” in English), “contrôle d’un compte” (“checking of an account” in English) and “affaires”? To define these terms, we have consulted the Dictionnaire de la comptabilité et de la gestion financière⁴. It contains the following definitions:

VERIFICATION/VÉRIFICATION: Engagement. Process that consists in ensuring the validity or the accuracy of entries, accounts or accounting reports.⁵

AUDIT/AUDIT/VÉRIFICATION (CA): Engagement. (CAN and USA) As regards financial statements, a review of the accounting documents and other probative items related thereto, done by a competent and independent professional in order to express an opinion on the accuracy of the portrait that the statements or other information provide about the financial condition and the results of the entity under review, according to generally accepted accounting principles and, in exceptional cases, according to other appropriate accounting rules communicated to the reader.⁶

ACCOUNT/COMPTE: [...]

3) More generally, an account is a unit for classifying and recording entries or items from **accounting terminology**.⁷

⁴ Louis MÉNARD et al., Dictionnaire de la comptabilité et de la gestion financière: English-French with French-English Index, 2nd ed., Toronto, Canadian Institute of Chartered Accountants, 2004.

⁵ Id., p. 1245.

⁶ Id., p. 85.

⁷ Id., p. 6.

ACCOUNT/COMPTE: Bookkeeping, Statement summarizing the operations between individuals or entities during a given period.⁸

BOOK OF ACCOUNT/LIVRE DE COMPTES: Bookkeeping. Any book, file or record that is part of the accounting system in which are recorded the operations and the economic events related to an entity, usually in monetary units.

Publisher's note: Books of accounts include the records (transaction file) and the general ledger (master file).⁹

CHECKING OF AN ACCOUNT/CONTRÔLE D'UN COMPTE: Internal checking; engagement. Review of each item recorded as a liability or an asset in the account.¹⁰

As regards the word "Affaires" in the plural, it is defined as follows in the Le nouveau Petit Robert:¹¹

AFFAIRE (AFFAIR)

[...]

II IN THE PLURAL. LES AFFAIRES (AFFAIRS) – 1 (1508) All the occupations and activities of public interest. [...] – **3 ECON.** Economic activity (notably its commercial and financial consequences).

Given the foregoing definitions, I am of the opinion that the auditing of the chief auditor's accounts by the external auditor named by the council can only cover the three following items: 1) Are the expenses incurred by the chief auditor, as recorded in his accounts, accurate, authentic or true? In other words, were they really and truly incurred? 2) Are these expenses related to the performance or exercise of the chief auditor's duties? 3) Were these expenses accounted for during to the correct financial year?

In my opinion, the external auditor's role in fulfilling his mandate, that is to audit the chief auditor's accounts, is limited to the three items mentioned above. Consequently, he would not be authorized, among other things, to give an opinion on the legality or the appropriateness of the contracts by which the chief auditor's expenses were incurred, or to give an opinion on the legality of the chief auditor's actions, for the following reasons.

First, section 107.8 of the C.T.A. explicitly states that when the chief auditor audits the affairs and accounts of the municipality or of a legal person referred to in paragraph 2 of section 107.7, he may, if he deems it appropriate, examine the compliance of their operations with the Acts, regulations, policies and directives. I reiterate that there exists no such provision regarding the external auditor. If lawmakers had wanted the external auditor to have such powers, they would have given them to him, because they know the state of the law. If they did not provide for it, it means that the external auditor has no such auditing power.

Furthermore, it should be pointed out that in sections 107.7 and 107.8 of the C.T.A., the lawmakers use the expressions "accounts and affairs" and "affairs and accounts." The law provides for two different expressions, because they have different meanings; indeed, this clearly appears in the definitions mentioned above. It would seem that the word "affairs" is a generic term that has a much broader application than the word "accounts," which is much more precise and limited. It should be remembered that when section 108.2.1 of the C.T.A. was adopted on June 21, 2001, the first sub-paragraph of the first paragraph reads as

⁸ *Id.*, p. 6.

⁹ *Id.*, p. 142.

¹⁰ *Id.*, p. 216.

¹¹ Paul ROBERT, *Le nouveau Petit Robert*, J. Rey-Debove et A. Rey (eds.), Paris, Dictionnaires Le Robert – SEJER, 2007, p. 41.

follows: “the activities of the chief auditor.”¹² Even before this new provision became effective, lawmakers intervened on December 19, 2001, to amend this sub-paragraph and replace the expression “the activities of” by “the accounts relating to.”¹³ While the bill was being studied by a parliamentary commission dealing with land-use planning, minister of Affaires municipales et des Régions at the time, Louise Harel, expressed the opinion that the expression “the activities of the chief auditor” created confusion, was ambiguous and raised several questions. She therefore changed this expression for a new one called “the accounts relating to the chief auditor,” which is still part of section 108.2.1 of the Act. She added that “[...] this new expression is preferable because emphasis is put on the financial character of the audit to be performed by the external auditor.”¹⁴ It follows, in my opinion, that there is no comparison between the financial character of an audit and the legal overview of the acts or of the contracts concluded by the chief auditor, or of the deeds he has done.

Finally, let’s remember that the current Minister of Affaires municipales, des Régions et de l’Occupation du territoire, Laurent Lessard, recently stated in the media that there was currently no provision in any law whatsoever that provides for a review of the legality of the chief auditor’s actions. This being the case, I do not see how the external auditor could assume such power.

Undoubtedly, the chief auditor is not above the law but, on the other hand, he is not at everyone’s mercy. After all, it must not be forgotten that, given the legislation as a whole regarding the chief auditor, the law grants him a special status because of the unique, crucial and preeminent role he plays within a municipality, namely that of municipal public finance watch dog. To perform his duties, he must not only be guaranteed independence, but also considerable, even absolute, management autonomy with regard to municipal authorities.¹⁵

Even though the external auditor has access to the books, accounts, deeds, documents and vouchers and has the right to require information and explanations needed to fulfill his mandate from municipal employees, this does not mean that he may increase or widen its terms or circumvent or overstep his mandate, which is limited to auditing the chief auditor’s accounts. The external auditor may only obtain documents and explanations from municipal employees within the framework or the confines of his mandate, namely to ensure that the chief auditor answers the three questions I have previously indicated in the affirmative. Briefly stated, the external auditor’s powers are not absolute. Quite the opposite. It will be up to the external auditor to demonstrate that the communication or production of documents or the explanations he requests are relevant and useful for the fulfilment of his mandate which, I repeat once again, is limited to auditing the chief auditor’s accounts.”

It is with some surprise, therefore, that I read two emails sent to me from SBDT associates, in which they make clear that, in order to deliver the type of opinion required, they are complying with generally accepted Canadian accounting principles in establishing the scope of their audit. In light of this legal opinion however, it is clearly not the intention of lawmakers to give the external auditor the auditing powers it is now claiming.

¹² Act amending various legislative provisions in municipal matters, S.Q. 2001, c. 25, sec. 20.

¹³ Act amending various legislative provisions in municipal matters, S.Q. 2001, c. 68, sec. 7.

¹⁴ NATIONAL ASSEMBLY OF QUEBEC, Record of Debates, Parliamentary Commission, 2nd session, 36th Legislature, Commission on land-use planning, Tuesday, December 18, 2001 from 2:10 p.m. to 2:20 p.m. See: Website of the National Assembly: <http://www.assnat.qc.ca>, under the title “Travaux parlementaires/Sessions antérieures”.

¹⁵ Mathieu SOCQUÉ, “La fonction de vérificateur général d’une municipalité: les garanties d’indépendance et d’impartialité inhérentes à la charge de vérificateur public.” 2004, 35 R.D.U.S. 231.

This was corroborated by an amendment adopted prior to the entry into force of Article 108.2.1. On December 19, 2001, lawmakers intervened to amend the article and replace the expression “the activities of the chief auditor” with “the accounts relating to the chief auditor.” It was mentioned in a parliamentary committee that the latter expression was preferable as it put greater emphasis on the financial nature of the audit to be carried out by the external auditor.

In addition, the application of the auditing principles claimed by SBDT, broad as it may be, is subject to the scope of the mandate the C.T.A. gave the external auditor.

Under the circumstances, I have to wonder about this attempted incursion into BVG operations. At no time since I have been in office, nor during my predecessor’s term, did the external auditor attempt to broaden its mandate in this way.

SBDT has my contract management in its sights. This firm is going out of its way to show that it is acting in accordance with accepted auditing principles while ignoring the limited functions conferred upon it by the C.T.A.

Added to the exposure of an unprecedented intrusion into my communications, SBDT’s position raises a good many questions about its deeper motivations and the reasons that might justify such an about-face.

In any event, there is no doubt that such action constitutes a new attempt at invading BVG operations. This is a violation of the autonomy and independence of the Auditor General, who must have a “free hand” to act without fear of reprisal. This is the very reason lawmakers limited the external auditor’s task to the financial area. It is protection that cannot be changed by any auditing standards.

Once again, it is not a matter of shirking any accountability. It is an effort on my part to comply strictly with the C.T.A., hence my reason for seeking and receiving opinions. I would also remind you that, as mentioned in Section A of this chapter, I am already working with MAMROT, an independent forum that is completely separate from the city executive, to conduct an audit of my contract management.

To summarize, it is impossible for me to conceive of such an audit being done by an external auditor without creating a dangerous precedent that would harm the autonomy and independence of the office I hold.

Recommendations

I recommend that City Council immediately instruct Samson Bélair/Deloitte & Touche to comply with its responsibilities under the *Cities and Towns Act* and cease all forms of incursion or attempted incursion into Bureau du vérificateur général operations to audit compliance with related or applicable laws, regulations, policies and guidelines.

C. INAPPROPRIATE BASIS FOR CALCULATION OF THE AUDITOR GENERAL'S BUDGET

In last year's report, I brought up an inconsistency between the budget I was allocated and my obligations under the C.T.A. I emphasized that the obligation for a financial and business audit extended not only to the city, but also to the other municipal agencies under its control. The financial and business audit is an important and meaningful concept because it involves several important responsibilities that are conferred upon me by virtue of 107.8 of the C.T.A., as follows:

"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."

Therefore, as I explained last year, the scope of my mandate extended, according to the provisions of the C.T.A. at the time, to auditing financial statements, resource optimization and compliance with the laws for the Ville de Montréal, but also for the following agencies as part of city consolidation:

- Office municipal d'habitation de Montréal (OMHM)
- Société de transport de Montréal (STM)
- Société d'habitation et de développement de Montréal (SHDM)
- Société du parc Jean-Drapeau (SPJD)
- Conseil des arts de Montréal (CAM)
- Conseil interculturel de Montréal (CIM)
- Office de consultation publique de Montréal (OCPM)
- Société de gestion NauBerges de Lachine
- Anjou 80
- Corporation d'habitation Jeanne-Mance (CHJM)
- Commission des services électriques de Montréal (CSEM)

We already perform the financial audit for these agencies (accounting firms do most of the work for the STM and the OMHM). As I mentioned last year, according to the C.T.A. we have to conduct

audits, but we do not receive the necessary funds to do so. This situation is completely unfair: we have to dip into our budget to conduct financial audits on these agencies, which leaves us with fewer financial resources available to carry out resource optimization audits in the city. These have more added value and can ultimately generate significant savings for the city and, in turn, for Montréal taxpayers.

The C.T.A. also requires us to conduct audits on resource optimization and compliance with the laws for the agencies. As we do not have the financial resources required, we hardly carry out any of these types of audits for these agencies.

We recommended last year that the city calculate my operating budget based on the consolidated budget, thus providing me with sufficient resources to fulfil our mission for the benefit of Montréal citizens. This is why, on July 8, 2010, I met with the members of the audit committee, which has the authority to make recommendations to the City Council in this regard. Contrary to expectations, the audit committee firmly opposed my budget requests, deeming them unjustified. It then submitted a recommendation to City Council not to approve to my budget requests.

The problem surrounding the basis for calculating my budget on the one hand, and my responsibility as Auditor General on the other, has gotten even worse since January 1, 2011, and I would like to present the main details here.

As of January 1, 2011, section 107.7 of the C.T.A. extends the mandate of the Auditor General to be the accounting entity of the city rather than limiting it to the notion of 50%. Section 107.7 now stipulates the following:

“The chief auditor shall audit the accounts and affairs
(1) of the municipality;
(2) of every legal person
(a) that is part of the reporting entity defined in the municipality's financial statements¹⁶;
(b) of which the municipality or a mandatary of the municipality appoints more than 50% of the members of the board of directors; or
(c) of which the municipality or a mandatary of the municipality holds more than 50% of the outstanding voting shares or units.”

As we understand it, this change results in more agencies being included in the Auditor General's scope of responsibilities. The main agencies for which I must now audit accounts and affairs include:

- Technoparc Montréal and Fiducie du Technoparc
- Société du Havre

¹⁶ New responsibility.

- Quartier international de Montréal
- Musée Pointe-à-Callières
- Accesum
- Société en commandite Stationnement de Montréal
- Société de vélo en libre-service
- Société de jalonnement dynamique

The consequences of this change in the C.T.A. are quite significant for my office. Without reasonably sufficient additional funds, it will be difficult, if not impossible, for us to meet our responsibilities. Ultimately, Montréal taxpayers will be the ones to pay the price.

I am therefore repeating the recommendation that I made last year.

Recommendations

I recommend that the City Council adopt a motion for the budget allocated to the Auditor General to be calculated based on the operating budget of the city and of all the agencies whose accounts and affairs he is now responsible for auditing.

D. PROFESSIONAL SERVICES CONTRACT FOR THE EXTERNAL FINANCIAL AUDIT OF THE VILLE DE MONTRÉAL AND THE SOCIÉTÉ DE TRANSPORT DE MONTRÉAL

BACKGROUND AND DESCRIPTION OF THE CONTRACT

At its meeting on August 26, 2010, the Urban Agglomeration Council approved the contract for auditing the financial statements of the Ville de Montréal and the STM. The particulars of resolution CG10 0301 are as follows:

[TRANSLATION] “Resolved [...] to:

- 1- approve a draft agreement for Samson Bélair/Deloitte & Touche s.e.n.c.r.l., the only firm that obtained a passing grade based on the predetermined selection criteria, to provide the professional services required for the external audit of the 2010, 2011 and 2012 financial statements of the STM, its subsidiaries and special mandates, as well as the external audit of the 2010, 2011 and 2012 city financial statements for a maximum amount of \$2,667,904, tax included, in accordance with public call for tenders documents 10-11320 and the terms and conditions in the draft agreement; and*
- 2- charge this expense according to the financial information in the business case.”*

This decision was made following a public call for tenders. Audit committee minutes of July 8, 2010 state:

[TRANSLATION] “The selection committee recommends we retain the professional services of Samson Bélair/Deloitte & Touche as external auditors of the Ville de Montréal and the STM for a three-year mandate beginning January 1, 2010.

Following this presentation and upon recommendation of the selection committee, the members of the audit committee recommend that:

the City Council and Urban Agglomeration Council award the external audit professional services contract for a three-year mandate beginning January 1, 2010, to the firm Samson Bélair/Deloitte & Touche, in accordance with the tender specifications.”

The mandate is described in section 2 of the call for tenders specifications and special conditions under the heading [TRANSLATION] “Scope of professional services.” It stipulates that:

[TRANSLATION] “2.1 Ville de Montréal

The mandate of the external auditor pertaining to financial statements includes, as described specifically in section 108.2.1 C.T.A., the following tasks for each fiscal year for which they are appointed:

- auditing the financial statements of the city, including the boroughs and central administrative units;*
- auditing any document determined by the *Ministre des Affaires municipales, des Régions et de l'Occupation du territoire* by regulations published in the *Gazette officielle du Québec*; and*
- auditing accounts related to the Auditor General.*

This audit mandate is performed jointly with the city Auditor General. Planning and executing the audits is therefore carried out with the Auditor General of the city. The audit work is divided on a 50% ratio, for both the interim and year-end audit.

Every year, the tenderer must agree with the Auditor General on the division of files or sections to be audited. The tenderer must also develop the risk analysis, audit approach, strategy per item and scope of the audit together with the Auditor General. Also, reports submitted to the audit committee and city management will be produced jointly.

The annual financial report is also published in English and translation costs must be included in the fees.

Audit fees must include the auditing cost under new accounting standards introduced by the PSAB, with which the city must comply.

2.2 STM

Under section 137 of the Act respecting Public transit authorities, the books and accounts of the Société must be audited each year by an auditor of their choosing. In addition, under section 107.7 of the Cities and Towns Act, the Auditor General of the Ville de Montréal must

audit the accounts and affairs of the Société. The external auditor and the Auditor General of the city therefore jointly sign the auditor's report.

Despite the involvement of the Auditor General in the audit, the Société has chosen to appoint an external auditor as co-auditor. The audits (interim, pre-statement, year-end) will be conducted by the tenderer; however, each of the major steps of the audit plan (risk analysis, audit approach, strategy per item, audit scope and completion schedule) must be approved by the Auditor General of the city.

The Auditor General uses the external auditor's work as evidence to support the conclusion in the report accompanying the Société's financial statements. The external auditor must therefore plan enough time to allow the Auditor General to review the files and answer any questions he may have. All reports and communications addressed to the audit committee and STM management are prepared jointly.

Special reports, including the 5970, are entirely the responsibility of the tenderer. These reports must be given to the city Auditor General before they are officially tabled. The Auditor General of the city has control over the methodology and files relating to these mandates.

The external auditor's mandate includes mainly the following tasks for each fiscal year their mandate covers:

STM financial audit

- *Annual financial statement audit.*
- *The annual financial statement is also published in English so the fee must include translation costs.*
- *Audit fees must include the auditing cost under new accounting standards introduced by the PSAB, with which the city must comply.*
- *Draft version for consolidation with the Ville de Montréal, comfort letter to the Ville de Montréal.*
- *Audit of any document determined by the Ministre des Affaires municipales, des Régions et de l'Occupation du territoire by ruling published in the Gazette officielle du Québec.*

Special mandates for which tenderers must indicate prices separately: [...]"

FINDINGS

SAMSON BÉLAIR/DELOITTE & TOUCHE PROPOSAL AND QUOTATION

In September 2010, we met with the representatives of Samson Bélaire/Deloitte & Touche (SBDT) to discuss sharing files and responsibilities as co-auditors under the aforementioned section 2.1 (Ville de Montréal). During this meeting, we learned that SBDT considered the existing 2009 distribution of audit components to be the distribution for 2010, 2011 and 2012. We also learned that this proposal was central to its tender. In fact, page 18 of the SBDT proposal states, under the heading [TRANSLATION] "Detailed work plan proposal":

[TRANSLATION] "Determination of the division of tasks for the city audit

For our detailed work plan, we took our past experience into account¹⁷ to preserve the expertise of each stakeholder from the city Auditor General and Samson Bélair/Deloitte & Touche, and ensure maximum efficiency while appropriately managing audit risks. With our methodological change to a risk-based approach, we will focus on significant risks and thereby improve the efficiency of our audits. We produced a total hourly budget by applying this methodology to the entire file and then determined what represents 50% of the audit work order to suggest a division.

We established the allocation of items and information to provide in the financial statements¹⁸ to be audited by Samson Bélair/Deloitte & Touche and the city Auditor General as follows. The allocated work includes, where applicable, both the interim audit and the computer audit, according to the strategy adopted, as well as the year-end audit.

The other elements that are part of the audit, such as planning, review, production of reports to management and the audit committee and finalization, have been considered as joint elements."

In this section, the firm also presents a distribution chart for the tasks to be performed by the BVG and SBDT, which is a reproduction of what was done in 2009. It should be pointed out that SBDT has been the external auditor for the city for many years.

In the quotation envelope, SBDT included a document entitled [TRANSLATION] *Assumptions*, which details the following:

[TRANSLATION] "The fees established in this document take the following assumptions into account:

1. The mandate for the external audit of the Ville de Montréal and the STM is carried out by the same firm.
2. The CMM mandate for the STM represents the same number of hours as that of PASTEC, considering that the agreement has not been drafted, as indicated in addendum No. 1.
3. The business volume of STM subsidiaries is similar to that appearing in the financial statements obtained as part of this call for tenders.
4. The city and STM accounting process remains similar for the period covered by this service offer.
5. We estimate that we provided 50% of the audit work for the Ville de Montréal in 2009 by applying our approach to the entire file.¹⁹
6. Sharing audit tasks with the city Auditor General will be done according to the distribution proposal in the service offer and according to the application of our audit approach for the entire file.²⁰

¹⁷ Our underlining.

¹⁸ Our underlining.

¹⁹ Our underlining.

²⁰ Our underlining.

7. *Agglomeration expenses:*
 - *We will not be required to issue any specific opinion on these expenses.*
 - *The audit of the mixed expenditure breakdown will be performed by the city Auditor General as part of his duties under section 70 of the Act respecting the exercise of certain municipal powers in certain urban agglomerations.*
8. *We do not expect any requests by the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire for the audit of additional documents as there have not been any in the past.*
9. *Our budget for hours presupposes that the audit file given to us will be complete and that the Direction de la comptabilité et du contrôle financier will coordinate gathering the necessary audit sample documents for the city, while for the STM this will be done by the Division Gestion financière.*
10. *City and STM staff will be available during the different audit stages to answer our questions. Furthermore, the Direction des finances will submit complete financial statements to us in a timely manner so that we can meet our deadlines. Lastly, the Direction des finances will coordinate the gathering of the external auditor's, the city Auditor General's and the STM's comments on the various financial reports to be issued.*
11. *The establishment of our fees is based on the Firm, the Direction des finances and the city Auditor General meeting agreed-upon timelines.*

Any change in these assumptions will be evaluated to determine the impact on fees.

Signature of the tenderer: _____ "

Items 5 and 6 above clearly state that the 2009 distribution will be the one used in 2010, 2011 and 2012 unless the city agrees to pay additional fees. Yet the firm was supposed to offer a fixed price for the three years of the contract. In fact, section 2.8 of the instruction document sent to tenderers stipulates: [TRANSLATION] *"The tender must not contain any clause other than those stipulated by the city. Any request by a tenderer to add or modify clauses or that involves the payment of interest will be refused by the city."*

The assumptions added to the firm's quotation are therefore incompatible with section 2.8 of the instruction document. A representative of the Direction de l'approvisionnement of the city indicated to us that, in such a situation, the provider is asked to withdraw the clauses in question and provide a written confirmation. If this is refused, the proposal is declared non-compliant. This procedure was not followed in the case of the SBDT tender.

Other than the non-compliant quotation, we must underline that the SBDT tender does not meet the requirements with regard to the scope of professional services described in the call for tenders. In fact:

- The firm mentions that there will be fees for filling out Ministère des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT) forms (assumption 8 of the quotation envelope), while section 2.1 stipulates the verification of these documents, as does section 2.2 of the call for tenders specifications.

- By unilaterally pre-determining the distribution of files or sections to be audited, SBDT contravenes the clause stipulating that the tenderer must come to an agreement every year with the Auditor General over this distribution.

FINDING

- **The fact that the price is conditional on the assumptions dictated by SBDT makes this firm's tender non-compliant with the specifications of the call for tenders.**
- **The distribution of files to be audited imposed by SBDT makes this firm's tender non-compliant with the specifications of the call for tenders.**
- **The billing of additional fees to the city for verifying MAMROT documents makes this firm's tender non-compliant with the specifications of the call for tenders.**
- **The fact that there will be additional fees in the event of a distribution that differs from the one proposed by the firm makes this firm's tender non-compliant with the specifications of the call for tender.**

PERFORMANCE OF THE MANDATE

According to our analysis, none of the tenders complied with the specifications and instructions of the call for tenders. The Urban Agglomeration Council was not informed of this situation.

In September 2010, I informed the Direction des finances and the members of the audit committee of the inconsistencies noted and the problems in coming to an agreement on responsibility sharing between the firm and the BVG.

In the specifications, the sharing of auditing tasks over the three-year period was required to allow BVG staff the opportunity to acquire in-depth knowledge of the activities to be audited. At the end of the three-year period of the firm's contract, we must be very familiar with the entire audit file to ensure continuity should there be any change in external auditors. Moreover, this sharing also allows both sides to look at the auditing activities with new eyes.

In its proposal, SBDT maintains that it will provide 50% of the audit effort. Its reference is the distribution agreed on in 2009. The corollary of this statement is that the Auditor General assumed 50% of the effort in 2009. Our most recent proposal to SBDT to completely exchange auditing activities was based on SBDT's own judgment and assessment, whereby, logically, the efforts of each become interchangeable. **SBDT refused this avenue.** This is what we suggested for the contract period:

- 2010: same as the 2009 distribution.
- 2011 and 2012:
 - SBDT takes over the intermediate files done by the BVG in 2009 and 2010;
 - The BVG takes over the intermediate files done by SBDT in 2009 and 2010;
 - Each office takes over the balance sheet item files related to their intermediate files;
 - Other items and responsibilities remain unchanged.

Obviously, this proposal was conditional on clarifying the compliance problem of the contract awarded to SBDT that we mentioned earlier.

This way of operating simultaneously meets the requirements of the call for tenders and the needs of the BVG. Obviously, this mirror solution, as SBDT pointed out, supposes that there will be a learning curve for the two parties. This was, and is still, part of the call for tenders conditions that should have been implicitly accepted by SBDT.

The revealed facts have been presented to the audit committee. We insisted, in November 2010, that it obtain a legal opinion on the admissibility of the SBDT tender. Following a discussion with the members of the audit committee, we also agreed to maintain the *status quo* for the 2010 distribution so the city would not be adversely affected and could produce and table its financial statements on time.

FINDING

The SBDT proposal, which contravenes the requirements of the call for tenders, generates additional unexpected and unjustified costs for the city in addition to compromising the transfer of expertise through the annual sharing of sections to be audited, as is required in the call for tenders specifications (additional costs have already been announced).

Recommendations

We recommend that the City Council make sure that measures be taken so that the execution of the agreement concluded with the firm Samson Bélair/Deloitte & Touche comply with the conditions of the call for tenders, with a view to reaching the objectives of the transfer of expertise and related costs.

E. AUDITOR GENERAL'S BUDGET – OPERATING SURPLUS AND SURPLUS ALLOCATION

On February 8, 2011, I sent a letter to the senior director of the Service des finances asking him to confirm my interpretation of budget surplus allocation and, where appropriate, take the necessary measures to allocate any surplus from my 2010 operating budget to my 2011 operating budget.

In fact, I am of the opinion that any operating surplus in the Auditor General's budget for a given year can be allocated to his operating budget for the following year. Pursuant to section 107.5 of the C.T.A., budgetary appropriation allocated to the Auditor General intended for the payment of expenses related to the performance of his duties must be equal to or above 0.11% of other funds designated for the city's operating expenses. This budgetary appropriation allocated to the Auditor General covers the expenses needed to carry out planned auditing assignments and associated activities for the reference year.

An operating surplus can only come about if a planned auditing project is not carried out or if assignments remain incomplete as of December 31 of the reference year (ongoing audits). Consequently, I believe legitimate to request that this surplus be allocated to my operating budget for the following year.

However, the senior director of the Service des finances did not reply to the aforementioned letter. It is only when I called to follow-up on it that he stated verbally that, while this appropriation principle is used for the boroughs, it does not apply to the central city departments.

Based on legal consultations, I disagree with the senior director of the Service des finances in this regard. First, the BVG has a different, special, status that sets it apart from the other city departments, as described in the provisions of section 26, Appendix C of the Charter of the Ville de Montréal. Second, the first line of section 476 of the C.T.A. stipulates: "*All sums of money not especially appropriated shall form part of the general funds of the municipality.*" The Auditor General's operating budget constitutes, in my opinion, sums of money specially and specifically appropriated under section 107.5 of the C.T.A. mentioned above.

Recommendations

I recommend that City Council take the necessary measures to allocate the surplus from the Auditor General's 2010 operating budget to his 2011 operating budget, and that it do so for subsequent years, where applicable.

F. COST OF HANDLING REPORTS BEING PROCESSED AT THE TIME THE ETHICS HOTLINE WAS TRANSFERRED TO THE SERVICE DU CONTRÔLEUR GÉNÉRAL

You will recall that on December 14, 2010, City Council approved the recommendation of the Executive Committee to transfer the responsibility for the Auditor General's ethics hotline to the Service du contrôleur général. As detailed in section III, "Auditor General's Ethics Hotline Accountability Report," a significant number of reports were in the midst of being processed at the time of this transfer.

For the period of January 1 to March 31, 2011, my office incurred \$60,361 in expenses to ensure that reports in process were dealt with and to pursue the ensuing investigative or audit work. Additional costs are to be expected to continue this work, as the efforts that had to be dedicated to the issue of the intrusion into my electronic communications mentioned above delayed work for the ethics hotline, which would have otherwise been completed.

However, since January 1, 2011, I no longer have an additional budget to complete the work for the ethics hotline. My office clearly cannot cover the cost of this work from the basic operating budget allocated to the Auditor General for 2011 without interfering with its primary obligations prescribed by the C.T.A.

Consequently, City Council must shortly expect a request for additional funds from the Auditor General to complete the work related to the ethics hotline, taking into account, of course, the surplus from 2010 that could be allocated to 2011 if City Council accedes to my previous recommendation.

G. TITLES OF CERTAIN POSITIONS WITHIN THE SERVICE DU CONTRÔLEUR GÉNÉRAL

With the creation of the Service du contrôleur général in September 2010, certain existing activities were transferred to this department, namely:

- internal auditing activities under the Direction générale
- investigation and analysis activities under the Service du capital humain

Also, the positions of division manager, Audit interne and division manager, Enquêtes et analyses were created.

At the end of 2010 and the beginning of 2011, the Service du contrôleur général added to its administrative structure the positions of [TRANSLATION] “senior auditor” and “head of mission, Auditing,” duplicating the exact job titles created for this purpose by the BVG that year. In addition, the administrative structure of the Service du contrôleur général includes the position of “audit advisor,” which is a position in the BVG.

This has caused confusion both within the municipal system and with third parties. The BVG has even received phone calls from external candidates who had applied for a position as senior auditor within the Service du contrôleur général, but who were sure they were applying to the BVG.

I am surprised that the Service du capital humain did not exercise more care and thoroughness in setting up the administrative structure of the Service du contrôleur général.

Under the C.T.A., the Auditor General and his human auditing resources exercise exclusive responsibilities and obligations. In fact, only the Auditor General performs legislative audits and assumes the related obligations, explained in more detail in section 107 of the C.T.A.

Consequently, I am of the opinion that the job titles that make up the administrative structure of the BVG and that pertain to the task of legislative auditing are exclusive and cannot be used by any other administrative unit within the city.

Recommendations

I recommend that the Service du contrôleur général, along with the Service du capital humain, modify the job titles in its administrative structure to no longer use those belonging to Bureau du vérificateur général job classifications relating to legislative auditing.

I recommend that the Service du capital humain take the necessary measures to ensure that the job titles of the Bureau du vérificateur général relating to legislative auditing be exclusively reserved for it.

Bureau du
vérificateur
général

II. Overview of the Bureau du Vérificateur Général



II.1. Workforce Status

II. OVERVIEW OF THE BUREAU DU VÉRIFICATEUR GÉNÉRAL

II.1. WORKFORCE STATUS

Over the past few years, we have witnessed a continuous and very worrisome erosion of staff in the Bureau du vérificateur général (BVG) because of retirement and recruiting difficulties, especially as regards salaries, which are not very competitive in our comparison market.

Table 1—Workforce Growth 2002–2010¹

Year	Total employees
2002	41
2003	36
2004	38
2005	37
2006	35
2007	33
2008	28
2009	26
2010	30

Measures taken to remedy this problem have included creating professional positions in the beginning of 2010 in a salary range superior to the existing one.

After a first recruitment campaign in June 2010, the BVG succeeded in filling five of the nine positions that were vacant at that time. A second recruitment campaign in November 2010 filled the remaining positions, resulting in a BVG with 35 staff members at the beginning of 2011. Since then, two of the newly hired employees have left the BVG.

Attracting competent and experienced staff members to our office and retaining them continues to be a major challenge. The analysis of our recruitment campaigns reveals that the remuneration the BVG is able to offer remains inferior to that in our comparison market.

¹ Workforce figures for 2008 to 2010 do not include two audit professionals who were released full-time for union activities.

II.2. Performance Indicators

II.2. PERFORMANCE INDICATORS

During our audits, we often observe a lack of appropriate performance indicators to allow thorough administrative follow-up and suitable reporting.

We think we should continue to present the indicators that appear most relevant for the reader to form an opinion about the performance of the Ville de Montréal BVG.

These indicators are:

- Number of reports issued
- Recommendation application rate
- Time utilization
- Equal access to employment
- Financial results

NUMBER OF REPORTS ISSUED

Table 1—Number of Reports Issued from 2006 to 2010

Reference year	Financial audit			Value-for-money and IT audit
	Total	Current year	Previous year	
2006	27	11	16	9
2007	15	10	5	10
2008	17	12	5	8
2009	13	11	2	7
2010	16	13	3	9

RECOMMENDATION APPLICATION RATE

Table 2—Rate of Applying Recommendations Stemming from Value-for-Money Audits

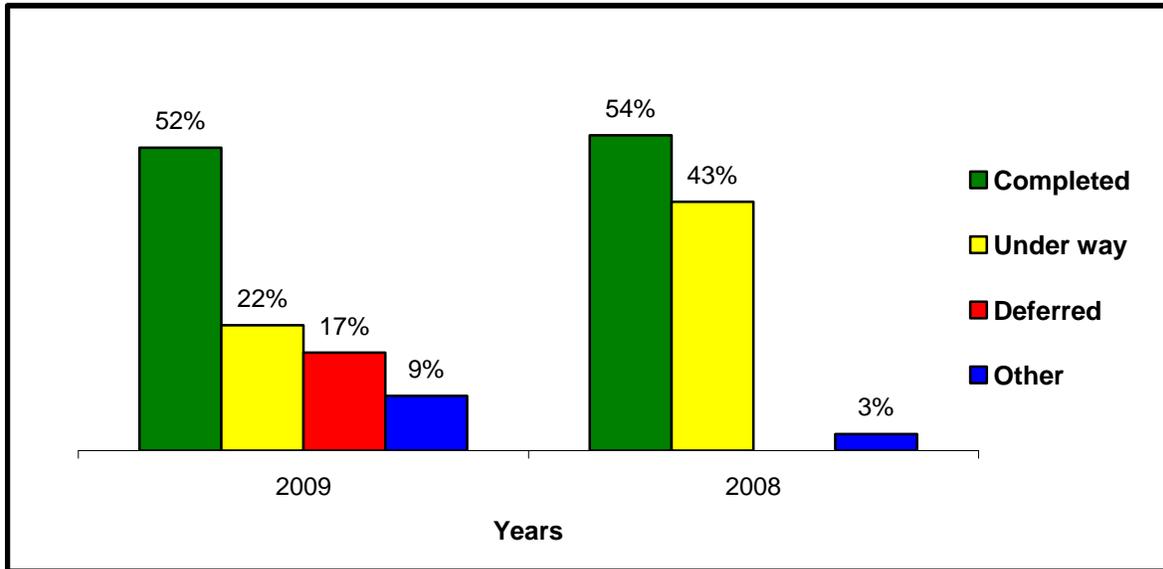
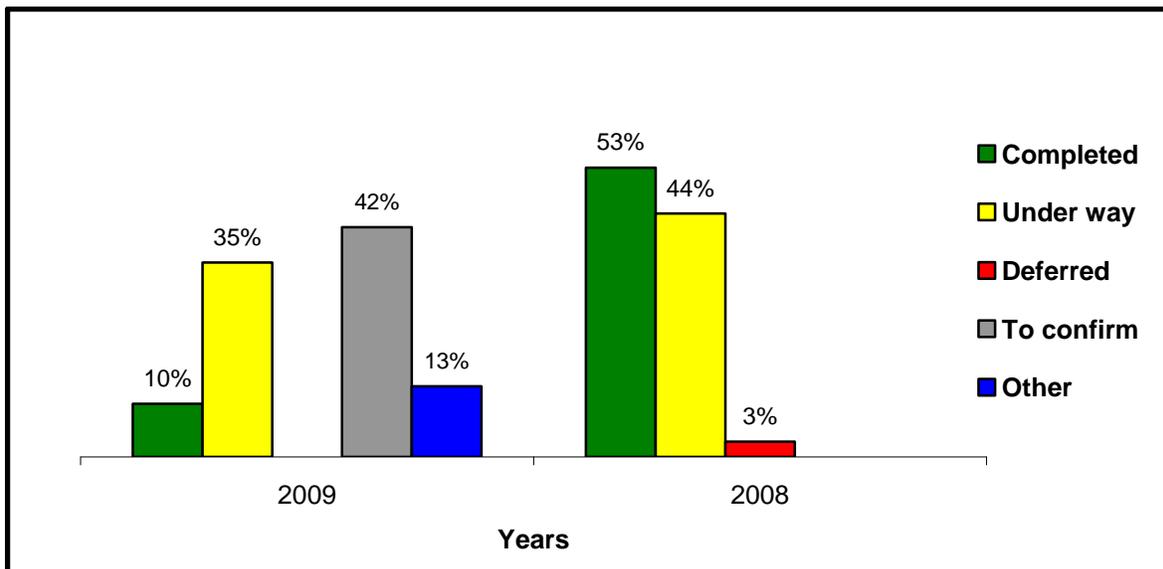


Table 3—Rate of Applying Recommendations Stemming from Information Technology Audits



This indicator is particularly important because it allows the reader to assess how quickly and to what extent the administration takes appropriate measures to resolve the problems that trigger our recommendations. Even though the indicator reveals a 2009 performance that is significantly inferior to that of 2008, this situation must be interpreted carefully. The specific circumstances of 2009—detailed more fully in section A of chapter 1 of this report, “Intrusion into the Auditor General’s electronic communications”—explain this state of affairs.

TIME UTILIZATION

Table 4—Breakdown of Total Hours in %

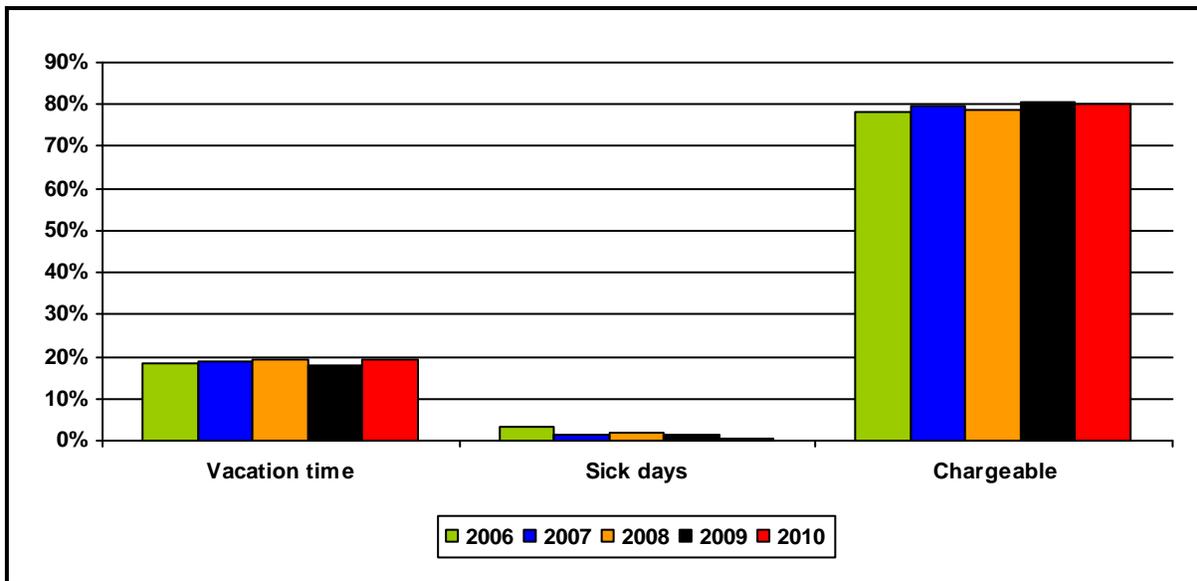
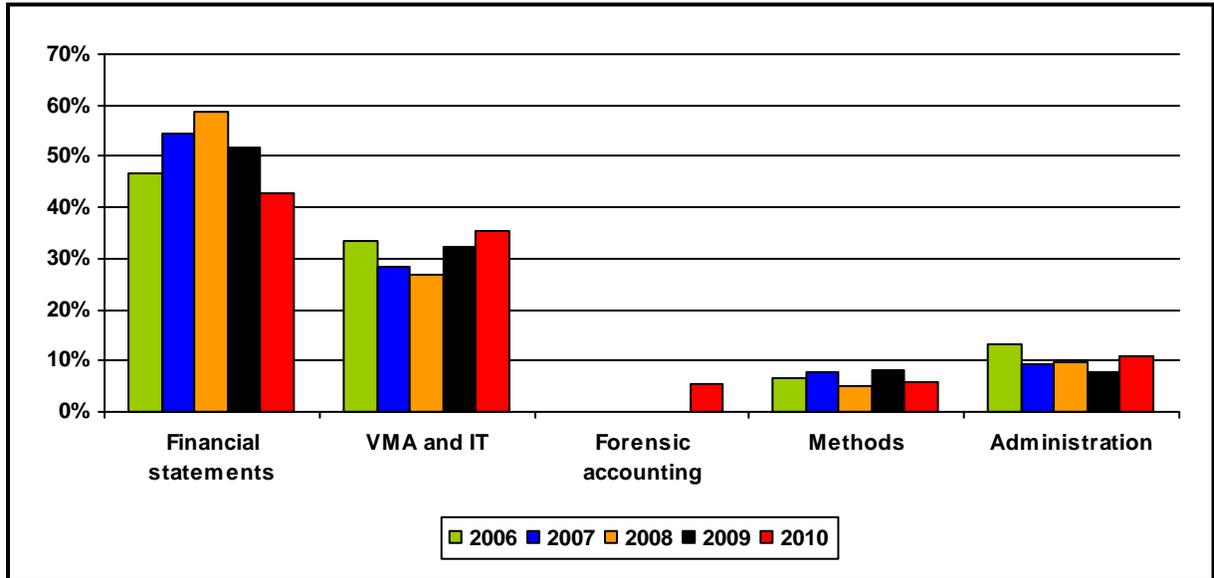


Table 5—Breakdown of Chargeable Hours in %



VMA and IT: Value-for-money and information technology audit.
Methods: Includes accounting research, quality control and training.

The data relating to time use illustrate the steps taken by the BVG over the last two years to review how work on financial audits was shared with the external auditor and to optimize our audit approach in this respect. This has allowed us to devote more time to audit value-for-money and information technology resources.

This data also reflects the establishment and development of the BVG forensic accounting operation in 2010. This new activity stems from the implementation of the Auditor General's ethics hotline in the middle of December 2009, among other reasons. We should emphasize, however, that the forensic accounting operation is not related to the existence of the ethics hotline, because the hotline is only one way of communicating allegations of wrongdoing to all the appropriate parties. Firstly, employees, suppliers, elected officials and citizens can communicate directly with the BVG to share concerns about the city's business and the organizations under its control within the context of our mandate under the terms in section 107.8 of the *Cities and Towns Act*. Secondly, because of our responsibility for financial, value-for-money and information technology audits, we are in position to notice indicators of irregularities or fraud that justify investigative and forensic accounting operations.

Table 6—Other Indicators Regarding Time Utilization

	Results	
	2010	2009
1. Rate of audit staff turnover	3%	16%
2. Rate of absenteeism (audit professionals)	0.7%	1.5%
3. Number of hours of training	969	1,257
4. Average number of hours of training per employee	38	49
5. Ratio of training costs/payroll expenditures in accordance with Bill 90 (the objective for all city operations is 1%)	2.6%	4.0%

We notice a considerable drop in our staff turnover rate in 2010 because there has only been one retirement. This drop, however, is only temporary, because according to the information available at the time this report goes to press, we can state that this rate will increase to at least 9.4% for 2011. We should also emphasize that the efforts devoted to updating and developing our skills have returned to a level comparable to that of the years prior to 2009. In fact, in 2009 we had devoted specific efforts to developing the skills of staff assigned to financial audits.

EQUAL ACCESS TO EMPLOYMENT

Like the city, the Bureau du vérificateur général pays particular attention to issues of equal access to employment.

As of December 31 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 7—Representation of Targeted Groups

	2010	2009	2008
Men	58.1%	64.3%	63.3%
Women	41.9%	35.7%	36.7%

	2010	2009	2008
First Nations	0.0%	0.0%	0.0%
Visible minorities	3.2%	3.6%	3.3%
Ethnic minorities	0.0%	0.0%	0.0%
Total	3.2%	3.6%	3.3%

As of December 31 of the last three years, the under-representation of targeted groups within the BVG was as follows:

Table 8—Under-Representation of Targeted Groups

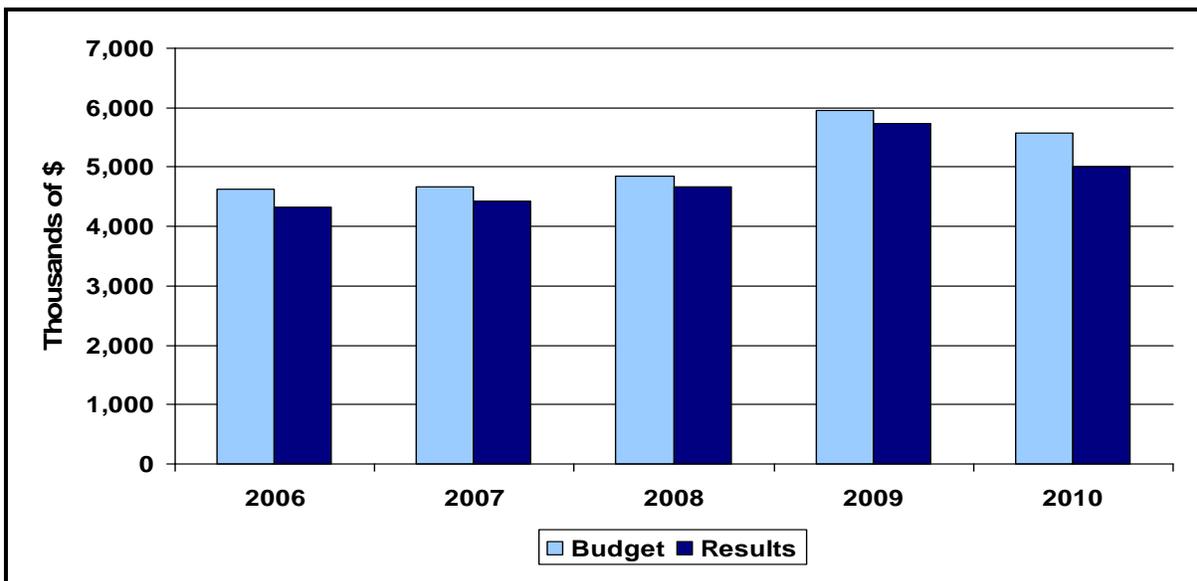
	2010		2009		2008	
	Number	%	Number	%	Number	%
Women	1	3.2%	2	7.1%	2	6.7%
First Nations	0	0.0%	0	0.0%	0	0.0%
Visible minorities	0	0.0%	0	0.0%	1	3.3%
Ethnic minorities	1	3.2%	1	3.6%	2	6.7%

We notice that the results of the recruiting campaigns conducted by the BVG in 2010 have substantially improved the number of women on its staff.

The ability of the BVG to remedy this underrepresentation remains dependent on the challenges of attracting and retaining competent and experienced staff members to carry out its mission.

FINANCIAL RESULTS

Table 9—Budget and Financial Results



The final indicator deals with the Bureau du vérificateur général's financial results. We want to stress that the significant increase in our 2009 budget resulted primarily from audits requested by City Council (for the SHDM and the plan to install water meters in IBIs and optimize the water system). Our budget for 2010

also includes an additional amount of \$650,000 that was allocated by the Executive Committee to cover the operating costs of the Auditor General's ethics hotline. The 2010 budgetary surplus can be explained mainly by the fact that several of the reports received by the ethics hotline were still being dealt with at the end of the year. The next chapter deals more explicitly with this question.

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III. Auditor General's Ethics Hotline Accountability Report



III. AUDITOR GENERAL'S ETHICS HOTLINE ACCOUNTABILITY REPORT

BACKGROUND

On April 27, 2009, following the recommendation in the Auditor General's 2008 annual report, City Council adopted resolution CM09 0293 requesting the Bureau du vérificateur général (BVG) to set up an ethics hotline to help prevent fraud and waste. This same resolution requested the Executive Committee to approve, according to the law, any budgetary funds required by the Auditor General to diligently execute this assignment without interfering with the main duties as defined by law. When the Auditor General submitted a business case for the hotline, the Executive Committee approved an additional budget of \$650,000 for the year 2010 at its April 21, 2010 session.

The Auditor General's ethics hotline became operational on Monday, December 14, 2009. The BVG invested considerable effort to ensure the success of this initiative. Implementation of the ethics hotline required, in particular, an infrastructure to handle reports received, as well as preparing and launching an information campaign targeting city employees and suppliers. In addition, we prepared and distributed a management framework document entitled *[TRANSLATION] Process for use of the Montréal Auditor General's ethics hotline*. We also drafted and implemented an internal protocol for handling reports and changed the structure of our office accordingly by adding two staff positions for resources specialized in forensic accounting. These positions will be filled during summer 2010.

At its December 14, 2010 session, City Council approved the Executive Committee's recommendation to transfer responsibility for the Auditor General's ethics hotline to the Service du contrôleur général. This transfer actually took place on March 28, 2011.

Under these circumstances, it would seem an opportune time to address the following:

- Reminder of the principles, goals and features of the Auditor General's ethics hotline
- Status of reported cases as of March 31, 2011
- Cost summary of the Auditor General's ethics hotline
- Transfer of the ethics hotline to the Service du contrôleur général

REMINDER OF THE PRINCIPLES, GOALS AND FEATURES OF THE AUDITOR GENERAL'S ETHICS HOTLINE

The ethics hotline allows employees, elected officials, the mayor's staff and suppliers to anonymously and confidentially report any misconduct or unacceptable situation regarding the management of city business or any activities in violation of the *Guide de conduite*. Reportable wrongdoing includes any misuse, waste or violation of any law, regulation, contract, agreement, rule, practice or internal guideline involving the city or agencies under its control.

The ethics hotline is also designed to protect users from subsequent acts of retaliation. Because the hotline is anonymous, users' identities are protected. The existing audit and investigation process ensures the confidentiality of users, reported cases and parties who may be involved.

The main features of the system are:

- The hotline consists of a dedicated telephone line and secure website, both available 24 hours a day, seven days a week.
- The telephone line and website are managed by Clearview, an external firm operating independently of the Ville de Montréal that acts as the Auditor General's authorized agent for collecting information.
- On behalf of the Auditor General, Clearview ensures the confidentiality of the information submitted and the anonymity of 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 Auditor General's duly authorized representatives by email when any report is received.
- The authorized representatives then process all submitted reports, in an impartial and confidential manner, via direct access to the Clearview site, which is secured using proven encryption techniques.
- Once they submit a report, 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 from the Auditor General for additional information.

STATUS OF REPORTED CASES AS OF MARCH 31, 2011

From the time the ethics hotline became operational on December 14, 2009, to its transfer to the Service du contrôleur général on March 28, 2011, a total of 141 reports were received by Clearview.

As of March 31, 2011, 87 reported cases, or 62% of all cases received, were closed. The remaining 54 cases are currently under preliminary review by the BVG, some with other city administrative units. Some of these cases require more in-depth investigation or audits, which are currently under way.

A total of 86 cases (61%) were reported on Clearview's secure website. The other 55 cases were reported on Clearview's dedicated telephone line.

Table 1 shows the number of reports received by year and category.

Table 1—Breakdown of Reported Cases by Year and Category

Category of wrongdoing	Number			
	2009	2010	2011	Total
Unethical conduct or conflict of interest	10	48	7	65
Unauthorized manipulation or falsification of data	0	4	1	5
Theft, embezzlement, fraud	1	15	0	16
Breach of laws, regulations or policies	3	21	0	24
Others	7	22	2	31
Total	21	110	10	141

The category "Others" includes reported cases of wrongdoing that were not related to the management of city business, as well as those of an administrative nature related to the operations of the Auditor General's ethics hotline.

Table 2 shows the number of reports received by year and source.

Table 2—Breakdown of Reported Cases by Year and Source

Reporting source	Number			
	2009	2010	2011	Total
Employee	9	62	5	76
Supplier	0	3	0	3
Citizen	6	13	1	20
Other external source	0	2	1	3
Unknown	6	30	3	39
Total	21	110	10	141

Table 3 shows a breakdown of the 87 closed reports by reason for closure.

Table 3—Breakdown of Closed Cases by Reason

Reason for closure	Number
Beyond the scope of the ethics hotline	9
Insufficient evidence	26
Unfounded	10
Other reasons	42
Total	87

Reported cases that were beyond the scope of the ethics hotline were closed with a recommendation to the plaintiff to contact the appropriate authority. These included, among others, questions related to workplace relations, staffing concerns or harassment for which the reporting parties were invited to contact their union, the Public Service Commission or a human rights policy representative, respectively. Other plaintiffs were directed to the city's Ombudsman or the Service de police de la Ville de Montréal (SPVM).

Some of the reported cases that were closed due to insufficient evidence contained too little information or details that were not specific enough to enable us to conduct a preliminary analysis with reasonable effort. Other reported cases were closed because the plaintiff did not respond to our requests for additional information. Without this additional information, we were unable to continue our investigation.

The "Unfounded" category includes reported cases in which our preliminary analysis or investigation did not uncover any basis for allegations of wrongdoing.

The "Other reasons" category contains reported cases:

- unrelated to the business of Ville de Montréal
- related to the administration of the ethics hotline
- for which satisfactory action was taken after our investigation
- that merited a broader investigation because they concerned a high risk of slipping
- dealing with areas of concern that might lead to more general management audits but did not pose any risk requiring immediate action

COST SUMMARY OF THE AUDITOR GENERAL'S ETHICS HOTLINE

Table 4 shows the costs incurred for implementing and operating the Auditor General's ethics hotline.

Table 4—Costs Incurred by the Ethics Hotline

Expense	Amount (\$)			
	2009	2010	2011	Total
Communications	37,837	4,639	0	42,476
Infrastructure, furniture and equipment	140	59,484	0	59,624
Management costs for compiling reported cases ¹	51,510	42,260	0	93,770
Professional fees – External resources	8,562	218,429	60,361	287,352
Salaries – Internal resources ²	0	63,214	0	63,214
Total	98,049	388,026	60,361	546,436

¹ These costs relate to the services provided by Clearview, whose contract covers the period from November 26, 2009 to November 25, 2012. The annual cost is payable in 12 instalments; however the current practice of the Service des finances is to charge the entire amount to our budget at the time of the first payment in December. The \$42,260 charged for 2010, therefore, covers the period from November 26, 2010 to November 25, 2011. Consequently, the BVG is being charged with costs that should be assumed by the Service du contrôleur général as of the date of transfer of responsibility for the ethics hotline to the Service.

² Salaries consist solely of the amount paid to the two specialized staff members hired by the BVG in summer 2010 and assigned full-time to the ethics hotline. This expense does not appear for 2011, since one of the staff members joined the Service du contrôleur général in early January of this year, while the other is on maternity leave.

It should be noted that the costs incurred for the year 2011 cover the period ending in March. As mentioned in Chapter 1 of this report, the BVG had to assume additional expenses to finish processing the reported cases under way at the time of the effective transfer of the ethics hotline to the Service du contrôleur général, as well as the investigations. These costs cannot be included in the Auditor General's current operating budget without negatively affecting execution of the main duties set out in the *Cities and Towns Act* (C.T.A).

TRANSFER OF THE ETHICS HOTLINE TO THE SERVICE DU CONTRÔLEUR GÉNÉRAL

We will not dwell here on the cavalier manner in which we were informed of the Direction générale's decision to recommend the transfer of the ethics hotline to the Service du contrôleur général. We expressed our concerns to City Council in a letter dated December 6, before the recommendation was approved.

It is clear that when City Council approved this resolution at its December 14 session, the prerequisites to this transfer and its operational impact had not been assessed. In our usual spirit of professionalism, we collaborated closely with the Service du contrôleur général to ensure that the transfer of the ethics hotline was carried out in the most harmonious and way possible to minimize costs to the city.

The issues that especially needed to be resolved concerned contractual arrangements with Clearview, the independent firm entrusted with compiling reported cases, security of the data related to the reports held by the Auditor General, processing reported cases during the transition period, providing the Auditor General with access to Clearview's database system to finish processing the cases under way at the time of the transfer of the ethics hotline, and the operational organization of the Service du contrôleur général to allow it to begin processing new reports.

The ethics hotline was effectively transferred on March 28. All reports received prior to that date will be handled by the BVG. According to the terms and conditions reached between the Service du contrôleur général and Clearview, the BVG will be given a temporary profile in the Clearview system, which will be created for its exclusive use from March 28 to June 27, 2011. This temporary profile will allow the BVG to access historical data collected prior to March 28, 2011, and to process reports that are still active as of that date.

As mentioned on our website, this temporary profile will enable parties that reported a case prior to March 28, 2011 to track the status of their file by going to www.clearviewconnects.com and entering the user code and password that they were given when they submitted their report.

Since the costs associated with this temporary profile are the result of a decision beyond the control of the Auditor General, they will be assumed by the Service du contrôleur général. Also, as mentioned above, the expenses to finish processing the reported cases currently under way, as well as the expenses of investigations and audits that may result from them, cannot be assumed under the Auditor General's base operating budget for 2011.

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IV. Financial Statement Audits



IV.1. Montréal's Consolidated Financial Statements

IV. FINANCIAL STATEMENT AUDITS

IV.1. MONTRÉAL'S CONSOLIDATED FINANCIAL STATEMENTS

In March 2011, we produced the Montréal Auditor General's reports with an unmodified opinion on the city's consolidated financial statements and the allocation of mixed expenditures in the *Annual Financial Report* submitted to the city clerk's office on March 31, 2011. In April 2011, we produced reports on the city's consolidated financial statements with respect to the allocation of mixed expenditures and the city's actual aggregate tax rate using the form prescribed by the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire.

Under the *Cities and Towns Act*, these reports and the financial data they refer to must be presented to City Council and the Urban Agglomeration Council.

IV.2. Financial Statements of Other Municipal Organizations

IV.2. FINANCIAL STATEMENTS OF OTHER MUNICIPAL ORGANIZATIONS

To comply with the *Cities and Towns Act* of Québec in effect on December 31, 2010, we must conduct financial audits of every entity for which the municipality appoints more than 50% of the board of director members or holds more than 50% equity or outstanding voting shares.

Table 1 lists other municipal organizations for which we had produced reports with an unmodified opinion on their financial statements when this report went to press.

**Table 1—Reports Produced on the Financial Statements of
Other Municipal Organizations**

	2010	2009
Anjou 80	X	
Commission des services électriques de Montréal		
Conseil des arts de Montréal	X	
Conseil interculturel de Montréal		X
Corporation d'habitation Jeanne-Mance	X	
Office de consultation publique de Montréal		X
Office municipal d'habitation de Montréal	X	
Société de gestion Marie-Victorin	X	
Société de gestion NauBerges de Lachine		X
Société de transport de Montréal (joint auditor)	X	
Société d'habitation et de développement de Montréal	X	
Société du parc Jean-Drapeau	X	

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



V.1. Follow-Ups to Recommendations from Previous Years

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

V.1. FOLLOW-UPS TO RECOMMENDATIONS FROM PREVIOUS YEARS

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

The policy of the Bureau du vérificateur général (BVG) is to begin follow-up to recommendations the year after they appear in the annual report. The cycle of follow-ups to recommendations for a given year generally extends over a period not exceeding three years, except in very specific circumstances when some recommendations are followed up for an additional year or two.

Table 1 below presents results of follow-ups done to the recommendations made from 2005 to 2009 (published in the annual reports of 2006 to 2010 and two special reports in 2009).

Two special reports were published by the BVG in 2009. One concerned the SHDM (April 2009) and the other concerned the Ville de Montréal, in particular water meters in IBIs and the optimization of the entire water network (September 2009). The Faubourg Contrecoeur project was also integrated into the special report on the SHDM in April 2009 even though the recommendations have been addressed to the Ville de Montréal. The details on the status of these recommendations appear in Table 2.

**Table 1—Results of Follow-Ups to Recommendations
(Regular and Special Audit Reports)**

Status of recommendations	2005	2006	2007	2008	2009		Total
					Regular reports	Special reports	
Completed	181	224	136	50	57	79	727
Under way	1	4	42	20	54	12	133
Postponed	–	–	–	–	43*	–	43
Cancelled	6	–	1	1	–	4	12
Not done	9	13	3	–	–	–	25
No longer valid	3	3	–	–	–	–	6
Other	–	–	–	–	23	1	24
To be confirmed	–	–	–	–	13**	–	13
Total number of recommendations made	200	244	182	71	190	96	983

* In July 2010, the Executive Committee adopted a resolution mandating the Direction générale to revamp all mobile equipment activities in all of the city's business units. Because the implementation of this new management structure was slated to begin in January 2011, the "postponed" status was assigned to 43 recommendations under "Fleet Management."

** The BVG issued 27 recommendations related to the "Outsourcing Project for Telecommunications Services." As of April 15, 2011, the BVG was unable to confirm the status of 13 of these recommendations.

Table 2—Results of Follow-Ups to Recommendations (Special Reports)

Status of recommendations	2009				Total
	SHDM		Ville de Montréal		
	Project management	Disposition of real property	Faubourg Contrecoeur	Water meters	
Completed	25	21	7	26	79
Under way	3	–	4	5	12
Postponed	–	–	–	–	–
Cancelled	3	–	–	1	4
Not done	–	–	–	–	–
No longer valid	–	–	–	–	–
Other	–	–	1	–	1
Total number of recommendations made	31	21	12	32	96

For the recommendations made in 2009, 71% have been "completed" or are "under way" compared with the city administration's annual objective of 80%.

For all the recommendations made since 2005, the follow-up done in March and April 2011 showed that 727 were completed, including 189 during the past 12 months. On a cumulative basis (over the last five

years), therefore, close to 74% of recommendations were completed, whereas 14% are under way. Overall all, these are very good results.

Nevertheless, the results of our follow-up indicate that 25 recommendations have not been implemented (status “not done”) for the years 2005 to 2009. The status “not done” may be justified for different reasons. However, we are concerned by the fact that the Direction générale has not followed through on our recommendation concerning the preparation of a policy on the classification of information mentioned in our audit report *E-Mail at the Ville de Montréal* contained in our 2006 annual report.

In effect, this policy constitutes an essential link in the optimal and efficient management of the security of information in the possession of the city. For example, the absence of such a policy exposes the city with respect to the risk that personal and confidential information may be divulged as a result of the fact that the responsibility for deciding whether or not such information may be communicated rests with each user.

V.2. Outdoor Café Permit Issuance Process

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V.2. OUTDOOR CAFÉ PERMIT ISSUANCE PROCESS

1. INTRODUCTION

The city regulates the periodic use by outdoor cafés of public property to ensure the safety of residents and a balanced mix in the use of such property. The *By-law concerning the occupancy of public property* (R.B.C.M., chapter O-0.1) governs such use. While this by-law covers the city as a whole, a borough's own by-laws on the use of public property apply to that borough.

Under section 67.1, Schedule C of the Charter of Ville de Montréal (the Charter), each borough council may exercise the city's jurisdiction over the use of public property within that borough. Such councils are entitled to adopt their own regulatory frameworks and fee structures for the use of public property, issue the necessary permits and collect the related fees. This is the case of the four borough councils that have adopted such by-laws.

The seasonal period for use of public property runs from May 1 to October 31 and outdoor cafés must obtain permits for such use. Permits can be renewed annually.

2. AUDIT SCOPE

This audit sought to ensure that outdoor café permits are approved and issued in compliance with regulatory criteria, that related fees are collected as stipulated and that controls are in place to ensure strict compliance with the permit issuance process.

Our audit considered permits issued or renewed during 2010 for outdoor cafés on public property in the Rosemont–La Petite-Patrie, Plateau-Mont-Royal, Sud-Ouest and Outremont boroughs. Permits issued for outdoor cafés on private property were excluded from this audit.

3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

The process established by **Rosemont–La Petite-Patrie, Plateau-Mont-Royal and Sud-Ouest boroughs** for issuing outdoor café permits begins when the appropriate business unit receives a request for such a permit. The applicant must complete and submit the designated form, accompanied by the necessary documents.

Once the completed application is submitted, a permit is issued to applicants in compliance with the requirements.

Applications for outdoor café permits are forwarded to a municipal engineering technical officer or a traffic/parking inspector in the Division des études techniques who reviews the application, obtains the approvals needed to issue the permit and checks compliance with plans and regulations.

The process is somewhat different in **Outremont borough**. A technical committee, consisting of the director of the Direction de l'aménagement urbain et du patrimoine and the manager of the Division des permis et inspections (division manager), reviews new permit applications. Once the application is deemed acceptable, a project summary and plans are submitted to the Comité consultatif d'urbanisme (CCU).

Under by-law AO-2 concerning the CCU, the committee reviews every case, permit and certificate application submitted by the director of Direction de l'aménagement urbain et du patrimoine with respect to urban planning, architectural and aesthetic criteria.

Borough council approval (or CCU recommendation) of an outdoor café's planned layout, along with other conditions appearing in by-law 1054-2, are the main preconditions for permit issuance.

Once the process is completed **in these four boroughs**, a technical officer or traffic/parking inspector inspects the premises to ensure that it complies with the plans and the technical requirements (clearance from building entrance, terrace size, etc.) and to layout and construction requirements (specifics on the installation of the railings and platform, for example). If discrepancies are noted, measures will be taken (transmission of non-compliance notices) to ensure that the applicant performs the necessary corrective actions.

We examined outdoor café permit files to substantiate our findings.

Our audit primarily focused on the examination of permit register controls, compliance with regulatory criteria and internal permit issuance procedures, as well as on follow-ups to ensure compliance by permit holders with their obligations.

3.1. MAINTAINING THE PERMIT REGISTER

3.1.A. Background and Findings

The permit register for outdoor cafés occupying public property should be properly established and updated to ensure that it serves as a reliable source of information and provides a complete picture of the specifics of each of the permits issued or pending. The register makes it easier to follow up on permits, particularly in terms of regulatory compliance, annual renewal and fee collection.

Our audit determined that the Division des études techniques does maintain a register of businesses authorized to operate outdoor cafés on public property.

We matched outdoor cafés listed in this register with those identified during our inspection of the borough's main streets to assess the register's completeness.

FINDING

This process revealed that two of the five outdoor cafés visited in Rosemont–La Petite-Patrie borough did not appear in the register of permits issued by the borough.

This finding was brought to the attention of the manager of the Division des études techniques in charge of permit issuance. After checking, he confirmed that our finding was indeed true. We accordingly examined a letter dated May 5, 2010 addressed to the 18 selected café operators on boulevard Saint-Laurent. However, the two establishments that we had identified did not appear on the list of those cited by the borough. At the time we finalized our audit, the borough had not taken any action to remedy the situation (e.g., sending a notice of non-compliance.)

FINDING

Given the number of merchants operating outdoor cafés without a permit and without having paid the required annual fees, we wonder whether the measures taken to ensure compliance with regulations governing this type of activity are adequate.

This same process proved effective in **Plateau-Mont-Royal borough**, since the five outdoor cafés visited appeared in the borough's register.

The process proved satisfactory In **Sud-Ouest borough**, although the outdoor café did not appear on the register in one case. Properly maintained records did however confirm the issuance of a permit to the operator.

FINDING

The same process in Outremont borough served to identify one establishment that was operating an outdoor café but was not listed in the 2010 register.

The division manager explained this omission as an oversight that occurred at the start of the season when the permanent data for permit renewals was manually entered from the prior year's information.

Consequently, the operator was not notified of the need to obtain a permit and pay the related fees. This case in 2010 was an exception to the rule, since permits for previous years were located for this establishment .

FINDING

One of the files we examined also revealed an inconsistency between the area used in calculating fees (area recorded on the permit) and that appearing on the plans approved by the council.

The division manager also explained this discrepancy as an error that occurred when permanent data was entered at the start of the season.

FINDING

While underestimating fees is not a major financial concern, it does, however, raise questions about the accuracy of the data entered in the permit register.

The two permit holders involved were notified that their files were not in good standing. We subsequently determined that they had in fact paid the required fees.

3.1.B. Recommendations

We recommend that the Division des études techniques of Rosemont–La Petite-Patrie borough implement the controls needed to ensure that all outdoor café operators hold a valid permit, in accordance with borough by-laws and requirements.

We recommend that the Division des permis et inspections of Outremont borough ensure that the permit register is complete and accurate, particularly at the start of the season when permanent data from the previous year’s register is entered, to facilitate follow-ups on permits issued, especially with respect to regulatory compliance, annual renewals and fee collection.

3.1.C. Action Plan of the Relevant Business Unit

- **ROSEMONT–LA PETITE-PATRIE BOROUGH**

[TRANSLATION] “Conduct regular inspections in the borough.

Take photos, as appropriate. Keep photos on file.

Maintain a follow-up chart of business owners who operate an outdoor café on public property, whether or not they hold a permit.

Notify business owners operating an outdoor café on public property without a permit that they must comply with regulations.” (Planned completion: May 2011)

- **OUTREMONT BOROUGH**

[TRANSLATION] “Conduct a general review early in the year of permanent data from the previous year’s register.

Following this review, contact each all registered applicants from the previous year to check if they intend to renew their outdoor café permits. Advise those that intend to renew about the approval process (CCU and borough council resolution), as well as the relevant deadlines, in case they plan to make changes to the layout or area of the outdoor café.” (Planned completion: February of each year)

3.2. COMPLIANCE WITH REGULATORY CRITERIA AND INTERNAL PERMIT ISSUANCE PROCEDURES

The Charter states that the boroughs exercise the city's authority to authorize the use of public property. The boroughs can set conditions of use by adopting their own by-laws and by establishing internal procedures to ensure compliance with these permit issuance conditions.

3.2.1. ROSEMONT–LA PETITE-PATRIE BOROUGH

3.2.1.1. REGULATORY COMPLIANCE

3.2.1.1.A. Background and Findings

In 2010, various borough by-laws regulated permit issuance for outdoor cafés on public property, including:

- The former city's *By-law concerning the occupancy of public property* (R.B.C.M., chapter O-0.1), amended in June 2007 by the borough council's by-law RCA-45 *By-law amending the by-law concerning occupancy of public property (R.B.C.M., chapter O-0.1 of the former city) in Rosemont–La Petite-Patrie borough*.
- *By-law concerning fees* (RCA-40), adopted by the borough council in December 2006, and most recently updated in March 2010, which annually sets fees to be collected for all municipal activities and is used to establish the fee structure for the use of public property.
- The borough's urban planning by-law (01-279).

During our audit, we examined the official files of the selected outdoor cafés for which permits were issued (8 of 10 outdoor cafés) to verify that regulatory criteria had been met. We also checked that the permit issuance process ensured adequate separation of duties at key steps of the process.

Among our sample's eight outdoor cafés, incidentally, the borough only issued one a new permit in 2010. The other seven had received their permits in previous years. Since a permit remains valid as long as its conditions of issuance are not altered, the city's Service des finances billed and collected fees from these seven outdoor cafés for the 2010 summer season, according to borough procedures.

Our review of the official files of the eight outdoor cafés we selected determined that most of the regulatory criteria for receiving permits had been met, except for the following issues, which could benefit from improvements.

In particular, the borough's *By-law concerning the occupancy of public property* (R.B.C.M., chapter O-0.1) stipulates that the permit is issued to the applicant on condition that the applicable fees for the right to occupy public property are paid to the city as of the first date of occupancy in accordance with the *By-law concerning fees* in effect in the current fiscal year (section 36, paragraph 3).

FINDING

We found that new permits are in fact issued to applicants before the borough bills or fully collects usage fees.

Once the traffic/parking inspector receives the letter of requirements signed by the applicant, she issues a pre-approved permit already signed by the manager of the Division des études techniques. The inspector then prepares a letter outlining the required fees (rent) due for the periodic use of public property and sends it to the applicant. A 30-day grace period is allowed for fee payment.

FINDING

This practice does not comply with the *By-law concerning the occupancy of public property* and exposes the borough to situations in which it may be difficult to collect fees, while allowing an applicant who has not paid fees to operate an outdoor café with a valid permit.

FINDING

Moreover, an examination of the list of 25 outdoor cafés that were granted new permits by the borough in 2010 showed that seven of them (including one of the eight selected for the audit) still owed annual rental fees at the time of our audit.

Based on information obtained from those with whom we met, the Division des études techniques sent the applicants a reminder dated September 17, 2010 in the case of two of the seven outdoor cafés. However, no reminder was sent to attempt to collect outstanding fees in

the case of the other five, which still had not paid their fees as of September 30, 2010. The traffic/parking inspector did tell us, though, that verbal agreements had been reached with the operators of these outdoor cafés.

We wanted to examine more closely the process by which the borough successfully collected fees from applicants for new permits issued in 2010. To do so, we broadened our sample to include new permits issued in 2010 to five other outdoor cafés. The results of our audit showed that the calculation of fees prepared by the traffic/parking inspector, as well as the payment received from the applicant, matched the proof of collection produced by the Direction des affaires publiques et du greffe (Division du service à la clientèle) representative. We found no accounts receivable for outdoor café permits billed and collected by the Service des finances in previous years. Our audit accordingly demonstrated that applicant payments had been collected.

3.2.1.1.B. Recommendations

To ensure compliance with regulations governing the use of public property by outdoor cafés, we recommend that the Division des études techniques of Rosemont–La Petite-Patrie borough:

- **Only issue permits when applicants have met the requirements, including payment of related fees (fee to review the permit application and fee for the right to use public property).**
- **Promptly collect all unpaid amounts owed by permit holders in default.**

3.2.1.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “We sent out notices to collect unpaid amounts owed by permit holders in default for the 2010 season. Only one operator remained in default after we sent them and we will revoke its permit as stipulated in the by-law. All other permit holders are now in compliance.

For 2011, we will:

- *Study the application*
 - *When all documents required to consider the application have been received;*
 - *When all application fees have been paid.*
- *Issue permits for the periodic use of public property by outdoor cafés:*
 - *When the letter of requirements signed by the operator confirming acceptance of all the requirements and the commitment to comply with them has been received;*
 - *When all fees pertaining to permit issuance and use of public property have been collected.” (Planned completion: January 2011)*

3.2.1.2. SEPARATION OF DUTIES

3.2.1.2.A. Background and Findings

As previously mentioned, our audit also involved ensuring that a sufficient separation of duties was present at key steps of the permit issuance process.

FINDING

Based on the audit, we concluded that there was sufficient separation of duties, except for tasks related to revenues generated by permit issuance (application fee and rental).

Our audit did not detect any irregularities in the collection of payments by applicants. However, in an effort to tighten internal controls around this key step in the permit issuance process, we believe that the responsibility for receiving applicant payments must be separated from the rest of the process. Consequently, someone other than traffic/parking inspector who is in charge of permit issuance should be assigned to this task.

3.2.1.2.B. Recommendations

We recommend that the Division des études techniques of Rosemont–La Petite-Patrie borough review its separation of duties to segregate responsibilities for receiving payments from applicants from the rest of the process, in an effort to tighten internal controls for collecting fees pertaining to the issuance of outdoor café permits.

3.2.1.2.C. Action Plan of the Relevant Business Unit

*[TRANSLATION] "Payments received and receipts issued by the Accès Montréal office (BAM)."
(Planned completion: February 2011)*

3.2.2. PLATEAU-MONT-ROYAL BOROUGH

3.2.2.1. REGULATORY COMPLIANCE

3.2.2.1.A. Background and Findings

The borough had various by-laws regulating the issuance of permits for outdoor cafés on public property in 2010, including:

- A by-law of the former city (Montréal prior to demerge) concerning the use of public property (R.B.C.M., chapter O-0.1) that was adopted in June 2006 and amended by the borough

council in May 2009 through adoption of the *By-law amending the By-law concerning occupancy of public property* (R.B.C.M., chapter O-0.1) in *Le Plateau-Mont-Royal borough* (2009-03).

- A by-law concerning borough fees, adopted in May 2006 and last updated in May 2010 by the borough council's adoption of a by-law (2010-09).
- An urban planning by-law for Plateau-Mont-Royal borough (01-277-21).

Our audit examined official records supporting permit issuance to the 10 outdoor cafés selected, to ensure compliance with various regulatory criteria. We also checked that a separation of duties was ensured at key steps of the permit issuance process.

The borough issued new permits in 2010, incidentally, to three of the 10 outdoor cafés that were part of our sample. The other seven had been received permits in prior years.

Our review of the records pertaining to the 10 selected outdoor cafés demonstrated compliance with most permit issuance regulations.

For example, the applicants had paid all fees (application and rent) for new permits issued by the borough in 2010 (3 of the 10 outdoor cafés selected) in compliance with the current by-law. Fees for the other seven outdoor café permits that had been issued in prior years and that were billed and collected by the Service des finances had also been paid.

Apart from the seven outdoor cafés that were part of our selection, a more in-depth examination of the Service des finances' list entitled [TRANSLATION] "Billing Miscellaneous Revenues: Plateau-Mont-Royal's Outdoor Cafés," detected 19 outdoor cafés with unpaid balances. According to the information obtained from the Service des finances employees that we contacted, the city's recovery procedure provides operators with a 40-day grace period to pay amounts due once a bill is issued. A reminder is then sent out and operators with overdue accounts are asked to make arrangements to pay the arrears due. The matter is turned over to the city's Service des affaires juridiques et de l'évaluation foncière, if necessary. We checked with an official from the Service des finances about the 8 outdoor cafés with unpaid balances among the 19 surveyed and asked what steps had been steps taken to recover the amounts due. The information we received demonstrated compliance with established collection procedures.

Although we found that there was overall compliance with regulations pertaining to permit issuance, we believe that there is room for improvement, as discussed below.

FINDING

Under the Division des études techniques permit issuance process, an outdoor café permit application must first be submitted to the appropriate parties at the Direction de l'aménagement urbain, des services aux entreprises et des affaires publiques (DAUSE) who then make the necessary checks before confirming that the establishment complies with zoning regulations. However, the records we examined for the 10 outdoor cafés offered no evidence that DAUSE had conducted any such checks.

According to information obtained from those with whom we met, communications between the Direction des travaux publics and DAUSE regarding the required verifications is usually verbal or by email and may not appear in the Division des études techniques' records. We also observed that the Division des études techniques does not use any verification mechanisms (e.g., a checklist) to ensure that all borough requirements are met prior to issuing a permit. Although our audit did not reveal any major issues of noncompliance, we believe that the permit issuance process could be improved by including such a checklist in the records and using it to ensure that requirements have been met before a permit is issued. This checklist could greatly facilitate the work of the supervisor in charge of signing permit issuance approvals.

3.2.2.1.B. Recommendations

We recommend that the Division des études techniques of Plateau-Mont-Royal borough acquire a verification mechanism to ensure that all regulatory criteria have been met and that all required certifications have been obtained before a permit is issued.

3.2.2.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "Applications for outdoor café permits will still be submitted to the Division des études techniques.

Zoning compliance verification requests will now be conducted by email between DAUSE, Affaires publiques and the Division des études techniques.

The Division des études techniques will process applications that comply with zoning requirements to ensure the enforcement of regulations and the receipt of payment.

We will update the information sheet on regulatory criteria to be met for obtaining an outdoor café permit." (Planned completion: March 2011)

3.2.2.2. SEPARATION OF DUTIES

3.2.2.2.A. Background and Findings

Our audit also considered whether there was sufficient separation of tasks at key steps of the permit issuance process, particularly in terms of responsibilities pertaining to:

- Feasibility studies for setting up an outdoor café, in compliance with existing zoning regulations and borough planning laws and regulations.
- Application processing and compliance with regulatory provisions involved in permit issuance.
- Collection of fees generated by permit issuance.
- Approval for permit issuance.

FINDING

Based on this audit, we concluded that there was sufficient separation of duties, other than that with respect to revenues generated by permit issuance process (application fees and rent).

Our study of the borough's new permit issuance process revealed that the city's engineering technical officer performs the following tasks:

- Receives the permit application, accompanied by the necessary documents and payment application fees.
- Reviews the application in conjunction with DAUSE (Division des permis et inspections).
- Calculates the rent for periodic occupancy of public property based on the regulatory fee structure.
- Sends the letter of requirements to be signed and returned by the applicant.
- Receives the annual rent, which is then forwarded for deposit to the Direction des services administratifs, des relations avec les citoyens et du greffe.
- Prepares the permit, which is then signed by the manager of the Division des études techniques.

Our review of records for the 10 outdoor cafés selected revealed that the permits issued had all been approved by the manager of the Division des études techniques. As previously mentioned, our audit also did not detect any irregularities in the collection of applicant payments. However, in an effort to tighten the internal controls around this key step in the permit issuance process, we believe that responsibilities for receiving payments by applicants must be separated from the

rest of the process. Someone other than the city engineering technical officer should accordingly be assigned to this task.

3.2.2.2.B. Recommendations

We recommend that the Division des études techniques of Plateau-Mont-Royal borough review its separation of duties in the outdoor café permit fee collection process to segregate responsibilities for collecting applicant payments from the rest of the process as part of an effort to tighten internal controls around the collection of revenues generated by permit issuance.

3.2.2.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “BAM will collect application fees.

Once DAUSE has approved compliance with zoning regulations, the Division des études techniques will be responsible for calculating surface areas, permit costs and regulation enforcement.

The Division des études techniques will notify the applicant with a letter of requirements outlining applicable rules and regulations, dimensions, posting of the plan and the amount payable to BAM.

The Division des études techniques will prepare the permit after BAM has received payment,.

The Division des études techniques manager will approve and sign the permit.

The permit, accompanied by its plan, will be sent to the applicant (Division des études techniques).” (Planned completion: March 2011)

3.2.3. SUD-OUEST BOROUGH

3.2.3.1. COMPLIANCE WITH BY-LAWS

3.2.3.1.A. Background and Findings

In 2010, various borough by-laws pertained to permit issuance for outdoor cafés on public property, including:

- A new borough council by-law adopted in May 2010 concerning the use of public property by outdoor cafés (RCA 10-22010), which applies to certain sectors of the borough.
- A borough council by-law concerning the use of public property by outdoor cafés on boulevard Monk (RCA 07-22011) temporarily applied to outdoor cafés in the 2010 summer season until it was replaced by by-law RCA 10-22010 on November 1, 2010
- Chapter O-0.1 of city by-law R.B.C.M., which applies to sectors not covered by borough by-law RCA 10-22010, under which one permit was issued prior to implementation of the new borough council by-law (RCA 10-22010).
- A borough council by-law on fees (RCA 07-22004).
- A planning by-law for Sud-Ouest borough (01-280).

Our audit examined documents supporting permit issuance for each of the outdoor cafés selected, to verify compliance with applicable by-laws.

According to our review, borough permits generally complied with existing rules and regulations. If the applicant failed to provide documentary evidence required by regulations (e.g., proof of liability insurance), we determined that the technical officer in charge generally made note of the missing documents and delayed permit issuance until the application was fully compliant, even if the applicant had paid all fees for the period of use.

As previously mentioned, under the Division des études techniques' permit issuance process, an outdoor café's application must first be submitted to the appropriate party at DAUSE, who conducts the necessary checks and confirms the feasibility of installing the outdoor café on public property pursuant to the borough's planning by-law.

FINDING

We found no evidence of the results of the checks performed by DAUSE in the majority of files examined (six out of nine cases). Based on information obtained from the those with whom we met, communication between the Direction des travaux publics and DAUSE concerning the required checks was usually verbal or by email and unrecorded in Division des études techniques records.

We concluded that the separation of duties at key steps in the issuance process was sufficient. We determined that the process provided for tasks to be performed by different people having distinct duties and responsibilities.

3.2.3.1.B. Recommendations

We recommend that the Division des études techniques of Sud-Ouest borough develop a checklist to ensure that all regulatory criteria have been met and that all required certifications have been obtained prior to authorization of permit issuance.

3.2.3.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “The permit application form for an outdoor café already includes a list of documents to be included. It will be amended in keeping with the following procedural steps:

1. The applicant must complete the form and submit it to DAUSE. DAUSE will check if zoning regulations permit the creation of an outdoor café and if the Certificate of Occupation is compliant.

DAUSE then forwards the appropriate form, marked ‘accepted’ or ‘rejected,’ to the technical officer in charge of the file.

2. If rejected, the application is archived. If approved, the technical officer asks the applicant to complete the file and ensure that all is in order, based on the form, before calculating the rent. The layout plan is then submitted to DAUSE for review and notification.

The information contained in the notice from DAUSE is entered (checkbox) on the card attached to the application.

3. Once DAUSE has approved the current year’s rent, the applicant is notified and the permit is issued upon receipt of BAM’s confirmation of payment, which is then kept on file (if the payment is by cheque, a copy of the cheque is attached to the file).” (**Planned completion: February 2011**)

3.2.4. OUTREMONT BOROUGH

3.2.4.1. REGULATORY COMPLIANCE

3.2.4.1.A. Background and Findings

As previously mentioned, boroughs have the power to adopt their own by-laws to regulate permit issuance.

Outremont borough's by-law 1054-2 concerning outdoor cafés and by-law AO-6 concerning fees define, for example, the permit application process and prerequisites for permit issuance.

The borough's procedure for issuing outdoor café permits includes certain controls to ensure compliance with regulations, including:

- Except under the exceptional circumstances described below, the borough council (the highest authority) must adopt a resolution approving an outdoor café's layout plan before a permit can be issued. The council also acts on a recommendation of the CCU (consisting of one council member, six borough residents who are urban planners or professionals in related disciplines and four other borough residents) that first studies the plan. This step is a key element of the process.
- The separation of duties that has been implemented by the borough also constitutes a satisfactory means of control, since it requires different individuals or authorities to carry out the main steps involved in permit issuance:
 - The application is reviewed by an information clerk or urban planning technician and by a technical committee. The division head then sends the file to the urban planning advisory committee (CCU) for review and recommendations.
 - Once the CCU makes its recommendation, the plans for issuing a new permit or changing the layout must be approved by a borough council resolution.
 - The division head or the director of Aménagement urbain et du patrimoine approves permit renewals.
 - The applicant then appears in person to sign and collect the permit and pays any fees to the secretary of the directorate, who processes the payment.
 - The Direction des services administratifs, greffe et relations avec les citoyens enters the payment in the borough's books.

By-law 1054-2 stipulates that issuance of an outdoor café permit is subject to several conditions. The main condition is borough council approval, based on the CCU's recommendation of the outdoor café's layout plan. Some other conditions also apply, including:

- The owner or manager must release the Ville de Montréal and the borough of all liability for any accident that might occur on city or borough property or on the sidewalk or pavement, arising out of their activity.
- Outdoor café hours are restricted to 8 a.m.–midnight for a restaurant and 8 a.m.–10 p.m. for a grocery store.
- Borough sidewalks must be kept clear of obstructions at all times.
- No outside advertising is permitted.

Once the council has approved the outdoor café's layout plan, the information clerk or urban planning technician will calculate annual permit fees, pursuant to section 8.2 of borough by-law AO-6 concerning fees.

The permit and a placard are prepared and signed by an authorized representative of the Direction de l'aménagement urbain et du patrimoine. The permit is deemed to have been issued once the applicant also signs it and pays the related fees.

FINDING

Our tests generally determined compliance with regulatory criteria for permit issuance.

However, two cases should be highlighted:

- **In one, a permit was renewed without council approval of the layout plans.**
- **In all other instances, the records contained no proof that permit holders had assumed liability for damage to property or persons resulting from the outdoor café's operation.**

We found one establishment that had been granted temporary approval by the borough council for setting up an outdoor café in 2006. This permit holder made changes to the layout in 2007 without prior approval of the plans. Since that time, the CCU had expressed reservations about the new plan and refused to recommend it for council borough approval. The permit holder has refused to revise the layout.

The permit holder states that it refused because the new layout had been discussed with individuals who, he said, were duly accredited by the city and the borough and that significant costs had been assumed when the application was submitted to the Division des permis et inspections. The only information in the record about such discussions is a letter requesting that the permit holder agree to submit a complete layout file responding to the CCU's comments. There was no decisive follow-up to this request, which was made in 2008.

The director of the Direction de l'aménagement urbain et du patrimoine has subsequently approved the annual renewal of outdoor café permits and keeps his supervisor, the borough director, advised of these approvals.

FINDING

This is a serious instance of regulatory non-compliance since, as of the present date, the applicant has failed to comply with the by-law. He presented those in charge of issuing outdoor café permits at the Direction de l'aménagement urbain et du patrimoine and CCU with a *fait accompli* and has not modified the project in any significant way.

This redesign project was not submitted to the borough council for approval, since it was never endorsed by the CCU.

Such non-compliance has implications with respect to the fair treatment of applicants and consistency in providing a good fit within the local environment for projects overseen by the CCU and the borough council. Measures must be taken to prevent such situations from arising and to ensure that they do not persist or recur.

3.2.4.1.B. Recommendations

To avoid unfair treatment of applicants and to prevent potential problems of consistency in providing a good fit for such projects within the local environment, we recommend that the Direction de l'aménagement urbain et du patrimoine of Outremont borough:

- Ensure compliance at all times with the rule that the borough council must approve an outdoor café's planned layout before installation begins.
- Resolve the current irregular situation and renew the permit if the borough council so decides.
- Submit all similar cases to the borough council so it can make informed decisions and ensure follow-up, as appropriate.

3.2.4.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "Submit applications that have not received a favourable recommendation from the CCU to the borough council for approval and in particular files mentioned in the audit report.

Formally notify the applicant in the aforementioned case that SAUP (Direction de l'aménagement urbain et du patrimoine) intends to submit the application, which did not receive the CCU's recommendation, for approval by the borough council.

Following this notice, invite the applicant in the above matter to consider submitting a new layout for the outdoor café to SAUP that CCU and the appropriate authorities could recommend for approval by the borough council, where pertinent." (Planned completion: February 2011)

3.2.4.2. LIABILITY INSURANCE

3.2.4.2.A. Background and Findings

On another matter, section 4.3 of by-law 1054-2 states that *[TRANSLATION]* “the owner or manager must release the Ville de Montréal and borough from all liability for any accidents that might occur on city or borough property or on the sidewalk or pavement, stemming from this activity.” Whereas section 67 of Schedule C of the Charter states that *[TRANSLATION]* “The city may, by by-law . . . (9) hold the persons authorized to occupy the public domain responsible for any damage to property or injury to persons as a result of the occupation and require that they take up the defense of the city and not hold it liable in any claim made against it by reason of such damage or injury.” To be more specific, the by-law should use the terms “hold responsible,” as per the wording of section 67.

FINDING

Our review of the files also demonstrated that the applicants were not asked for proof of liability insurance.

In the interests of prudence, measures could be implemented for more effectively meeting this provision of the by-law concerning municipal liability. Some boroughs, for example require proof that applicants have liability insurance. These boroughs:

- Specify in their by-laws the amount of liability coverage required.
- Stipulate in their by-laws that written proof of liability coverage must be submitted before the permit is issued.

3.2.4.2.B. Recommendations

To act with the necessary prudence in matters of civil liability, we recommend that Outremont borough’s Division des permis et inspections propose to the authorities an amendment of by-law 1054-2 concerning outdoor cafés so that:

- The wording would comply with that of Schedule C of the Charter of Ville de Montréal regarding civil liability.
- The necessary supporting documents would be required to ensure sufficient liability coverage before an outdoor café permit is issued.

3.2.4.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “Draft an amendment to by-law 1054-2 in conjunction with the Service des affaires juridiques et de l’évaluation foncière of Ville de Montréal and the manager, Services

administratifs, greffe et relations avec les citoyens, to include a clause on civil liability in compliance with the Charter of Ville de Montréal and submit it for borough council approval.

Add a requirement that the applicant submit proof of liability coverage prior to being issued an outdoor café permit, in accordance with the recommendation to modify the borough's application form that must be duly completed and signed by permit applicants as stated above." (Planned completion: March 2011)

3.3. ENSURING PERMIT HOLDER COMPLIANCE WITH REQUIREMENTS

Follow-up mechanisms should be implemented after a permit is issued to ensure that permit holders comply with the borough's requirements for the use by outdoor cafés of public property cafés. Adequate follow-up should be provided in the event of violations.

3.3.1. ROSEMONT–LA PETITE-PATRIE BOROUGH

3.3.1.A. Background and Findings

Prior to 2010, the traffic/parking inspector conducted post-issuance compliance checks, accompanied by preparation of a report and follow-ups of inspections.

FINDING

While the same types of activities were conducted in 2010, they were not documented and no notices of non-compliance were issued, according to information obtained from the inspector in charge. As previously indicated, however, the results of our outdoor café inspections pinpointed instances of non-compliance with borough requirements.

We believe that review and consideration of the full record of follow-ups requires documentation of all inspections aimed at enforcing borough regulations. Written notices of non-compliance should also be sent to violators so that the requested remedial measures are applied.

3.3.1.B. Recommendations

We recommend that Rosemont–La Petite-Patrie borough's Division des études techniques take the necessary measures to notify applicants of violations detected during inspections by sending out written notices of non-compliance to ensure the observance of borough requirements.

We also recommend that the Rosemont–La Petite-Patrie borough Division des études techniques include information in its outdoor café permit records pertaining to work performed and ultimately:

- Results of all inspection visits, to ensure compliance with borough requirements.
- Follow-ups and decisions pertaining to non-compliance notices sent to violators.

3.3.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] *“Implement a legal response procedure:*

- *Send a notice of non-compliance with a deadline for taking corrective action.*
- *If the outdoor-café operator fails to correct the situation within the established timeframe:*
 - *Issue an official document listing the violations detected during inspections and the actions required of the operator.*
 - *Possibility of damages by a third party (the city may remove objects located on public property at the operator’s expense).” (Planned completion: January 2011)*

“Record all follow-ups to inspections and other activities in the physical record of each operator of an outdoor café on public property.

Place copies of non-compliance notices, official documents and permit revocation notices, as the case may be, in violators’ files.” (Planned completion: May 2011)

3.3.2. PLATEAU-MONT-ROYAL BOROUGH

3.3.2.A. Background and Findings

The borough sets specific requirements for applicants seeking permits for the periodic use of public property by outdoor cafés. These requirements are contained in the “letter of requirements” signed by the applicant, which forms an integral part of the permit issued and in the document entitled *Cadre normatif à l’émission des permis pour les cafés-terrasses* [Regulatory Framework for Outdoor Café Permits] that is given to the applicant when the permit is issued.

Among these requirements are:

- Specifications for the authorized size of the outdoor café.
- Restrictions on furniture used for the outdoor café.
- Specifications for the perimeters of the outdoor café (e.g., railings).
- Restrictions on all forms of advertising.

- Obligation to preserve the premises and restore them to their original condition.
- Agreement to comply with all municipal rules and regulations.
- Limits on sunshades and retractable awnings.
- Removal of equipment (after the season), etc.

Once a permit is issued, a team of traffic/parking inspectors reporting to the Division des études techniques monitors compliance with borough by-laws and requirements. This process enabled us to review their inspections and learn what they observed. In our audit, we received an inspection register entitled *[TRANSLATION] 2010 Summary of Outdoor Café Inspections*. This record dated September 8, 2010 logs visits to 56 of 82 establishments with outdoor café permits. We found such information in this summary as the corporate name and address of outdoor cafés, inspection dates and times, the inspector's initials, the name of the individuals with whom the inspector met, a summary of activities performed (often accompanied by photos) and a statement of whether a notice of non-compliance was or was not issued. According to the information obtained from the people with whom we met, the inspection team was unable to inspect all outdoor cafés during the 2010 summer season because of staff turnover within the Division des études techniques.

We inspected the 10 outdoor cafés selected in our audit to check their compliance with permit issuance requirements. We found that the three that had received new permits from the borough in 2010 all complied with the requirements. We also found evidence in the inspection record of inspections by a traffic inspector to validate the new outdoor cafés' compliance with plans and technical requirements.

FINDING

Our inspections of the other seven selected outdoor cafés (which had been issued permits in previous years) revealed that five permit holders had not complied with requirements.

FINDING

Four of these five outdoor cafés were among those not inspected during the 2010 period of use. The inspector's visit to the fifth failed to detect the violation that we found.

3.3.2.B. Recommendations

We recommend that Plateau-Mont-Royal borough's Direction des travaux publics take all necessary measures to ensure that permit holders comply, in a timely manner, with the requirements set out by the borough concerning the use by outdoor cafés of public property.

3.3.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "The technical officer who issues the permit must, within 30 days, measure the terrace to ensure that it complies with permit requirements. The technical officer must also ensure that the railings comply and take a photo for future reference.

Traffic/parking inspectors and police officers will be asked to ensure that clearances around the outdoor cafés meet requirements.

The outdoor café's floor plan must be posted in the place of business.

Traffic/parking inspectors and police officers must also ensure that the outdoor café complies with the by-law on advertising and that its floor plan is clearly visible." (**Planned completion: March 2011**)

3.3.3. SUD-OUEST BOROUGH

3.3.3.A. Background and Findings

Once an operator is issued an outdoor café permit, the technical officer in charge must, according to borough procedures, inspect the premises to ensure that the facility complies with the approved plans and technical requirements (e.g., size of building access clearance, terrace area), and with layout and construction requirements (e.g., specifics regarding railing and platform installation) stipulated in the by-law. Any violation detected must be stated in a non-compliance notice sent to the operator, accompanied by a request for corrective actions to be made by a certain deadline (e.g., 10 days). The current by-law sets penalties for violations that persist despite notification.

Our review of the files of the nine selected outdoor cafés showed that, when violations were found during the technical officer's inspection of the premises (in three of the nine cases), a copy of the notice of non-compliance sent to the operator had been placed in the record.

FINDING

We found no mention in the records of information obtained in inspections of sites found in compliance with plans and regulatory requirements. We believe that information gathered in all inspections aimed at ensuring compliance with borough requirements must be documented in borough records to provide a full history of follow-up measures and for the sake of accountability.

FINDING

Moreover, we could not find any documents that would indicate if operators met their deadlines for implementing corrective actions in cases of non-compliance notices sent to violators.

Although few permits are issued and the technical officer currently responsible for this activity is familiar with the records, we believe that the files would benefit from more thorough documentation of decisions and other activities with respect to tolerance or non-tolerance of a violation. Such records would be particularly useful if a different officer is assigned to the case.

3.3.3.B. Recommendations

We recommend that Sud-Ouest borough's Division des études techniques document its monitoring efforts in outdoor café records to list actions taken and, ultimately, report on:

- The results of all inspections aimed at ensuring compliance with borough requirements.
- Follow-ups on non-compliance notices sent to violators and decisions made on such matters.

3.3.3.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "An inspection report will be included in the record. This report will, at the very least, contain the following information:

- *Inspector's name.*
- *Date.*
- *Name of the individual(s) encountered.*
- *Reason for visit.*
- *Issue(s) checked.*
- *Comments.*

- *Notices given and follow-up, if required.*
- *Fines.” (Planned completion: May 2011)*

3.3.4. OUTREMONT BOROUGH

3.3.4.A. Background and Findings

The Division des permis et inspections employs three inspectors who generally patrol all borough streets every week. Follow-up visits are conducted during these patrols. Inspectors produce a *Feuille d'inspection de la semaine* [Weekly Inspection Report], in which they record addresses of the establishments, permit numbers, inspection dates, nature of the work and specific remarks for every permit involving an inspection, whether this does or does not pertain to an outdoor café.

According to the manager, the inspectors are quite familiar with features of outdoor café plans approved by the borough council. This knowledge enables them to inspect the facilities visually during their weekly patrols. Once the installation is deemed compliant with borough requirements, a note is added to the inspection report, but no other document or comment is put in the permit holder's record.

FINDING

Of the 10 establishments selected for our sample, six records did not contain any comments relating to an inspection by inspectors during the year the permits were first issued. The four other files, however, included copies of violation notices sent to permit holders, demonstrating that inspections had occurred.

The records contain a roadmap of some of the steps taken by the inspectors, but do not include all information on how notice deadlines are managed or what measures are taken to respond to infraction notices and to ensure compliance with permit conditions and restrictions. When inspectors detect violations of by-laws or council restrictions, they follow up with permit holders. Their first action is usually a verbal notice to holders, reminding them of their obligation to comply with the conditions that they accepted when signing their permits. If the situation persists, inspectors issue a written violation notice that is entered in a “suivi des avis certifiés émis” [follow-ups on official notices] report. It lists the notice dates and numbers, permit holder dates of receipt, time allowed, nature of the violation and comments on follow-up of the situation. If the violation notice fails to achieve the desired results, or if stronger measures are required, an infraction report may be sent to the permit holder.

Measures to be taken in the event of an infraction are determined on a case-by-case base, in the inspector's best judgment. In more complex situations, the division manager and director of the Division d'aménagement urbain et du patrimoine are asked to give their opinions.

In our opinion, the process implemented by the Division des permis et inspections to follow up infraction notices ensures that instances of non-compliance with by-laws are either resolved within the period specified or action is taken with the permit holder. The records do not, however, contain any documentation on permit holder compliance with their obligations. It would be desirable to place information in permit holder files stating that the necessary measures were taken to ensure compliance with obligations. This would make accountability easier.

3.3.4.B. Recommendations

We recommend that the Outremont borough Division des permis et inspections record the results of inspection visits in permit holder files to ensure compliance with all conditions set out in the by-laws and to facilitate accountability.

3.3.4.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "Draft an annual account or report detailing inspection visits to permit holders. Inspectors will record in this report any violations of the applicable provisions of by-law 1054-2, along with efforts made to correct the situation. The division manager will provide training in the use and dissemination of this report to a SAUP technical committee meeting attended by the SAUP director." (Planned completion: February 2011)

V.3. Collective Purchase Agreement for the Provision and Distribution of Office Supplies

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V.3. COLLECTIVE PURCHASE AGREEMENT FOR THE PROVISION AND DISTRIBUTION OF OFFICE SUPPLIES

1. INTRODUCTION

Montréal's Direction de l'approvisionnement, which is under the purview of the Service de concertation des arrondissements et des ressources matérielles, plays a strategic role in procurement to help the boroughs and central departments acquire quality goods and services at the lowest prices and under the best possible conditions.

The city's various business units may issue their own calls for tenders for purchasing goods and services and performing work. However, the Direction de l'approvisionnement develops and implements acquisition strategies for collective purchase agreements with suppliers. These acquisition strategies pool different groups' requirements in accordance with sound management practices, since most, if not all of the city's business units require multiple goods and services on an ongoing basis. All of the city's business units can then benefit from these purchase agreements and their favourable terms. Purchase expenditures come directly from their budgets.

The Direction de l'approvisionnement is responsible for purchase agreements negotiated on behalf of the city's boroughs and central departments, including the following tasks:

- Make all information about each of the active purchase agreements accessible via the intranet search engine and ensure that this information remains current.
- Monitor and renew active purchase agreements.
- Ensure that successful bidders comply with the terms of the agreements, particularly with respect to the prices charges and the suitability and quality of substitute items should a product be discontinued or changed.

In the summer of 2009, the Direction de l'approvisionnement renewed the collective purchase agreement for the provision and distribution of office supplies. Following a public call for tenders in which four bidders, all well known within the business community, submitted proposals, the contract was awarded to the lowest compliant bidder. The purchase agreement covered the five-year period from November 2, 2009 to November 1, 2014.

Based on the historic information we obtained, the current successful bidder will have been the supplier of office supplies to the city for at least 17 years by the end of the present purchase agreement.

Finally, the figures in the city's books show that, over the past four years (2007, 2008, 2009 and 2010), the total annual amounts paid to this supplier for office supplies were \$2,883,231, \$2,964,795, \$2,984,573 and \$2,818,477, respectively.

2. AUDIT SCOPE

This audit sought to ensure that a contract award for the 2009 renewal of a collective purchase agreement to provide and distribute office supplies took business unit needs into account, complied with all applicable contract-award rules and ensured a fair competitive bidding process for all potential suppliers. The audit also examined if the amounts subsequently invoiced to the city's business units matched those specified in the agreement.

Our audit primarily focused on 2008, 2009 and the first 10 months of 2010, as well as on the Direction de l'approvisionnement. However, to verify certain operational aspects of the purchases made under this purchase agreement, we also examined invoices issued by the administrative units of the following four business units:

- Saint-Léonard borough, Direction des services administratifs—Division des ressources financières, matérielles et informationnelles
- Ville-Marie borough, Direction des services administratifs, du greffe et des relations avec les citoyens—Division des ressources financières et matérielles
- Service des affaires juridiques et de l'évaluation foncière, Direction principale—Division de l'administration
- Service du développement et des opérations, Direction de l'administration—Division de l'administration

3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

3.1. IDENTIFYING USER NEEDS

3.1.A. Background and Conclusion

The products and services (e.g., expedited delivery) required by the city's various business units must be determined, before issuing a call for tenders for a collective purchase agreement.

The Direction de l'approvisionnement consequently conducted a customer satisfaction survey in the fall of 2008, one year before the previous purchase agreement for the provision of office supplies (also a five-year contract) was to expire. Prior to its renewal, users and non-users of the agreement were asked how well the agreement's objectives were being met, if there were problems with it (and what they were) and how it could be improved. The information we obtained revealed the purchase agreement for the provision of office supplies sought to:

- Supply city boroughs and central departments with office supplies, stationery and various office equipment at the best possible prices.
- Obtain fast and efficient distribution services.
- Cut red tape with modern order processing solutions (e.g., ordering portals, online tools, e-payment).

Thirty-five office supply purchasing representatives from 29 administrative units in five central departments and 19 boroughs were queried. The questionnaire was designed to examine the following aspects:

- If they did or not did use the agreement.
- Selection of items included in the agreement.
- Suitability of bid prices.
- Quality of store-brand products.
- Quality of supplier's customer service.
- Effectiveness of supplier ordering (e.g., online) and billing procedures.
- Delivery times, returns and inventory shortages.

Survey results demonstrate that the agreement is widely used by the central departments and the vast majority of boroughs. Those contacted said they are satisfied with the various issues covered in the questionnaire. The exercise did however provide the Direction de l'approvisionnement with feedback and flagged potential improvements, especially in the choice of items to be included in or excluded from the purchase agreement at renewal. We noted that these considerations were incorporated in the tender documents used for the contract's renewal in 2009.

In 2008, the Direction de l'approvisionnement also set up a committee known as the "[TRANSLATION] Supplier Review Group." This group, which includes representatives of the Direction de l'approvisionnement and the various boroughs, serves as a forum for the sharing of municipal procurement information. It covers such topics as new collective agreements and those up for renewal, results of calls for tenders, Direction de l'approvisionnement activities and

projects pertaining to sustainable development (e.g., green purchases). The committee meets every three or four months.

After reviewing the minutes of these meetings, we determined that various aspects of the tendering process to renew the purchase agreement for office supplies, as well as the new agreement ultimately concluded with Bidder #1, were aired and discussed at the meetings.

Conclusion

Overall, we find that the Direction de l'approvisionnement took the necessary measures to ensure that needs of the collective purchase agreement for office supplies users would be considered in preparation for its renewal.

3.2. COMPLIANCE WITH CONTRACT-AWARD PROCEDURES

3.2.A. Background and Conclusion

Section 573 of the *Cities and Towns Act* (C.T.A.) defines the rules for municipal contract awards. A supply contract covering to an expenditure of \$100,000 or more may, under these rules, only be awarded following a public call for tenders issued by advertising in a newspaper distributed in the municipality. The call for tenders must also be published through the electronic tendering system approved by the Government of Québec (SEAO), and the deadline for receiving bids may not be less than 15 days. All tenders must be opened publicly on the date, time and place stated in the call for tenders, before at least two witnesses. The contract must be awarded to the lowest compliant bidder.

Our audit led us to conclude that the tender documents had been reviewed and discussed and that they had been authorized in writing by the appropriate level of management before the call for tenders was issued, in accordance with Direction de l'approvisionnement governance rules.

Since in this particular case the Direction de l'approvisionnement estimated the monetary value of the five-year contract at \$13 million (\$2.6 million per year), a call for tenders was issued on July 13, 2009 and suppliers were given 28 days to submit their bids. We confirmed that the call for tenders was published in *La Presse* and posted on the SEAO site. We also confirmed that tenders received were opened publicly in the presence of witnesses at Montréal's Direction du greffe.

As previously mentioned, four suppliers submitted bids from among the eight organizations that requested tender documents. Our review of the tenders received from the four bidders shows that all bidders received the same tender documents. We verified that the tenders received were evaluated as specified in the tender documents, based on the following groups of items: high-consumption products, store-brand products, catalogue products and products specific to the Service de police de la Ville de Montréal (SPVM). We will examine the composition of the pricelist forms in further detail in the next section of this report. We also confirmed that the data employed in preparing the table of tendered prices used for selecting the successful bidder accurately reflected the information that each bidder presented in its tender. We also checked their calculations. Our audit revealed no irregularities.

Conclusion

The contract was awarded to the lowest compliant bidder, once the required approvals were obtained (in September 2009) from city authorities (Executive Committee, City Council and Urban Agglomeration Council). The entire contract award process accordingly complied with C.T.A. requirements.

3.3. PREPARATION OF TENDER DOCUMENTS

3.3.A. Background and Findings

The procurement contract award process must be fair and transparent, providing every potential bidder with access to all necessary information, while also ensuring that quality goods and services are obtained at the lowest possible cost, meet user needs and comply with applicable laws, by-laws and regulations. The city's procurement policy clearly indicates in this respect that one of its goals is to do business with qualified, dependable suppliers and to treat them in an equitable manner and in accordance with proper business ethics.

In the months preceding the call for tenders to renew the purchase agreement for the provision and distribution of office supplies, the Direction de l'approvisionnement re-evaluated its tendering strategy to broaden its selection of products, reduce costs, respond to user requests and help achieve the environmental targets set by the city's administration (e.g., reduce greenhouse gases) by adding eco-friendly or "green" products.

Unlike the previous call for tenders, which primarily focused on prices and quantities for a list of 200 items that were considered those most frequently purchased, interested bidders were asked to quote prices on four product categories:

- A new list of items considered “high-consumption” products. This list comprised 295 types of products (e.g., staplers, pencils, hanging folders) divided into 11 procurement categories (e.g., desk supplies, writing instruments and accessories, computer accessories). The total list contained 600 product codes corresponding with different sizes and colours of some products.
- A list of store-brand products.
- A list of catalogue products.
- A list of 51 products (not available through catalogues) specific to the SPVM (e.g., orange Crime Scene tape, bandages, dressings, nitrile gloves).

Bidders were also required to offer a discount on catalogue purchases of items that were not included in the pricelist form, but that fall under one of the categories specified in the purchase agreement.

Special provisions in the tender documents indicate that the contract would be granted to the bidder offering the lowest total price for the four product categories. The evaluation was accordingly to be based on the following information:

- The total price for the 295 types of high-consumption products. Bidders were required to complete the pricelist form for items in this group and indicate the unit price for each item, the total price based on the quantity indicated in the pricelist form, the percentage discount and, lastly, the net price.
- The total amount for a selection of 25 store-brand products. Bidders were required to use the appropriate pricelist form and indicate, for each of their store-brand products, the corresponding catalogue page number, the item code and description, the unit of measurement, the unit price, the percentage discount and the net price. The Direction de l’approvisionnement was then to select 25 similar products from the list submitted by each bidder.
- The total price for a selection of 100 catalogue products. Bidders were required to attach to their tender a pricelist form (in Excel) for all supplies offered in their catalogue, along with a product code, brand, complete description, catalogue page number, unit of measurement, retail price and net price after discount. The Direction de l’approvisionnement then performed the necessary comparative analyses to identify 100 identical products available through each bidder, to avoid biasing the process in favour of any one bidder. Although this procedure had no impact on the successful bidder’s selection, the Direction de l’approvisionnement’s desire to ensure that all bidders were able to offer identical products resulted in 92, rather than 100, products being chosen and used for evaluating the prices in this category.

- The total price for the list of 51 products specific to the SPVM. Bidders were required to use the designated pricelist form and indicate the unit price and total for the required quantity for each product on the form.

These same special provisions also indicate (section 28) that the eventual agreement would exclude the following items:

- Office furnishings (furniture, file cabinets, chairs, monitor stands, computers and keyboards).
- Computer products (PC, screens, printers, software, printer cartridges).
- Cleaning supplies.
- Paper.
- Photocopiers and fax machines.

High-Consumption Products

Based on our review of the table of prices received in response to this call for tenders, we determined that the successful bidder (in this case, Bidder #1) was awarded the contract in large part due to prices quoted for the group of items categorized as high-consumption products.

FINDING

Although the prices quoted by the four participating bidders for the three other groups of products (store-brand products, catalogue products and products exclusive to the SPVM) are comparable, we noted that prices quoted by the successful bidder for the high-consumption product group were considerably lower than prices submitted by the next lowest bidder. The difference between the two is \$537,351 (before taxes), or 60% (see Appendix 4.1). It is worth noting that, during the previous call for tenders, the same successful bidder's prices for the list of 200 most frequently used products on the pricelist form were 34% lower than those of the next lowest bidder.

Store-Brand and Catalogue Products

Bids were assessed based on a selection of items from the lists of all items submitted by bidders in each group, in the case of store-brand and catalogue product categories. The similar costs obtained for both categories can be at least partially explained by the fact that the bidders did not know in advance which products would be selected by the Direction de l'approvisionnement for the comparative price analysis. This helped ensure that the prices quoted were comparable. In our opinion, the evaluation procedure used for these two product categories offered the benefit

of being fair to all participating bidders. However, although prices were comparable for products exclusive to the SPVM, the low monetary value of these items had only a minimal impact on how the contract was awarded (see Appendix 4.1).

Method

We wondered about the method used for determining which items and quantities were used in the pricelist form for this category and how this information was analyzed to determine the annual purchase volumes of items in this group, given the significant difference in prices noted within the high-consumption product group. Our audit consequently focused on the high-consumption product group, although we also examined pricelist forms for the three other groups.

From the outset, we sought to determine the sources of information used by the Direction de l'approvisionnement to identify which items were most frequently used by the city's business units. Based on information obtained from those we interviewed, we learned that the city was no longer able to retrieve from its own computer systems a detailed history of the office supplies acquired by its various business units. In January 2007, an administrative decision was jointly made by the Service des finances and the Direction de l'approvisionnement (which at that time operated under the authority of the Service des affaires corporatives) to modify the purchasing processes for certain suppliers with high billing volumes. It was accordingly agreed that administrative units would submit their orders directly through the supplier's website instead of issuing purchase orders through the SIMON accounting system. Consequently, the supplier would, on a monthly basis, send the Service des finances an invoice for all of the purchases made by the city's various administrative units. For accounting purposes, the Service des finances would then allocate the various expenses to the corresponding budget accounts and business units. Consequently, the only amounts that can be obtained from the city's SIMON accounting system are the overall monthly expenditures for office supplies.

FINDING

Although it offers numerous administrative and economic advantages (e.g., reduces the number of purchase orders to process, reduces the number of invoices to be paid, cuts the overall cost of processing purchases for the city), the Direction de l’approvisionnement now has no choice but to ask the incumbent supplier to issue regular usage reports on a product-by-product basis, as these details are no longer compiled in the city’s own systems. The Direction de l’approvisionnement must therefore depend solely on usage reports issued by the incumbent supplier to conduct the analyses required to determine usage patterns within the city’s various business units.

Our audit included reviews of two monthly usage reports (in Excel) submitted by the supplier:

- A monthly report indicating usage by product code for the client accounts of the city’s various city administrative units.
- A monthly report indicating cumulative usage in terms of costs and quantities by product code for each of the city’s business units.

We made spot checks of invoices confirming purchases made by the teams responsible for administrative services within the four previously mentioned administrative services to corroborate these supplier-generated usage reports and to determine how reliable are. These units were the:

- Division des ressources financières, matérielles et informationnelles, under the authority of the Direction des services administratifs of Saint-Léonard borough.
- Division des ressources financières et matérielles, under the authority of the Direction des services administratifs, du greffe et des relations avec les citoyens of Ville-Marie borough.
- Division de l’administration, under the authority of the Direction principale of the Service des affaires juridiques et de l’évaluation foncière.
- Division de l’administration, under the authority of the Direction de l’administration of the Service du développement et des opérations.

Our tests focused on the 2008 data, since it was the primary source of information used by the Direction de l’approvisionnement in preparing the tender documents. We reconciled information on items (e.g., code, description, quantities ordered, price and total invoice) on the month’s invoices (March, April or May 2008) with information in the report that breaks down usage by product code and administrative unit. We also conducted another test on a sample of 20 randomly selected product codes for April and May 2008 to check whether the quantities ordered

and delivered to the various administrative units were properly reported in the monthly cumulative report that compiles purchases by product code for all of the city's business units.

FINDING

Furthermore, we checked whether the totals billed for the four business units audited in the selected month equalled the total for invoices processed by the Service des finances. All of the tests demonstrated that they did. They cast no doubt on the reliability of the reports submitted by the incumbent supplier.

FINDING

Although the usage reports could have been altered to remove certain confidential data (e.g., prices billed), we found that none of them were included with the tender documents to provide prospective bidders with access to the same information on products used by city employees as that in the possession of the incumbent supplier. We feel that the Direction de l'approvisionnement did not in this respect adequately uphold principles of transparency and fairness. Consequently, the incumbent supplier, which has served as the city's supplier for the past 17 or more years, had an undeniable advantage over other bidders. It had access to a wealth of information on the city's usage patterns, so that it, unlike its competitors, could perform the analyses required to prepare its price submission.

When preparing the pricelist form for high-consumption products, the Direction de l'approvisionnement accordingly analyzed prior year purchases (specifically those in 2008) to develop a list of products ordered most frequently by the city's units and estimated the quantities to be included for high-consumption products on the form. The Direction de l'approvisionnement made a special request to the incumbent supplier to produce (in Excel) two specific reports covering September 1, 2007, to August 31, 2008, namely:

- The list of the top 1,000 product purchases in terms of volume (quantity).
- The list of the top 1,000 product purchases in terms of cost (quantity x price).

According to the information obtained from those interviewed, the figures in these reports were assumed to be reliable, because the city no longer has an easy way to verify the accuracy of such data.

Consequently, a file was created combining data from these two supplier reports: the list of high-consumption products from the previous call for tenders and a list of eco-friendly or “green” products. This electronic database was the main tool used by the Direction de l’approvisionnement in determining which 295 product types (comprising 600 product codes) would be included in the high-consumption product pricelist form.

The review of the documents supporting the analysis and the information obtained from the procurement officer assigned to the task gave us some insight into the effort involved and the methodology employed to select which products were placed on this list. Selection criteria included:

- Only choose products covered by the current purchase agreement. Products in the file that had been specifically excluded from the agreement were, accordingly, not used (e.g., office furniture, printer cartridges, 20-lb. letter-format paper).
- Choose products available in all potential bidders’ catalogues. In other words, when a selection involved a store-brand product exclusive to the incumbent supplier, it was replaced by a similar, national-brand product or eliminated from the analysis.
- Give preference to eco-friendly or “green” products for approximately 20% of selections (e.g., products made from recycled materials, products with low chemical content and biodegradable products).
- Give preference to new products on the market and exclude out-dated products.
- Incorporate products that may be necessary for the hiring of new employees. According to the designated procurement officer, roughly 65 types of products out of the selected 295 fall under this category (e.g., clocks, coat stands, desk lamps).

Overall, we feel that the selection criteria used to determine which items to include in the pricelist form seem to be appropriate. We also observed that each of the items selected for the pricelist form was clearly described and the desired brand specified so that all bidders would be assessed on the same basis.

The renewal of the purchase agreement was awarded to Bidder #1 a little over a year ago (the start date of the contract was November 2, 2009). A special provision (section 12) in the tender documents stipulates that every year, on the anniversary of the start date of the contract, the city may review its list of high-consumption products and make changes in up to 10% of the items on the list (e.g., add new products, replace out-dated items and opt for greener alternatives). Consequently, in November 2010, the procurement officer at the Direction de l’approvisionnement responsible for monitoring the agreement analyzed actual usage over the previous 12 months (November 1, 2009 to October 31, 2010) to determine which items could be

replaced. The analysis revealed that many of the items on the high-consumption product list are among the most heavily purchased products. The Direction de l'approvisionnement did not believe that it was necessary to replace some items with newer versions or older products with more current alternatives, since the agreement was relatively recent. The Direction de l'approvisionnement therefore decided not to change the list, but to reassess it in November 2011.

Usage Patterns

FINDING

Despite the fact that the items on this pricelist form were selected to ensure fair competition among bidders, information related to consumption patterns within the city's business units may have worked in the incumbent supplier's favour, as it was the only bidder to have access to detailed purchase histories.

More specifically:

- We determined that the city's business units seem to have developed the habit of purchasing store-brand products by reviewing two usage reports from the supplier for the top 1,000 product purchases in terms of volume and the top 1,000 product purchases in terms of cost. A significant proportion (roughly 20%) of the codes for these types of products can be found among the 1,000 codes that appear in the two usage reports. Out of a concern for fairness, none of these store-brand product codes were included in the high-consumption product pricelist form. This gave the incumbent supplier the unique advantage, however, of being able to offer very low prices in the high-consumption product category, knowing that it could offset the difference with the pricelist form for store-brand products. It should be noted that the successful bidder's tendered prices for store-brand products were quite similar to those of the next lowest bidder.
- The incumbent supplier was the only bidder able to compare actual historical purchase volumes against the quantities required for each type of product appearing on the high-consumption product pricelist form. We are aware that one of the special provisions (Section 4) of the call for tenders clearly stated that quantities on the pricelist form were provided for indicative purposes only. The tender document also stated that these quantities were based on past usage patterns and estimated needs and served solely to create a scenario for identifying the lowest price proposals as part of the contract award process. Although we believe the method used by the Direction de l'approvisionnement to determine the quantities entered on the pricelist form was acceptable from this perspective, it was

difficult to assess its overall effect, since the entire analysis involved a manual cross-referencing of files by the Direction de l'approvisionnement. However, we believe that the purchase volume information available exclusively to the incumbent supplier may have given it an advantage over the other bidders in setting prices and discount rates.

Difference in Bidders' Prices

As previously mentioned, our review of tendered prices (Appendix 4.1) reveals a significant difference in prices quoted by the successful bidder in the high-consumption product category. We wondered why this would occur and what kinds of analyses the Direction de l'approvisionnement conducted to determine actual purchase volumes of items in this category compared with the total volume of annual purchases from the incumbent supplier.

We asked the manager and employees in charge of this matter at the Direction de l'approvisionnement about this question. They replied that they had received similar questions about the results and attribute the situation to the likelihood that the contract with the city allows the incumbent supplier to cover its fixed costs and that it maximizes its profit margins with other clients. We nevertheless learned of a piece of correspondence from an external source that specifically alerted the Direction de l'approvisionnement's to the importance of examining the significant discrepancy in the prices quoted within the high-consumption production group. We therefore have some doubts as to the emphasis placed on pursuing issues identified in the correspondence, since we found no evidence that it resulted in a more detailed investigation.

FINDING

Those we interviewed stated that they had not conducted any specific assessments of purchase volumes for the different product codes on the list of high-consumption products.

Additional Audit Activities

In light of the above, we undertook the audit activities necessary to gather this information for the 12 months following the renewal of the purchase agreement (2009–2010) and the 12 months leading up to the issue of the call for tenders (2008). We relied on usage reports available from the incumbent supplier and, for each of the 600 product codes (295 types of products) appearing in the high-consumption products pricelist form, we calculated the actual monetary value of the purchases made during the designated periods.

FINDING

The calculations performed since the conclusion of the purchase agreement for the period from November 2, 2009 to October 31, 2010, demonstrate that the actual purchase value of items in this category represents only 8% of total purchases (\$212,809/\$2,535,320).

We acknowledge that this low percentage result can be explained, at least to some extent, by the very low prices quoted by the successful bidder for the contract renewal resulting in a purchase volume that is less significant in terms of the monetary value of all purchases.

FINDING

The calculations we performed in reviewing purchases that would have been attributable to items on the high-consumption product pricelist form for the period leading up to the renewal of the agreement (January 1 to December 31, 2008), demonstrate that the new list of products on the pricelist form would have represented only 15.2% (\$449,845/\$2,964,795) of total purchases made from this supplier.

We feel that this information is even more significant since the list of high-consumption products and the conditions of the agreement (e.g., the discount percentage) were not the same over this period.

FINDING

Analyses were based on the October 31, 2010 usage report presenting cumulative usage figures dating back to the first year of the agreement. They revealed that the 600 product codes on this pricelist form account for only 8% of the total number of product codes ordered over the course of a year by the city's various business units (600/7,189 product codes). This information suggests that the number of items on this pricelist form and the monetary value associated with their purchase volume may not have been great enough to have a significant impact on the incumbent supplier's sales.

Furthermore, to take our analysis even further, we asked the designated procurement officers whether any statistics had been compiled to obtain a better understanding of various municipal business unit usage patterns with respect to the types of goods they order from this supplier. They replied that no such analyses had been conducted, but that it was possible at any time to

ask the supplier to generate a report entitled *[TRANSLATION] Business Overview*, presenting a breakdown of municipal purchases. A request to generate a report covering the period from November 2, 2008 to November 1, 2009 and another covering the period from November 2, 2009 to November 1, 2010 was accordingly forwarded to the supplier. Through subsequent examination of the information in these reports, alongside our examination of usage reports featuring cumulative information on purchases made by product code, we determined that the city's business units obtain items from this supplier that are specifically excluded from the current purchase agreement (section 28).

FINDING

The city received none of the discounts offered by the successful bidder under the current purchase agreement for such items. However, the Direction de l'approvisionnement negotiates and renews a large number of collective purchase agreements for various types of goods each year.

FINDING

This information may also explain the very low prices quoted in the high-consumption product category. Specifically, we noted:

- Purchases of food and cleaning supplies (e.g., cups, plates, paper towels, bathroom tissue, various cleaning products, garbage bags, refrigerators and microwave ovens). According to the *[TRANSLATION] Business Overview*, the purchase volume for this type of product was 6.4% for the 12 months ended November 1, 2010 and 5.2% for the 12 months ended November 1, 2009.
- Purchases of office furniture (e.g., chairs, file cabinets and keyboards). According to the *[TRANSLATION] Business Overview*, the purchase volume for this type of product was 5.7% for the 12 months ended November 1, 2010, and 6.1% for the 12 months ended November 1, 2009.
- Purchases of electronic equipment (e.g., fax machines, printers and cameras). According to the *[TRANSLATION] Business Overview*, the purchase volume for this type of product was 10.8% for the 12 months ended November 1, 2010, and 9.3% for the 12 months ended November 1, 2009.
- Purchases of printer cartridges. According to the *[TRANSLATION] Business Overview*, the purchase volume for this type of product was 26.7% for the 12 months ended November 1, 2010 and 22.4% for the 12 months ended November 1, 2009. However, we were informed that the successful bidder for the current purchase agreement for this type of product was also the successful bidder chosen for another purchase agreement for original (new) cartridges for Hewlett-Packard-brand printers. This is why we found purchases for this brand of cartridge among the total purchases made from this supplier. However, an analysis of the total purchases of all types of cartridges for the year ending October 31, 2010 revealed that the city's business units also acquire cartridges other than Hewlett-Packard cartridges from this supplier. The proportion of these transactions is roughly 8% of total purchases from this supplier.

Based on these observations, purchases from this supplier for items not included in the current purchase agreement represent approximately 49.6% of the total purchase volume for the 12-month period ended November 1, 2010 (and 43% for the 12-month period ended November 1, 2009).

FINDING

For the period ending November 1, 2010, the purchase volume of items not covered by the agreement comes to a significant 31%, even excluding purchases of Hewlett-Packard cartridges.

FINDING

Because the incumbent supplier possessed all the historical data on the city's usage patterns, it was the only bidder able to conduct such analysis and use this knowledge to adjust its prices. The incumbent supplier could have substantially lowered its high-consumption product group prices to win the contract. In this case, the incumbent supplier could have assessed the possibility of offsetting the difference with other product groups included in the call for tenders (store-brand products, catalogue products, products exclusive to the SPVM), for which the quoted prices were comparable to market prices, or with other items not covered under the current purchase agreement, to which no discounts applied.

In our opinion, the Direction de l'approvisionnement, when renewing this purchase agreement or any other collective purchase agreement under its authority, would be best advised to revisit its tendering strategy to ensure that none of the product categories used to evaluate bids gives an advantage to one bidder over another.

FINDING

Considering the privileged usage history information that the incumbent supplier possessed, we feel that the method used to evaluate prices for the high-consumption product category was biased in the incumbent supplier's favour. The method used for the store-brand and catalogue product categories proved fair, since none of the bidders could have known in advance which products would be selected for evaluating the tenders.

Collective Purchase Agreement

We are aware that the city's business units are free to manage their office furniture purchases within their own budgets.

FINDING

We feel that the Direction de l'approvisionnement should consider the possibility of including provisions in tender documents that would limit the types of goods that could be purchased from selected bidders. Doing so would save money and encourage business units to search for a collective purchase agreement for the specific goods they require (e.g., purchase agreement to procure office furniture or janitorial products).

We also observed during our audit the existence of such provisions in the tender documents of other public bodies we contacted. For example, in one case, a provision specified the list of office supplies excluded from the agreement. While this provision is similar to the city's approach, it also stipulated that such supplies must not be accessible via online orders and that all items available through the supplier's Web site must belong to a discounted category. In another case, an exclusion provision indicated that, except for items included on the pricelist form, no office supplies with a unit value exceeding \$300 and no furniture or computer equipment, regardless of value, could be included in or purchased through the agreement. The provision also specified that the successful bidder was required to obtain the authorization of the contract administrator or an authorized representative before responding to purchase requisitions in these product categories from the organization. We believe that such provisions would help maximize savings for the entire city, although they would have to be tailored to the city's specific circumstances.

3.3.B. Recommendations

To ensure the contract-award process's transparency and fairness whenever the current purchase agreement or any other collective purchase agreement under its authority comes up for renewal, we recommend that the Direction de l'approvisionnement:

- A) Re-evaluate its practices for issuing tenders and identify all means that could serve in providing every potential bidder with access to all information required to submit a proposal, such as complete details regarding usage history.**
- B) Ensure pricelist forms are prepared in such a manner that prevents any product categories used in the bid evaluation process from favouring one bidder over another.**

We also recommend that, for purposes of cost-effectiveness and as an incentive to the city's business units, the Direction de l'approvisionnement find the other collective purchase agreements specific to acquisition of other goods required and:

- C) Include provisions in the tender documents provisions stipulating measures that the successful bidder must take to restrict the types of purchases that can be made under the collective purchase agreement in question.
- D) Take the necessary measures to remind business units of the existence of the various collective purchase agreements and stress the importance of using these agreements to maximize savings for the city.

3.3.C. Action Plan of the Relevant Business Unit

- A) [TRANSLATION] “Ensure that all those who obtain the tender documents for the next call for tenders (July 2012) receive a copy of all the usage reports that are provided to us under the current contract so that every bidder is aware of the city’s usage patterns for this type of umbrella agreement.” **(Planned completion: May 2013)**
- B) [TRANSLATION] “Ensure that the high-consumption product pricelist form takes into account both the monetary value and quantities of these items, to ensure that no bidder is favoured over the others.” **(Planned completion: May 2013)**
- C) [TRANSLATION] “Include provisions that require the successful bidder to provide the city with a virtual catalogue including a section with our 300 standard products. **(Planned completion: May 2013)**

Obtain monthly reports from the successful bidder for all purchases covered by the agreement, as well as all purchases not covered by the agreement for verification purposes (being checked with the current supplier). **(Planned completion: June 2011)**

Establish a system to indicate that a purchase made outside the umbrella agreement must be authorized by a manager before the order can be processed.” **(Planned completion: June 2011)**

- D) [TRANSLATION] “Survey business units on our communication tools to understand their habits and needs. **(Planned completion: June 2011)**

Modify our communication tools in line with survey findings. **(Planned completion: June 2011)**

Deploy the “Appro avancé de SIMON” advanced procurement modules in 2012 for using virtual catalogues. This will facilitate searches involving umbrella agreements and their use by business units.” (Planned completion: December 2012)

3.4. MONITORING PRICES BILLED

3.4.A. Background and Findings

Prices billed must be closely monitored following contract award to ensure these prices comply with the terms of the collective purchase agreement with the selected supplier.

As previously mentioned, prices are monitored in part by the Direction de l’approvisionnement because it manages collective purchase agreements and can ensure that successful bidders adhere to the terms of these agreements (prices billed, etc.). Furthermore, under the agreement (section 10 of its special provisions), the supplier may raise its prices by a percentage that is equal to or less than the Consumer Price Index, as published by Statistics Canada, every 12 months on the contract anniversary date. If the successful bidder anticipates a change in pricing, it must give written notification to the Direction de l’approvisionnement, which will then perform the necessary checks and consider the reasonableness of the proposed increases. The Direction de l’approvisionnement will subsequently advise the supplier if it approves the increases. We noted that the Direction de l’approvisionnement had approved the 1% increase in prices implemented by the incumbent supplier as of January 2011.

The city’s business units must also be able to monitor the situation and ensure that the prices they pay for products they order and pay for directly out of their own budgets match the prices appearing in the agreements. The Direction de l’approvisionnement therefore provides on its intranet site detailed information on the collective purchase agreements it has negotiated, including lists of agreed prices for each product category appearing on the pricelist form. The Direction de l’approvisionnement updates its price list annually, based on fluctuations in approved prices.

With respect to the current purchase agreement, access is accordingly available to three price lists for the following products:

- High-consumption products: illustrated list with colour photos, including descriptions and prices for all items included in the tender’s pricelist form.

- Catalogue products and store-brand products: list of all items covered in the tender, with descriptions and prices.
- SPVM products: Descriptions and prices for all items exclusive to this department.

Information on the intranet site also indicates that all catalogue-ordered products that do not appear on one of the aforementioned price lists are subject to a 68% discount (unless they are specifically excluded from the current agreement).

To assess how closely the successful bidder's prices matched those quoted in its bid, we performed a spot check on the prices invoiced to the four business units we audited.¹ Our sample contained eight invoices for each business unit, for a total of 32 invoices from the period covering the first year of the agreement (November 2, 2009 to October 31, 2010). We verified that the 213 items appearing in these invoices complied with prices quoted in the bid.

FINDING

Discrepancies appeared between the prices billed and those quoted in the purchase agreement for 43% of the items checked (91/213). These discrepancies included both billed prices that were both higher and lower than quoted prices.

Although the price differences could be higher and of opposite effect, the overall result of our audit shows that the total difference between these two sets of prices came to \$488.51 in the city's favour, given the small sample of items examined.

During a meeting with the manager and the procurement officer in charge of administering the agreement, we were told that the Direction de l'approvisionnement had also checked prices billed to ensure that the successful bidder's invoicing practices complied with the agreement. Based on the information obtained, prices were checked for the period of January to May 2010. Spot checks had reportedly been performed on store-brand products, catalogue products and exclusive SPVM products. It would however, appear that a more comprehensive review was conducted for high-consumption products. We asked to obtain details on the sampling practices used to check the prices, but this information was not available because the process had not been documented.

¹ Saint-Léonard borough, Ville-Marie borough, Service des affaires juridiques et de l'évaluation foncière and Service du développement et des opérations.

FINDING

Based on information obtained from those we interviewed, the Direction de l'approvisionnement's checks enabled it to detect a number of price discrepancies.

Consequently, a representative of the supplier was contacted to make the necessary adjustments and to issue a credit to the city for price errors. In total, the discrepancies (overcharged and undercharged amounts combined) represented a credit of \$2,086.69 for the city.

To better determine the extent to which adjustments requested by the Direction de l'approvisionnement helped improve the accuracy of the amounts invoiced following the audit (January to May 2010), we eliminated from our sample the results obtained for the invoices selected from the months of June through October 2010.

FINDING

Although there were discrepancies in 31% of the items ordered during this period (33/105 items), we ascertained that these discrepancies primarily applied to products that were ordered by catalogue and that did not appear in any of the pricelist forms.

FINDING

Although the city's various business units are partially responsible for ensuring the compliance of the prices invoiced by the supplier, it is nevertheless surprising to discover that the invoices examined were paid despite discrepancies in price observed and that no flags were raised.

In our view, this situation may possibly be due to the fact that business units must search each of the items ordered on three lists posted on the procurement site, to validate the accuracy of the prices quoted by the supplier. The complexity of the process and the time it requires may at least partially explain why some business units are not particularly diligent in checking prices and are more reliant on checks by the Direction de l'approvisionnement.

Since the Direction de l'approvisionnement is the main authority for collective purchase agreements, we feel that, for greater efficiency and to realize the savings these agreements are intended to produce for the city, the Direction de l'approvisionnement should:

- Employ a documented, structured method based on a statistically representative sample of the surveyed population to ensure that periodic checks of billed prices can guarantee the city's business units that the prices invoiced by the successful bidder comply with the agreement.
- Establish effective communication mechanisms to ensure that any discrepancies in price detected by the business units are systematically brought to the attention of the designated manager at the Direction de l'approvisionnement and the necessary measures can be taken with the supplier to rectify the situation.

3.4.B. Recommendations

To make the process more efficient and realize savings expected from the city's various collective purchase agreements, we recommend that the Direction de l'approvisionnement:

- Use a documented, structured methodology based on a statistically representative sample of surveyed users to ensure that a periodic check of the prices invoiced can guarantee the city's business units that the prices invoiced by the successful bidder comply with those in the agreement.
- Establish effective communication mechanisms so that any discrepancies in price detected by the business units are systematically brought to the attention of the designated manager at the Direction de l'approvisionnement and the necessary measures can be taken with the supplier to rectify the situation.

3.4.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "Implement a documented method for spot checking bills to ensure that they are based on the same prices as those specified in the contract, as part of the management process for this umbrella agreement. (Planned completion: May 2011)"

Develop a monthly tracking report to document actions taken to check prices and requests to the successful bidder for adjustments. (Planned completion: May 2011)

Establish up a single contact in each business unit to channel information more effectively (recommendation from the team in charge of revamping procurement operations)." (Planned completion: September 2011)

4. APPENDIX

4.1. TABLE OF PRICES RECEIVED

Table 1—Prices Received from Each Bidder

Product Category	Bidder			
	#1*	#2	#3	#4
High-consumption products	\$358,860.85	\$896,211.55	\$896,353.27	\$1,039,230.52
House-brand products	\$6,559.00	\$6,549.00	\$5,165.00	\$9,006.00
Catalogue products	\$567,974.00	\$500,244.00	\$597,562.00	\$611,280.00
Products exclusive to the SPVM	\$737.11	\$839.76	\$887.81	\$989.43
Comparative amount (before tax)	\$934,130.96	\$1,403,844.31	\$1,499,968.08	\$1,660,505.95
Comparative amount (after tax)	\$1,054,400.32	\$1,584,589.26	\$1,693,088.97	\$1,874,296.09

* Successful bidder.

The difference between the price obtained from the successful bidder and the price obtained from the next lowest bidder is \$537,350.70, a difference of 60%.

V.4. Vehicle Allowance Management

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V.4. VEHICLE ALLOWANCE MANAGEMENT

1. INTRODUCTION

Some municipal employees must travel regularly within the city as part of their jobs. They can use a car belonging to the city, their personal vehicle or another form of transportation (taxi, bus, metro). No city employee is obliged to use a personal vehicle to perform job-related duties. For those who do so, however, an authorized official may approve payment of a monthly vehicle allowance if it has been determined that this is the most economical and efficient travel option, given the requirements of the employee's position.

These personal vehicle allowances are governed by administrative rules (guidelines and procedures) defined by the Service du capital humain and applicable to all municipal business units.

Each of the central departments and city boroughs must pay the costs of these vehicle allowances out of their operating budgets and is responsible for applying these rules.

Following the 2002 municipal reorganization, expense reimbursement for personal vehicle use continues to be administered through the employee's original payroll system. Consequently, the city's Service des finances administers the payroll systems for employees from the former city and the former CUM, while boroughs that were previously suburban municipalities continue to administer their own payroll systems.

In 2009, 1,502 employees (1,453 in 2010) were given allowances for personal vehicle use. They travelled a total of 2,551,394 kilometres (2,394,329 km in 2010) and received allowances totalling \$3,660,010 (\$3,604,908 in 2010) (see Appendices 4.1 and 4.2).

2. AUDIT SCOPE

Our audit sought to ensure operational compliance with administrative rules (guidelines and procedures) governing approval of personal vehicle allowance payments and to verify payment amounts. The audit also considered if a vehicle allowance was the most economical means of reimbursing employees for using their personal vehicles.

Our audit dealt specifically with vehicle allowances granted in 2009 and during the first six months of 2010. For purposes of comparison, however, we used data for all 12 months of 2010.

The audit was primarily conducted at the Division de la rémunération et des avantages sociaux, under the Service du capital humain, as the entity responsible for establishing the administrative rules in question. An audit was also conducted at the Direction de la comptabilité et du contrôle financier of the Service des finances, which is mainly responsible for payroll administration for employees of the former city. This unit reimbursed 69.2% (1,039/1,502) of the vehicle allowances granted in 2009 and 70.5% (1,025/1,453) of those granted in 2010 (see Appendices 4.1 and 4.2).

We also selected a sample of 67 vehicle allowances from two central departments, a borough of the former city and a borough that was previously a suburban municipality, as follows:

- Service du développement et des opérations (SDO): 20 vehicle allowances from the Division conception et réalisation des travaux of the Direction des travaux publics.
- Service de l'eau: 18 vehicle allowances from the Division administration and the divisions (Sud, Nord, Centre and Est) of the Direction de la gestion stratégique des réseaux d'eau.
- Rosemont–La Petite-Patrie borough: 17 vehicle allowances.
- Pierrefonds-Roxboro borough: 12 vehicle allowances.

3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

The city (through its Service du capital humain) set guidelines and procedures dated October 22, 2002 and entitled [TRANSLATION] “Personal Vehicle Usage Allowance” to clarify the kinds of compensations and privileges granted to employees using personal vehicles for their duties and to set out rules for awarding, maintaining and withdrawing such compensations and privileges.

These administrative rules state that employees required to travel regularly as part of their job can apply in writing for permission to receive an allowance for the use of their personal vehicle. Upon approval by the authorized official, the employee will then receive, for a set period, a fixed monthly allowance covering the first 160 distances travelled and a variable reimbursement based on a pre-established rate for each additional kilometre travelled during the month (see Appendix 4.3). Employees are also allowed to park their vehicles at no charge during their working hours in parking lots belonging to the employer, both at their office and on the road, and are entitled to reimbursement for the cost of parking meters or lots during such travel.

Except for parking costs, any amount paid out as a fixed vehicle allowance or reimbursement per kilometre on a variable rate must, incidentally, be treated as a taxable benefit under tax rules and must be included in the employee's annual income.

Under the directive, a vehicle allowance is maintained for either a determined or an undetermined period as long as:

- The allowance is duly approved by the authorized official and funds are available.
- It is the most economical and efficient option.
- It is required by the position.
- The employee agrees to use his or her personal vehicle in the course of his or her duties.
- The employee holds the position associated with the allowance.
- The required documents are sent on time and according to the methods defined in the procedure.

3.1. COMPLIANCE WITH ADMINISTRATIVE RULES

3.1.1. REQUIRED AUTHORIZATIONS

3.1.1.A. Background and Findings

An authorized official who grants a vehicle allowance must, under the directive, consider the specific travel requirements inherent in the employee's job or duties. The officer must first determine that such an allowance is the most economical and efficient means of reimbursing the employee for travel. This "needs analysis" considers the various forms of transportation available (e.g., public transportation, taxi, city vehicle), as well as the frequency, distance and area of travel.

An employee who requests a vehicle allowance must provide proof of a valid driver's licence (a photocopy), as well as the appropriate insurance certificate.

Once an authorized official has analyzed the situation and agrees to grant a vehicle allowance, the officer must formalize the decision in writing by preparing a decision record that is entered into the decision management system (GDD—gestion des décisions déléguées).

We examined the records supporting our sample of 67 vehicle allowances to assess how effectively vehicle allowances complied with these rules.

FINDING

With the exception of one case (for which no decision record was found) from the 12 examined in Pierrefonds-Roxboro borough, we determined that a decision record existed for each of the 66 other vehicle allowances selected, as specified in the administrative rules.

FINDING

We found with particular respect to the Division conception et réalisation des travaux under the Direction des travaux publics of the SDO that when the Direction learned that the Bureau du vérificateur général was planning to conduct an audit, a manager who had temporary authority while replacing his direct superior approved a decision record (GDD) in July 2010 to:

- Authorize his own vehicle allowance, placing him in a conflict of interest situation, although a higher reporting level should have been involved in the decision process.
- Resolve the situations of three other employees who were part of our sample. The Extensions of their vehicle allowances did indeed require new approval by a GDD to be compliant, since there had already been changes in their jobs (e.g., transfer, promotion).

FINDING

We also detected a case in this division with a GDD-authorized payment of a vehicle allowance to an individual for the period from January 1, 2002 to December 31, 2002. At the time of our audit in July 2010, this employee was still receiving the allowance. However, no new GDD authorized any such extension.

3.1.1.B. Recommendations

We recommend that Pierrefonds-Roxboro borough ensure that all decisions granting vehicle allowances be formalized in writing with a decision record entered in the GDD to ensure proper application of the administrative rules.

We recommend that the Direction des travaux publics of the Service du développement et des opérations take the necessary measures to ensure that vehicle allowance authorization always involves the appropriate reporting level in the decision-making

process, to ensure proper application of administrative rules and to avoid any conflict of interest or the appearance of such.

We also recommend that the Direction des travaux publics of the Service du développement et des opérations keep a closer watch on the expiration of defined periods for payment of a vehicle allowance. The decision to withdraw or formalize the allowance should be made in a timely manner in accordance with administrative rules.

3.1.1.C. Action Plan of the Relevant Business Unit

- **PIERREFONDS-ROXBORO BOROUGH**

[TRANSLATION] “Adoption of resolution CA11 29 0041, GDD No. 1112690001, during the regular meeting of the borough council on February 7, 2011.” **(Planned completion: February 2011)**

- **DIRECTION DES TRAVAUX PUBLICS OF THE SERVICE DU DÉVELOPPEMENT ET DES OPÉRATIONS**

1) [TRANSLATION] “A review of records of employees granted authorization for a vehicle allowance was conducted following your audit. The decision records were updated to comply with administrative rules.

With respect to the authorization process, section and division managers were reminded of the directive to ensure that vehicle allowances are always subject to approval at a higher reporting level.

*Furthermore, to ensure constant compliance with this directive, the names of the direct superiors who authorize GDDs will be entered in the [TRANSLATION] Vehicle Allowance Monitoring document.” **(Planned completion: March 2011)***

2) [TRANSLATION] “Ongoing monitoring of vehicle allowances will be implemented:

- *First, we will ensure that each vehicle allowance paid is authorized through a GDD. **(Planned completion: April 2011)***
- *Then we will regularly (up to a maximum period of 12 months) and in the future reassess vehicle allowances paid to each employee based on their functions and duties in the Direction des travaux publics, to monitor end dates more closely. The regular re-assessment date will be indicated in the Vehicle Allowance Monitoring document. **(Planned completion: June 2011)***

Furthermore, we will develop and implement a guide (checklist) to help managers when the initial request for a vehicle allowance is made and during reassessment by facilitating the decision-making process involved in granting and reassessing vehicle allowances. This guide will pertain to such factors as distances travelled, travel frequency and needs (seasonal, specific or cyclical) of the position and assigned duties.” (Planned completion: June 2011)

3.1.2. NEEDS SUBSTANTIATION

3.1.2.A. Background and Findings

FINDING

GDDs were located for almost all of the vehicle allowances selected. However, a more detailed examination of these GDDs revealed that none described the results of any analysis of an actual need to pay a fixed vehicle allowance rather than compensation based solely on a variable rate of reimbursement for distances travelled.

The GDDs did not address any factors that could have been included in the analysis, such as the possibility of using another form of transportation or travel frequency, distance or area. We were only able to find brief explanations (e.g., regular travel). Overall, we did not find any evidence that the vehicle allowances were analyzed to determine whether they were the most economical or efficient means of reimbursing the employee for travel.

3.1.2.B. Recommendations

We recommend that the Direction des travaux publics of the Service du développement et des opérations, the Service de l'eau, Rosemont–La Petite-Patrie borough as well as Pierrefonds-Roxboro borough document the initial authorization requests for a vehicle allowance by providing clear and precise reasons that demonstrate the relevance of and substantiation for the allowance to facilitate informed decision-making.

3.1.2.C. Action Plan of the Relevant Business Unit

- **DIRECTION DES TRAVAUX PUBLICS OF THE SERVICE DU DÉVELOPPEMENT ET DES OPÉRATIONS**

[TRANSLATION] “A guide (checklist) will be included in a form that must be completed by the direct supervisor to substantiate a vehicle allowance and the preparation of a GDD.

This form will also be included in the GDD itself and will be contingent on GDD approval.

This form must also be completed during annual reassessment.

Since the Auditor General has recommended that the Direction générale and the Service du capital humain review the current allowance policy for personal vehicle use and perform comparative analyses to propose a more economical method of compensation, we can improve our existing list based on the proposals that will be made by the Direction générale and the Service du capital humain.” (Planned completion: June 2011)

- **SERVICE DE L’EAU**

[TRANSLATION] “We will review all decision records for vehicle allowances and will further document authorization requests and more precisely demonstrate the relevance of and substantiation for the allowances for each of the employees concerned.” (Planned completion: June 2011)

- **ROSEMONT–LA PETITE-PATRIE BOROUGH**

[TRANSLATION] “A special effort will be made to further document new requests for vehicle allowances with clear and precise reasons demonstrating the relevance of and substantiation for the allowance to facilitate informed decision-making.

Managers will be asked to document and analyze needs, including travel requirements of the position, travel frequency, distance or area to cover, and so on.

The approval from Human Resources will be required.” (Planned completion: June 2011)

- **PIERREFONDS-ROXBORO BOROUGH**

[TRANSLATION] “The kilometres driven by each individual receiving a vehicle allowance will be recorded over the course of 2011.

An analysis of this data will be conducted at the end of the year to demonstrate the relevance of and substantiation for such allowances.” (Planned completion: December 2011)

3.1.3. SUPPORTING DOCUMENTS

3.1.3.A. Background and Findings

Our review of the 67 vehicle allowance records selected from Rosemont–La Petite-Patrie borough, Division conception et réalisation des travaux, under the authority of the Direction des travaux publics of the SDO, and Direction de la gestion stratégique des réseaux d'eau of the Service de l'eau revealed that these records contained up-to-date proof of the valid driver's licences and proper vehicle insurance certificates required at the time of the initial request for approval.

FINDING

The same review in Pierrefonds-Roxboro borough revealed that none of the selected records (12 in all) presented evidence that a proof of valid driver's licence and insurance had been required prior to approval of the requested vehicle allowance.

Once an employee's vehicle allowance has been approved, the authorized official must, according to procedure, annually ensure that all employee with allowances have renewed their insurance certificates, that they still meet requirements and that a copy has been submitted to the authorized official.

FINDING

We found that there is no procedure in place to monitor the expiration date of valid driver's licences submitted by employees. In our opinion, the procedure should be revised to add a provision that the authorized official check the validity of a driver's licence following its expiration date, in the same manner that insurance certificates are monitored.

The directive clearly states that an allowance will be withdrawn if the employee's driver's licence is revoked or suspended, the employee is prohibited from driving or is physically incapacitated or the employee cannot produce the required documents. That is why regular monitoring is important.

FINDING

Our audit revealed that Pierrefonds-Roxboro and Rosemont–La Petite-Patrie boroughs and the Direction de la gestion stratégique des réseaux d'eau of the Service de l'eau did not systematically check that insurance certificates were current or that driver's licences remained valid after their original expiration dates.

3.1.3.B. Recommendations

We recommend that Pierrefonds-Roxboro borough obtain all necessary supporting documents (vehicle insurance certificate and copy of driver's licence) prior to authorizing a vehicle allowance, to ensure compliance with administrative rules.

We recommend that the Service du capital humain review the procedure entitled [TRANSLATION] "Personal Vehicle Use Allowance" to include a section stipulating that the authorized official must regularly check the validity of driver's licences.

We recommend that Pierrefonds-Roxboro and Rosemont–La Petite-Patrie boroughs, as well as the Service de l'eau, establish the necessary mechanisms to monitor proof of insurance certificate renewal and driver's licence validity over the entire allowance period for every employee with an approved vehicle allowance, to ensure compliance with administrative rules.

3.1.3.C. Action Plan of the Relevant Business Unit

1) • **PIERREFONDS-ROXBORO BOROUGH**

[TRANSLATION] "Obtain a copy of the driver's licence and vehicle insurance certificate (pleasure and occasional business coverage) required for each employee receiving this allowance." (**Planned completion: February 2011**)

2) • **SERVICE DU CAPITAL HUMAIN**

[TRANSLATION] "Add the following provision to the procedure [TRANSLATION] 'Personal Vehicle Use Allowance':

Monitoring driver's licence validity

"The authorized official must ensure that employees provide a copy of their driver's licence twelve (12) months after receiving a vehicle allowance." (**Planned completion: March 2011**)

3) • **PIERREFONDS-ROXBORO BOROUGH**

[TRANSLATION] “The Division des ressources humaines will apply an ongoing system to monitor proof of insurance certificate renewal and valid driver’s licences throughout the year.” (Planned completion: February 2011)

• **ROSEMONT–LA PETITE-PATRIE BOROUGH**

[TRANSLATION] “Designated officials in the business units will on a quarterly basis monitor the renewal of insurance certificates and driver’s licences for employees with a vehicle allowance, using the expiration date chart.

They will send the necessary reminders to the employees concerned to obtain the documents.

One copy of the documents will be sent to the Service du capital humain and another copy will be kept in the borough file.” (Planned completion: March, June, September, December 2011)

• **SERVICE DE L’EAU**

[TRANSLATION] “We have also established a vehicle allowance monitoring system to ensure that proof of renewal is obtained each year for both the insurance certificate and the valid driver’s licence.” (Planned completion: February 2011)

3.2. MONITORING TRAVEL AND PAYMENT ACCURACY

3.2.A. Background and Findings

Follow-up mechanisms must be set in place to monitor travel and the accuracy of costs claimed, following approval of a Personal Vehicle Use Allowance.

Each city business unit is responsible for enforcing and complying with administrative rules for vehicle allowance management. The central departments or boroughs employing which employees receiving such allowances are responsible for related costs.

An employee authorized to receive a vehicle allowance must complete a reimbursement form entitled *[TRANSLATION] “Personal Vehicle Use Allowance,”* in accordance with the procedure. The employee must indicate the total number of kilometres driven and provide a breakdown of other travel costs incurred (e.g., parking lots, parking meters) on this form and do so each month. More detailed travel information (e.g., locations visited, departure and arrival times, description of

activity, distances travelled) must be recorded on the form entitled [TRANSLATION] “Monthly Travel Sheet.” These two forms must be signed by the employee and submitted to the authorized official for approval, along with supporting documents (e.g., parking receipts).

Once the forms have been verified and approved by the authorized official in the appropriate central departments and or borough of the former city, they must be forwarded to the city’s Service des finances to initiate the process of reimbursing outlays to the employee. Forms in boroughs that were previously suburban municipalities are forwarded to their respective financial units, since most were still administering their own payroll systems at the time of our audit.

When a fixed vehicle allowance is granted by the city’s Service des finances or the Pierrefonds-Roxboro borough, the payroll system automatically generates the payment to the employee unless a written notice to withdraw the allowance is sent to the payroll administrator. This fixed allowance covers a maximum of 160 kilometres per month (1,920 km per year). Any additional kilometres driven are remunerated based on the variable rates per kilometre set out in the administrative rule (see Appendix 4.3).

At this stage, our audit consisted of assessing the compliance of employees receiving a vehicle allowance with the requirement that they substantiate their travel and obtain the approval of an authorized official for related costs. For the 67 sample cases from November 2009 and April 2010, we checked that:

- The “Personal Vehicle Use Allowance” form and the “Monthly Travel Sheet” or, for Pierrefonds-Roxboro borough, the “Occasional Travel—Travel Log” and the “Reimbursement Charges for Work-Related Expenses” form were properly completed and duly approved by an authorized official.
- The travel indicated in these forms was plausible given the position held and the responsibilities of the employee receiving the vehicle allowance.
- The supporting documents were all kept on file and costs claimed were consistent with reported travel locations.
- The reimbursement rates used corresponded to those set out in the administrative rules and payment calculation was correct.
- Employees receiving a vehicle allowance did not receive any other form of reimbursement or compensation for public and private transportation expenses incurred in the course of their duties.

Our review of the forms that we obtained for the two months in question did not reveal any anomaly in terms of the plausibility of travel indicated by the employee given his or her position

and responsibilities. The parking costs claimed were backed by supporting documents that had been duly approved by an officer and were consistent with the travel locations. Furthermore, we did not encounter any errors in the accuracy of the calculations or compliance of the payments. Finally, upon reviewing claims made for expenses incurred, we were able to conclude that no compensation for public or private transportation expenses was given to employees with a vehicle allowance.

However, we did make the following findings:

- Pierrefonds-Roxboro borough

FINDING

Among the 12 cases selected from this borough, we found that one senior manager did not complete the required form at any time in 2009 or the first six months of 2010.

This manager consequently received payment for a vehicle allowance (a fixed allowance of \$2,892 in 2009 and \$1,458 in 2010), although no travel had been substantiated or submitted for approval during the 18-month period, as required by the procedure.

FINDING

Furthermore, three senior managers and one middle manager had completed the necessary paperwork throughout 2009 and the first six months of 2010, but these documents did not include any proof of approval by an authorized official.

The amounts claimed were paid, totalling \$12,815 for 2009 and \$6,866 for the first six months of 2010 (these payments included a fixed allowance and a variable portion based on the number of distances travelled).

- Rosemont–La Petite-Patrie borough and the Division conception et réalisation des travaux (SDO)

Records of the 17 cases selected from this borough as well as the 20 cases from the Division conception et réalisation des travaux indicate that the required forms were properly completed and duly approved.

FINDING

According to information obtained from those we interviewed, a form may occasionally not be completed by a vehicle allowance recipient if no travel was logged during the month or the distance travelled does not exceed 160 km.

- Direction de la gestion stratégique des réseaux d'eau (Service de l'eau)

FINDING

Among the 18 cases selected from this business unit, we found that one professional did not complete the required forms for all of 2009 or the first six months of 2010.

According to information obtained from the payroll system database in question, the recipient of this vehicle allowance did not report any distances travelled for this 18-month period, but received the payment of the fixed allowance every month. The amounts paid to this recipient totalled \$2,000 in 2009 and \$1,008 in 2010 (these payments included a fixed allowance only).

FINDING

According to the information obtained from all those we interviewed in the various business units we visited, it appears that no particular mechanism has been instituted to ensure that vehicle allowance recipients regularly submit forms to substantiate the travel for which they are reimbursed.

Since the payroll system automatically generates the fixed portion of the allowance, employees who fail to produce regular reports are not penalized for failing to substantiate their travel and continue to collect their vehicle allowances.

FINDING

We feel that the absence of any mechanism to ensure that recipients of vehicle allowances report regularly on distances travelled, not only deviates from principles of sound management, but prevents compilation of relevant management data that could facilitate informed decisions when evaluating the validity of renewing a vehicle allowance granted to an employee.

Our audit also revealed that the funds disbursed for vehicle allowances and per-kilometre reimbursements on a variable rate were properly treated as taxable benefits and included in the annual incomes of employees who received them.

3.2.B. Recommendations

To ensure compliance with the administrative rules in effect and compile relevant management data to facilitate informed decision-making when renewing or withdrawing employees' vehicle allowances, we recommend that Pierrefonds-Roxboro and Rosemont–La Petite-Patrie boroughs, the Direction des travaux publics of the Service du développement et des opérations and the Service de l'eau take appropriate measures to:

- Establish the necessary control mechanisms to ensure that all recipients of a Personal Vehicle Use Allowance substantiate their travel by producing regular reports intended for such purposes.
- Ensure that all reports from employees receiving an allowance are submitted to the authorized official for approval prior to payment of the expenses claimed.

3.2.C. Action Plan of the Relevant Business Unit

• **PIERREFONDS-ROXBORO BOROUGH**

[TRANSLATION] "A monthly travel report will be required. This report must be authorized by the direct superior. No payment will be made without first obtaining this duly completed report." (Planned completion: February 2011)

• **ROSEMONT–LA PETITE-PATRIE BOROUGH**

[TRANSLATION] "A notice will be sent to all vehicle allowance recipients asking them to produce their reports regularly."

The designated individuals in the business units will send the necessary reminders.

*Measures will be taken to deal with individuals who fail to produce their reports regularly.”
(Planned completion: April 2011)*

- **DIRECTION DES TRAVAUX PUBLICS OF THE SERVICE DU DÉVELOPPEMENT ET DES OPÉRATIONS**

[TRANSLATION] “With respect to regular report production, all employees have been reminded by every division manager that they must comply with the municipal directive and produce their activity reports each month, even if the distance travelled is zero or below the basic threshold.

With respect to the submission of activity reports to the authorized official for approval prior to payment, we note that the Auditor General’s report reveals no irregularity and that activity reports have been duly approved.” (Planned completion: March 2011)

- **SERVICE DE L’EAU**

[TRANSLATION] “We have reviewed the implementation of existing control mechanisms to ensure that all copies for the reimbursement of vehicle allowances, including the Travel Log and supporting documents, are kept in the same place, thereby facilitating future searches and audits.

We will also ensure that all reports are completed, signed by the manager and submitted on time each month.” (Planned completion: February 2011)

3.3. REGULAR ALLOWANCE REASSESSMENT

3.3.A. Background and Findings

Vehicle allowances can be granted temporarily for a period of less than 12 months (term allowances) to meet seasonal, cyclical or other specific needs, or they can be granted permanently (open-ended allowances), as long as they comply with the directive (e.g., the allowance is duly approved and the budget is available, the position requires it and the employee holds the position to which the allowance applies).

Whether for a fixed or indefinite period, allowances must be monitored and regularly reassessed to ensure that they remain the most economical and efficient means of reimbursing employees for travel in the course of their duties. The directive’s companion procedure states that, if the authorized official decides to extend an expired term allowance, the authorization procedure

must be repeated and a new decision record (GDD) produced. The authorized official must reassess open-ended allowances after 12 months.

FINDING

Our review of the 67 selected vehicle allowance records revealed that, although vehicle allowances were withdrawn for five employees because of sick leave or retirement when an authorized official advised the payroll administrator in writing in a timely manner, none of the other records reviewed presented any evidence of a regular reassessment or the need to maintain the allowance.

The large number of such cases (62 of 67 records) suggests that regular reassessment of vehicle allowances is clearly not part of current practices. Several individuals have, however, been collecting this allowance for many years.

FINDING

While the procedure recommends reassessment, it does not suggest that the authorized official is required to document his or her reasons for renewing a vehicle allowance (e.g., actual travel frequency and distance driven during the allowance period).

We believe that authorized officials should produce or obtain management reports containing information that would help them assess the need to maintain a vehicle allowance. Such a practice would facilitate reviews by vehicle allowance management officers and assist in informed decision-making. These reports could include:

- List of vehicle allowances paid to employees who have not reported any distances travelled.
- List of employees receiving a term allowance (seasonal, cyclical or specific needs) that is about to expire.
- List of employees who claim parking or parking meter costs, but do not report any distances travelled.
- Summary for each employee illustrating the distances travelled per sector, considering that the allowance covers 160 kilometres per month (e.g., 0 km, 1 to 500 km, 501 to 1,920 km).
- List of employees receiving an allowance whose work assignments have changed (e.g., departure or change in position).

We then reviewed information contained in certain payroll systems. Since most vehicle allowances were paid through the payroll systems of central departments and boroughs of the former city (69.2% and 70.5% respectively) in 2009 and 2010, we retrieved data from the Service des finances for amounts paid and distances travelled per vehicle allowance recipient. As previously noted, the information compiled by Service des finances may not be complete because some vehicle allowance recipients do not regularly submit their travel logs to the Service des finances when they do not travel or travel less than 160 kilometres per month.

FINDING

Our analysis of the data provided served in compiling statistics and in producing the following findings (see Appendices 4.4 and 4.5):

- **11.4% of vehicle allowance recipients did not report any distances travelled for 2009, while fixed monthly allowances totalling \$205,711 were paid (10.3% of recipients in 2010, with total allowances of \$192,337).**
- **72% of vehicle allowance recipients travelled less than 1,920 kilometres for the 12 months of 2009, which means that most of them rarely reach or surpass the basic kilometres covered by the allowance (160 km x 12 months). In 2010, the trend was similar, with 73.8% of recipients travelling less than 1,920 kilometres. The cost of these vehicle allowances, which amounted to \$1,312,360 in 2009 and \$1,376,195 in 2010, is considerable, given the low number of kilometres driven by such recipients.**

The same review was conducted for Pierrefonds-Roxboro borough, which uses a different payroll system to administer vehicle allowance payment than central departments and former city boroughs.

FINDING

The information obtained allowed us to compile the following statistics (see Appendices 4.6 and 4.7):

- **8.3% of vehicle allowance recipients did not report any distances travelled for 2009, while fixed monthly allowances totalling \$2,892 were paid (16.7% of recipients in 2010, with total allowances of \$5,832).**
- **58.3% of vehicle allowance recipients travelled less than 1,920 kilometres during the 12 months of 2009 (41.7% in 2010). The cost of these vehicle allowances amounted to \$18,887 in 2009 and \$11,232 in 2010.**

These findings are revealing and cause us to question the presence or the comprehensives of any oversight to ensure that a vehicle allowance remains the most efficient and economical means of reimbursing employees for travel performed as part of their jobs.

3.3.B. Recommendations

To monitor vehicle allowance renewal authorizations more closely and facilitate informed decision-making, we recommend that the Service du capital humain include the requirement that an authorized official provide timely documentation of reasons considered when deciding to renew a vehicle allowance in the procedure entitled [TRANSLATION] “Personal Vehicle Use Allowance.”

To ensure compliance with the administrative rules in effect, we recommend that the Direction des travaux publics of the Service du développement et des opérations, the Service de l’eau and Rosemont–La Petite-Patrie and Pierrefonds-Roxboro boroughs:

- Produce or obtain management reports containing information that can help guide decision-making.
- Regularly conduct a documented reassessment of the relevance of maintaining employee vehicle allowances.

3.3.C. Action Plan of the Relevant Business Unit

- **SERVICE DU CAPITAL HUMAIN**

[TRANSLATION] “Section 3.2.3 of the directive should be amended as follows:

[TRANSLATION] ‘All authorizations for long-term vehicle allowances must be reassessed by the authorized official at twelve (12) months, considering the criteria and conditions set out in section 4—particularly paragraphs 4.11 and 4.14—of the Personal Vehicle Use Allowance. The authorized official must accordingly reconsider the applicant’s needs, ensure that the applicant’s request still complies with the allowance conditions and document this analysis through clear and precise reasons.’” (Planned completion: March 2011)

- **DIRECTION DES TRAVAUX PUBLICS OF THE SERVICE DU DÉVELOPPEMENT ET DES OPÉRATIONS**

[TRANSLATION] “With respect to management reports to help guide decision-making, statistics will be produced by employees to help managers in their regular reassessments of vehicle allowances.

Regarding regular and documented reassessment of whether or not to maintain the allowance, plans already exist to implement an ongoing monitoring system for vehicle allowances that will contain the planned dates for regular and prospective reassessments (up to a maximum period of 12 months). These reassessments will be supported by the guide (checklist).” **(Planned completion: April 2011)**

- **SERVICE DE L’EAU**

[TRANSLATION] “We have improved the existing monthly report to include more information facilitating the annual review by the manager involved to maintain or withdraw an allowance.

We set June 1 as the annual review date for obtaining proof of insurance and valid driver’s licences for the manager’s reassessment of the need to maintain an employee’s vehicle allowance.” **(Planned completion: June 2011)**

- **ROSEMONT–LA PETITE-PATRIE BOROUGH**

[TRANSLATION] “The list of vehicle allowance recipients in each business unit will be produced and sent to the appropriate director. **(Planned completion: March 2011)**

An overview of distance travelled by employees for the period of May 1 to April 30 will be sent to the appropriate director by the designated individuals in the business units. **(Planned completion: May 2011)**

In the case of open-ended vehicle allowances, the authorized official will reassess whether to maintain a vehicle allowance or not each year during budget planning.” **(Planned completion: June 2011)**

- **PIERREFONDS-ROXBORO BOROUGH**

[TRANSLATION] “A financial analysis of these monthly reports will be performed at the end of the year to reassess the relevance of maintaining an employee’s vehicle allowances.” **(Planned completion: December 2011)**

3.4. COMPARATIVE ANALYSIS WITH OTHER AGENCIES

3.4.A. Background and Findings

We asked the Service du capital humain (as the department responsible for the development, distribution and modification of the current administrative rules) whether it had recently

reassessed the economic aspect of compensations provided to employees using personal vehicles as part of their jobs, in addition to the previously mentioned audits.

FINDING

The information obtained from those we interviewed shows that, apart from the annual indexing of applicable rates based on the consumer price index, there has been no detailed reassessment of the administrative rules since they came into effect in October 2002.

We contacted six public agencies and performed a non-exhaustive comparative analysis of reimbursement rates offered to employees who use their personal vehicle in the course of their duties to compare the city's per-kilometre rates with those of the market.

FINDING

While the manner in which they grant allowances is different from that of the city, our audit revealed that only two of the six public agencies contacted grant fixed allowances as the city does.

In the case of one of these two agencies, we were unable to obtain data that was clear enough to make valid comparisons for all employees. However, we found that the basic allowance allocated by the other agency is significantly lower than that of the city: \$83 per month, regardless of distance travelled or employee status (e.g., senior manager or professional). The basic monthly allowance provided by the city (see Appendix 4.3) is \$243 for the first 160 distances travelled for a senior manager, \$168 for other employee categories and \$210 for employees who make their vehicle available.

FINDING

We nonetheless observed that the two agencies that provide fixed allowances similar to those of the city do so with 2% (in one case) and 3.8% (in the other) of their respective workforces. The city does so with 7% of its employees.

We believe that the policy of providing an allowance for use of a personal vehicle should only serve to control, as objectively as possible, reimbursement of expenses for travel by employees in the course of their duties.

FINDING

We determined that the city's policy is to grant higher allowances to senior managers than to employees in other employment categories (e.g., professionals and white-collar workers), in contrast with policies of the agencies we contacted.

This distinct feature of the city's policy seems more difficult to justify since it allocates an allowance based on employee status rather than the mode of transportation used.

We found that the per-kilometre rates used by the city for reimbursement (\$0.49, \$0.41 and \$0.33; see Appendix 4.3) are comparable to those of the other agencies consulted (from \$0.35 to \$0.57).

Since the basic allowance provided by the city covers the first 160 kilometres, this represents the following rates for each employee category:

- Senior managers: \$1.52/km (\$243/160 km).
- Other employee categories: \$1.05/km (\$168/160 km).
- Basic allowance plus vehicle availability: \$1.31/km (\$210/160 km).

FINDING

These payments are certainly much higher than the per-kilometre rates (\$0.49, \$0.41 and \$0.33 per kilometre). We therefore question the need to maintain fixed vehicle allowance allowances rather than simply reimbursing the actual distance travelled at the applicable rate.

Through data retrievals obtained from the city, we determined that the 1,039 individuals receiving vehicle allowances in 2009 from the central departments and boroughs of the former city, travelled 1,713,126 kilometres and obtained total reimbursements of \$2,197,594 (see Appendix 4.4). This amount is equivalent to a cost of \$1.28 per kilometre (fixed and variable allowances combined). We realize that our calculation of per-kilometre cost may have been lower if all recipients had filled out the required forms to report the total distances they travelled.

FINDING

If the city had reimbursed this travel using only an average rate of \$0.41 per kilometre (determined as follows: $[\$0.49 + \$0.41 + \$0.33] \div 3$), a savings of \$0.87 per kilometre ($\$1.28 - \0.41) would have been realized, generating annual savings of \$1,490,420 for the city in 2009.

By applying the same principle to the 2010 data collected (see Appendix 4.5), an annual savings of \$1,510,586 would have been generated. It also bears mention that basic vehicle allowances continue to be paid during their recipients' annual vacation periods.

FINDING

These estimates do not take into account all the other administrative costs for the allowance of a vehicle allowance (e.g., producing a GDD for substantiation, producing and submitting forms listed in the administrative rules, processing by the various payroll systems and annual reassessments).

Obviously, these estimated amounts would have been higher had we considered all the city employees receiving a vehicle allowance (1,502 in 2009 and 1,453 in 2010). However, we did not receive certain clarifications the data from boroughs that were previously suburban municipalities or part of the former CUM.

We also wanted to compare the financial implications of the city's reimbursement policy with those of the five agencies that permitted these comparative analyses. We used the 2010 data from the Service des finances for city departments and boroughs for distances travelled and amounts paid as vehicle allowances (excluding parking lot and parking meter costs) to the 1,453 vehicle allowance recipients (see Appendix 4.2). We extrapolated 12 months' data from that available for the first six months of 2010 from boroughs that were previously suburban municipalities and former CUM. The results of the annual extrapolation revealed that it cost the city \$3,100,221 (\$1.29/kilometre). The results of the other agencies' reimbursement policies appear in Table 1.

Table 1—Comparison of Annual Costs of Vehicle Allowances for Six Public Agencies

Agency	Annual allowance cost ¹
Ville de Montréal	\$3,100,221
1	\$1,453,000
2	\$1,376,739
3	\$1,029,561
4	\$1,005,618
5	\$957,732

¹ These figures include the fixed and/or variable allowance according to the reimbursement policy of each agency and exclude parking lot and parking meter fees.

FINDING

We found that the current city policy is the most expensive of all, with potential savings ranging from \$1,647,221 (\$3,100,221 – \$1,453,000) to \$2,142,489 (\$3,100,221 – \$957,732) based on the agencies studied.

The city's policy appears even more costly when we compare the per kilometre cost of \$1.29 to that provided by the four agencies in our selection that solely paid per-kilometre reimbursements:

Table 2—Comparison of Costs per Kilometre

Agency	Cost per kilometre
Ville de Montréal	\$1.29
2	\$0.57
3	\$0.43
4	\$0.42
5	\$0.40

It is accordingly clear that the city's current vehicle allowance is more expensive than those of other public agencies.

FINDING

The calculations based on distances travelled in 2009 and in 2010 demonstrate that it would have been more economical for the city to opt solely for per-kilometre compensation.

Consequently, we feel that the Service du capital humain should perform the necessary studies to ensure that the current vehicle allowance policy and is competitive and corresponds to today's

economic situation, particularly as the city the municipal administration has implemented a major spending reduction drive.

3.4.B. Recommendations

We recommend that the Direction générale commission the Service du capital humain review the personal vehicle use allowance policy and perform the comparative analyses needed to offer a less expensive method of reimbursement method that incorporates the city's cost-reduction goals.

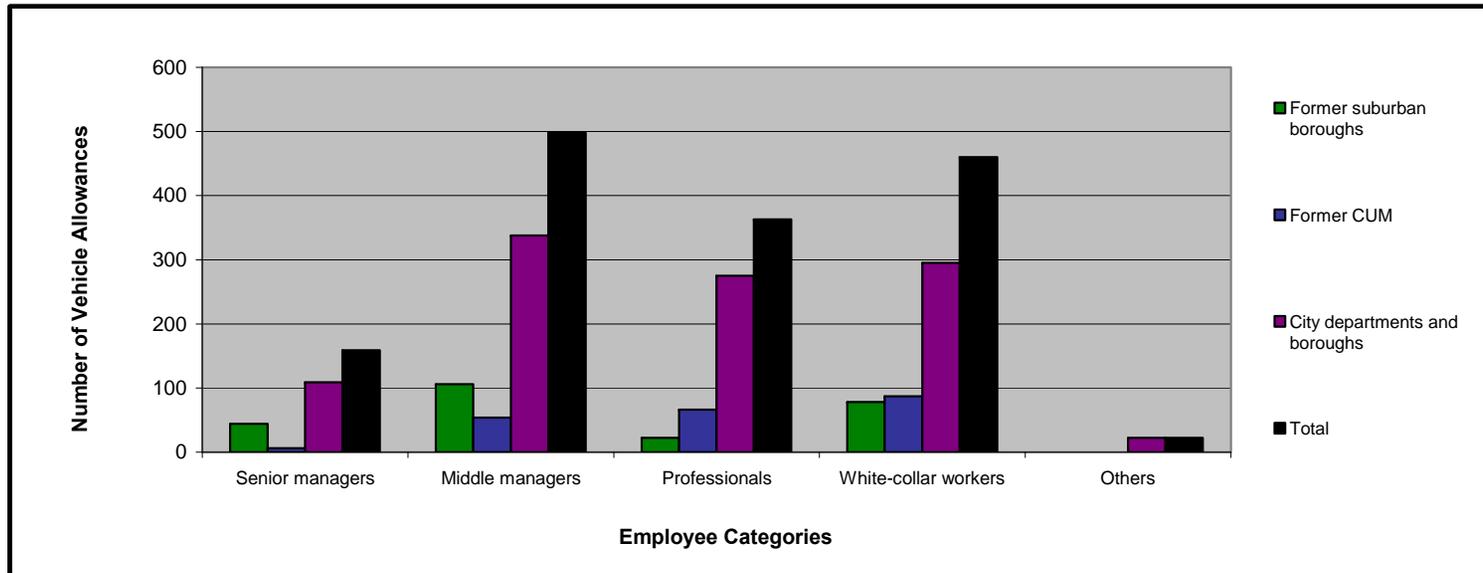
3.4.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "The Service du capital humain will be directed to review the city's personal vehicle use allowance policy." (Planned completion: March 2011)

4. APPENDICES

4.1. NUMBER OF VEHICLE ALLOWANCES PER EMPLOYEE CATEGORY FOR 2009

Table A—Vehicle Allowances as at December 31, 2009

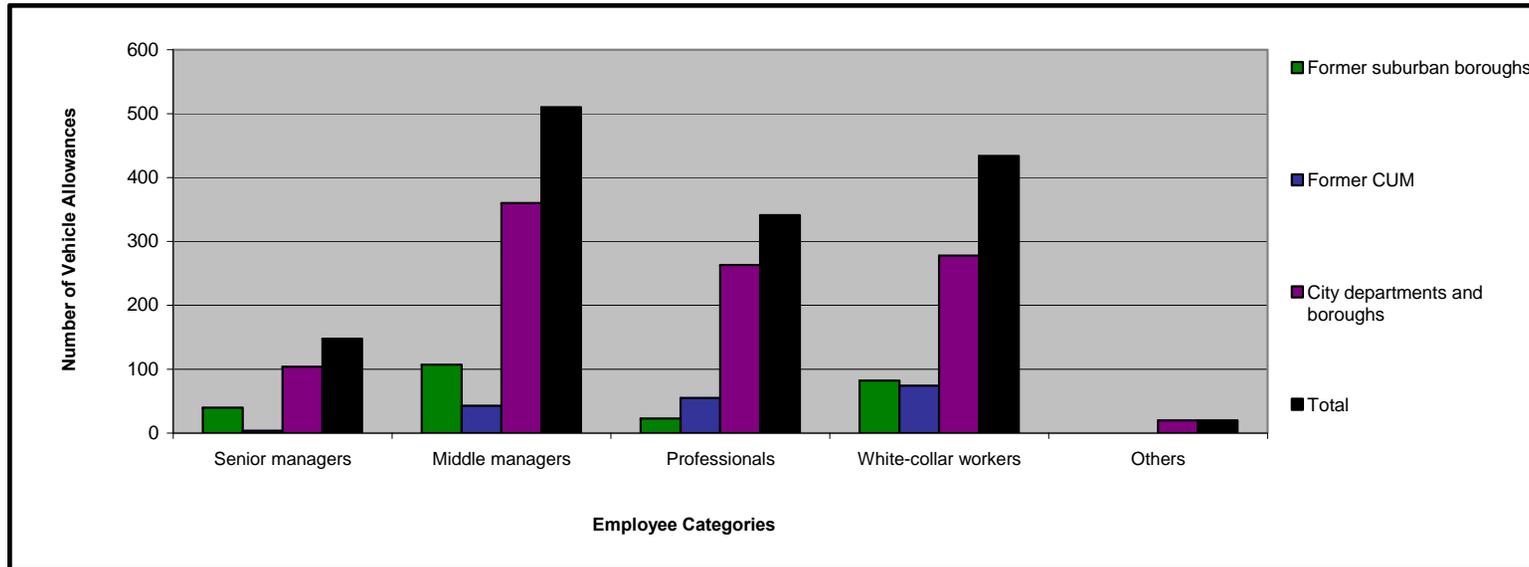


	Allocations	Kilometres	Amount paid ¹	Senior managers	Middle managers	Professionals	White-collar workers	Others
Former suburban boroughs	250	444,048	\$635,586	44	106	22	78	0
Former CUM	213	394,220	\$473,170	6	54	66	87	0
City departments and boroughs	1,039	1,713,126	\$2,551,254	109	338	275	295	22
Total	1,502	2,551,394	\$3,660,010	159	498	363	460	22

¹ This figure includes reimbursement of parking lot and parking meter costs.

4.2. NUMBER OF VEHICLE ALLOWANCES PER EMPLOYEE CATEGORY FOR 2010

Table B—Vehicle Allowances as at December 31, 2010



	Allocations	Kilometres	Amount paid ¹	Senior managers	Middle managers	Professionals	White-collar workers	Others
Former suburban boroughs	252	395,317 *	\$606,068 *	40	107	23	82	0
Former CUM	176	339,028 *	\$445,820 *	4	43	55	74	0
City departments and boroughs	1,025	1,659,984	\$2,553,020	104	360	263	278	20
Total	1,453	2,394,329	\$3,604,908	148	510	341	434	20

¹ This figure includes reimbursement of parking lot and parking meter costs.

* Extrapolation of the data available for the first six months of 2010.

4.3. MONTHLY REIMBURSEMENT RATE FOR VEHICLE ALLOWANCES AND DISTANCES TRAVELLED FROM 2008 TO 2010

Table C—Types of Allowances and Rates: 2008 to 2010

Type of allowances	Rate ¹ in effect as at		
	May 1, 2008	May 1, 2009	May 1, 2010
Basic allowance for senior managers	\$237.00	\$243.00	\$243.00
Basic allowance for other employee categories	\$164.00	\$168.00	\$168.00
Basic allowance plus vehicle availability ²	\$205.00	\$210.00	\$210.00
Kilometres (160 km to 320 km)	\$0.48	\$0.49	\$0.49
Kilometres (320 km to 1,280 km)	\$0.40	\$0.41	\$0.41
Kilometres (> 1,280 km)	\$0.32	\$0.33	\$0.33

¹ Under various city agreements and policies, fixed allowance and variable rates are reviewed on May 1 of each year and are indexed, where necessary, based on the previous calendar year's average consumer price sub-index entitled "Private transportation, Province of Québec."

² Some employees are still receiving the vehicle availability payment.

4.4. DISTANCES TRAVELLED AND ALLOWANCES PAID PER EMPLOYEE CATEGORY FOR 2009 IN CENTRAL DEPARTMENTS AND BOROUGHES OF THE FORMER CITY

Table D—Distances Travelled and Allowances Paid in 2009 (Former City)

Kilometre range	0 km		1 to 500 km		501 to 1,920 km ¹		1,921 km and over		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Senior managers	15	13.8%	14	12.8%	55	50.5%	25	22.9%	109	10.5%
Middle managers	61	18.0%	61	18.0%	139	41.1%	77	22.8%	338	32.5%
Professionals	26	9.5%	53	19.3%	149	54.2%	47	17.1%	275	26.5%
White-collar workers	14	4.7%	47	15.9%	109	36.9%	125	42.4%	295	28.4%
Others	2	9.1%	1	4.5%	2	9.1%	17	77.3%	22	2.1%
Total employees per km range	118	11.4%	176	16.9%	454	43.7%	291	28.0%	1,039	100.0%

Kilometre range	≤ 0 km		≤ 500 km		≤ 1,920 km ¹		1,921 km and over	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Total employees per range	118	11.4%	294	28.3%	748	72.0%	1,039	100.0%

Kilometre range	0 km		1 to 500 km		501 to 1,920 km ¹		1,921 km and over		Total	
	# of km	% of total	# of km	% of total	# of km	% of total	# of km	% of total	# of km	% of total
Distance travelled	0.0	0.0%	47,013.2	2.7%	509,187.5	29.7%	1,156,925.6	67.5%	1,713,126.3	100.0%

Kilometre range	0 km		1 to 500 km		501 to 1,920 km ¹		1,921 km and over		Total	
	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total
Total amount paid	219,221.09	8.6%	289,215.36	11.3%	1,046,215.60	41.0%	996,601.74	39.1%	2,551,253.79	100.0%
Parking lots	12,701.00	5.4%	35,644.85	15.1%	122,341.82	51.9%	65,128.60	27.6%	235,816.27	100.0%
Parking meters	809.20	0.7%	11,224.91	9.5%	59,569.90	50.5%	46,239.57	39.2%	117,843.58	100.0%
Sub-total	13,510.20	3.8%	46,869.76	13.3%	181,911.72	51.4%	111,368.17	31.5%	353,659.85	100.0%
Vehicle allowances paid ²	205,710.89	9.4%	242,345.60	11.0%	864,303.88	39.3%	885,233.57	40.3%	2,197,593.94	100.0%

Kilometre range	≤ 0 km		≤ 500 km		≤ 1,920 km ¹		1,921 km and over	
	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total
Total vehicle allowances paid	205,710.89	9.4%	448,056.49	20.4%	1,312,360.37	59.7%	2,197,593.94	100.0%

¹ 160 kilometres per month for a fixed allowance 1,920 kilometres for 12 months.

² Basic amount, plus additional payments at a variable per-kilometre rate.

Data taken from Service des finances payroll system reports.

4.5. DISTANCES TRAVELLED AND ALLOWANCES PAID PER EMPLOYEE CATEGORY FOR 2010 IN CENTRAL DEPARTMENTS AND BOROUGHES OF THE FORMER CITY

Table E—Distances Travelled and Allowances Paid in 2010 (Former City)

Kilometre range	0 km		1 to 500 km		501 to 1,920 km ¹		1,921 km and over		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Senior managers	18	17.3%	18	17.3%	40	38.5%	28	26.9%	104	10.1%
Middle managers	45	12.5%	86	23.9%	159	44.2%	70	19.4%	360	35.1%
Professionals	25	9.5%	53	20.2%	144	54.8%	41	15.6%	263	25.7%
White-collar workers	14	5.0%	35	12.6%	112	40.3%	117	42.1%	278	27.1%
Others	4	20.0%	0	0.0%	3	15.0%	13	65.0%	20	2.0%
Total employees per range	106	10.3%	192	18.7%	458	44.7%	269	26.2%	1,025	100.0%

Kilometre range	≤ 0 km		≤ 500 km		≤ 1,920 km ¹		≤ 1,921 km and over	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Total employees per range	106	10.3%	298	29.1%	756	73.8%	1,025	100.0%

Kilometre range	0 km		1 to 500 km		501 to 1,920 km ¹		1,921 km and over		Total	
	# of km	% of total	# of km	% of total	# of km	% of total	# of km	% of total	# of km	% of total
Distance travelled	0.0	0.0%	52,209.8	3.1%	524,366.5	31.6%	1,083,408.5	65.3%	1,659,984.8	100.0%

Kilometre range	0 km		1 to 500 km		501 to 1,920 km ¹		1,921 km and over		Total	
	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total
Total amount paid	203,851.49	8.0%	350,754.64	13.7%	1,068,202.43	41.8%	930,211.46	36.4%	2,553,020.02	100.0%
Parking lots	10,656.00	4.7%	38,852.38	17.2%	117,726.79	52.0%	59,270.69	26.2%	226,505.86	100.0%
Parking meters	858.70	0.7%	16,130.86	12.5%	62,389.11	48.2%	50,186.11	38.7%	129,564.78	100.0%
Sub-total	11,514.70	3.2%	54,983.24	15.4%	180,115.90	50.6%	109,456.80	30.7%	356,070.64	100.0%
Vehicle allowances paid ²	192,336.79	8.8%	295,771.40	13.5%	888,086.53	40.4%	820,754.66	37.4%	2,196,949.38	100.0%

Kilometre range	≤ 0 km		≤ 500 km		≤ 1,920 km ¹		≤ 1,921 km and over	
	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total
Total vehicle allowances paid	192,336.79	8.8%	488,108.19	22.2%	1,376,194.72	62.6%	2,196,949.38	100.0%

¹ 160 kilometres per month for a fixed allowance 1,920 kilometres for 12 months.

² Basic amount, plus additional payments at a variable per-kilometre rate

Data taken from Service des finances payroll system reports.

4.6. DISTANCES TRAVELLED AND ALLOWANCES PAID PER EMPLOYEE CATEGORY FOR 2009 IN PIERREFONDS-ROXBORO BOROUGH

Table F—Distances Travelled and Allowances Paid in 2009 (Pierrefonds-Roxboro)

Kilometre range	0 km		1 to 500 km		501 to 1920 km ¹		1921 km and over		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Senior managers	1	20.0%	0	0.0%	3	60.0%	1	20.0%	5	41.7%
Middle managers	0	0.0%	0	0.0%	2	40.0%	3	60.0%	5	41.7%
White-collar workers	0	0.0%	0	0.0%	1	50.0%	1	50.0%	2	16.6%
Total employees per range	1	8.3%	0	0.0%	6	50.0%	5	41.7%	12	100.0%

Kilometre range	≤ 0 km		≤ 500 km		≤ 1920 km ¹		≤ 1921 km and over	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Cumulative employees per range	1	8.3%	1	8.3%	7	58.3%	12	100.0%

Kilometre range	0 km		1 to 500 km		501 to 1920 km ¹		1921 km and over		Total	
	# of km	% of total	# of km	% of total	# of km	% of total	# of km	% of total	# of km	% of total
Kilometres travelled	0.0	0.0%	0.0	0.0%	7,138.0	21.9%	25,437.0	78.1%	32,575.0	100.0%

Kilometre range	0 km		1 to 500 km		501 to 1920 km ¹		1921 km and over		Total	
	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total
Total amount paid (vehicle allowances)	2,892.00	7.8%	0.00	0.0%	15,995.16	43.1%	18,219.51	49.1%	37,106.67	100.0%

Kilometre range	≤ 0 km		≤ 500 km		≤ 1920 km ¹		≤ 1921 km and over	
	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total
Total amount paid	2,892.00	7.8%	2,892.00	7.8%	18,887.16	50.9%	37,106.67	100.0%

¹ 160 kilometres per month for a fixed allowance 1,920 kilometres for 12 months.

Data taken from Pierrefonds-Roxboro borough reports.

4.7. DISTANCES TRAVELLED AND ALLOWANCES PAID PER EMPLOYEE CATEGORY FOR 2010 IN PIERREFONDS-ROXBORO BOROUGH

Table G—Distances Travelled and Allowances Paid in 2010 (Pierrefonds-Roxboro)

Kilometre range	0 km		1 to 500 km		501 to 1,920 km ¹		1,921 km and over		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Senior managers	2	40.0%	0	0.0%	0	0.0%	3	60.0%	5	41.7%
Middle managers	0	0.0%	0	0.0%	2	40.0%	3	60.0%	5	41.7%
White-collar workers	0	0.0%	0	0.0%	1	50.0%	1	50.0%	2	16.6%
Total employees per km range	2	16.7%	0	0.0%	3	25.0%	7	58.3%	12	100.0%

Kilometre range	≤ 0 km		≤ 500 km		≤ 1,920 km ¹		≤ 1,921 km and over	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Cumulative employees per km range	2	16.7%	2	16.7%	5	41.7%	12	100.0%

Kilometre range	0 km		1 to 500 km		501 to 1,920 km ¹		1,921 km and over		Total	
	# of km	% of total	# of km	% of total	# of km	% of total	# of km	% of total	# of km	% of total
Distance travelled	0.0	0.0%	0.0	0.0%	3,688.0	10.8%	30,533.0	89.2%	34,221.0	100.0%

Kilometre range	0 km		1 to 500 km		501 to 1,920 km ¹		1,921 km and over		Total	
	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total
Total payments (vehicle allowances)	5,832.00	16.0%	0.00	0.0%	5,399.55	14.8%	25,328.08	69.3%	36,559.63	100.0%

Kilometre range	≤ 0 km		≤ 500 km		≤ 1,920 km ¹		≤ 1,921 km and over	
	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total	Amount in \$	% of total
Total payment	5,832.00	16.0%	5,832.00	16.0%	11,231.55	30.7%	36,559.63	100.0%

¹ 160 kilometres per month for a fixed allowance 1,920 kilometres for 12 months.

Data taken from Pierrefonds-Roxboro borough reports.

V.5. Grant Management

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V.5. GRANT MANAGEMENT

1. INTRODUCTION

Every year, the Ville de Montréal (the city) receives grants from various government bodies. These grants are awarded under a wide range of government programs and are used primarily to fund city activities by covering operating expenditures or eligible capital project expenditures.

In the 2010 budget, transfer revenue from government grants amounted to \$548,615,600: \$337,555,600 for operating activities and \$211,060,000 for capital property activities.

A significant percentage of grants related to operating activities are unconditional transfers (e.g., amusement tax and provincial sales tax offsets) and transfers for funding costs for long-term debt. Other transfers for operating activities include reimbursement for selective collection, landfill fees and urban renewal programs and contributions to local development centres (CLDs).

Payment of grants pledged to the city for investment activities depends on the eligibility of work expenditures, respect for established timeframes and compliance with the terms and conditions of the corresponding memorandums of understanding.

Grant programs can be divided into two categories: those that are exclusive to Montréal and those that are available to municipalities throughout Québec.

Exclusive agreements with the city are negotiated and discussed with funding ministries based on the city's needs. They are long-term and renewed regularly, e.g., the Imagining—Building Montréal 2025 cultural development agreement.

“Open” government assistance programs are available to all municipalities. They are created by the provincial and federal governments to address municipal infrastructure upgrades that require major investment, economic recovery, the war on poverty or job creation. These programs target well-defined sectors, such as municipal water supply and treatment infrastructure or sports and recreational facilities. The following programs fall under this category:

- Programme d'infrastructures de loisirs (PIL)
- Programme de soutien aux installations sportives et récréatives (PSISR)
- Canada Strategic Infrastructure Fund (CSIF)

- Programme de renouvellement des conduites (PRECO)
- Programme d'infrastructures Québec-Municipalités (PIQM)
- Building Canada Fund—Québec (FCCQ), Components 1 and 2
- Programme de la taxe sur l'essence et de la contribution du Québec (TECQ 1 and TECQ 2).

Although the TECQ program is classified in this category, it is in fact a transfer program. The government contribution is based on population and not on projects submitted by the city. In other words, the number of projects has no influence on the amount of the grant. Grants awarded through other programs are often conditional on project eligibility, type and cost.

It is important to draw a distinction between these two types of programs and their specific characteristics. These features determine the management skills city executives require to maximize funding opportunities the grants provide, especially for programs open to all municipalities. Administrators need to know all about these grants, proactively prioritize projects, ensure projects are carried out within the specified timeframes and diligently adhere to the grant programs terms and conditions so that projects and eligible expenditures comply with established criteria. The city must use its own financial resources for every grant or grant opportunity lost, instead of directing these funds toward other projects.

2. AUDIT SCOPE

The objective of this audit was to ensure that the city's business units are taking the necessary steps with various government bodies take advantage of all grants to which the city is entitled. We therefore examined grant application management, planning and implementation of funded projects and accountability measures used to monitor grant programs.

Our audit comprised an in-depth examination of government assistance programs that were active in 2010, the details of which are presented in Appendix 4.1, namely:

- Imagining—Building Montréal 2025 agreement
- Programme d'infrastructures de loisirs (PIL)
- Programme de soutien aux installations sportives et récréatives (PSISR)
- Programme de renouvellement des conduites (PRECO)
- Canada Strategic Infrastructure Fund (CSIF).

Most of these programs fund investment activities, with the exception of the Imagining—Building Montréal 2025 agreement, where a portion of the funds is used to cover operating costs in support of community organizations.

Capital property activities were the main focus when auditing these programs. Some investment projects were therefore examined more thoroughly so we could gain a better understanding of how grants and the projects they fund are managed by the funded administrative unit. These projects are:

- Imagining—Building Montréal 2025 agreement:
 - Project 1: Place du Canada and Square Dorchester (phase 2)
 - Project 2: Île des Sœurs entrance shoreline and infrastructure redevelopment
- PIL:
 - Project 3: Full restoration of the outdoor swimming pool at parc L.-O.-Taillon
 - Project 4: Rehabilitation of parc Félix-Leclerc, reconstruction of its sports grounds and expansion of its chalet
- PSISR:
 - Project 5: Aréna Jacques-Lemaire
 - Project 6: Benny sports and community complex
 - Project 7: parc Riverside (sports field and track)

Our audit focussed on verifying specific aspects of the management of grant programs and underlying agreements for the two other programs. In the case of the PRECO, our emphasis was on work planning and execution to ensure program deadlines were met. For the CSIF program, we looked at accountability and monitoring activities for grants that had been received.

During the course of our audit, we worked with the following administrative entities:

- Direction générale
- Service de l'eau
- Service du développement et des opérations (SDO):
 - Direction des sports
 - Direction de l'administration
- Service de la concertation des arrondissements et des ressources matérielles:
 - Direction stratégies et transactions immobilières
- Mercier–Hochelaga-Maisonneuve borough
- Côte-des-Neiges–Notre-Dame-de-Grâce borough

- LaSalle borough
- Verdun borough

We also consulted the Direction de la comptabilité et du contrôle financier of the Service des finances to validate the process used for handling claims.

3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

We examined each of the selected programs through three components that, in our opinion, represent to some extent the entire grant management cycle, namely:

- Component – Grant application management: all activities carried out by business units to prepare and submit grant applications within the required timeframe. Best management practices for grant applications involve the following:
 - Identifying and prioritizing projects with the greatest potential for being accepted and adequately documenting them
 - Submitting applications, along with supporting documents, by the deadlines to tap into grants before funding is exhausted
 - Ongoing monitoring of grant applications' status until they are officially accepted and an agreement signed
- Component – Planning and implementation of funded projects: all activities carried out by business units in charge of planning, executing and monitoring work so that a funded project is completed on time and on budget. Best management practices for this component entail:
 - Planning and executing projects within the timeframe stipulated by the program, factoring in the time required for internal decision-making processes and legal requirements
 - Proactively monitoring the progress of grant-aided projects on the basis of work performed, authorized costs and eligibility cut-off dates
- Component – Accountability for the grant program: all documentation and activities that comprise an accountability framework consistent with the terms and conditions of grant program agreements and internal management practices. This entails the following activities and processes:
 - Ensuring compliance with the requirements specified in the corresponding memoranda of understanding
 - Submitting regular reports to city authorities to keep them informed of the status of active grant programs and the progress of funded projects
 - Tracking the progression of grants actually received compared to pending grants

3.1. CORPORATE FRAMEWORK

3.1.A. Background and Findings

The best management practices outlined in these three components could be supported by a grant management policy that would specify scope, policy statements and roles and responsibilities of the various parties.

FINDING

We observed that the programs¹ and projects examined in most of the business units we audited have no formal, structured process in place that adheres to any corporate framework designed to standardize grant management practices through policies and procedures.

The lack of any such process or grant management policy means that:

- Documentation for programs is not formally distributed on an organization-wide basis to share key elements related to the programs the city is applying to or their administration. These elements include:
 - program objectives
 - city obligations
 - project eligibility criteria
 - ineligible expenses
 - payment terms
 - accountability mechanisms
 - public communications
 - length of the agreement or program
- The following divisional responsibilities for administering grants are not clear:
 - Who is responsible for managing and applying the terms of a memorandum of understanding?
 - Who is responsible for ensuring contractual obligations are met and expenditures comply with eligibility requirements?

FINDING

Each division or business unit has its own operating practices for managing grants.

¹ See Appendix 4.1 for program descriptions.

Generally, this diversity in management practices has resulted in the following:

- Some financial and operational information is inaccurate or inconsistent from one administrative unit to the next:
 - Incomplete or inconsistent information in the file itemizing sports and recreational facility grant applications
 - Errors between the amounts entered in project data sheets and the amounts in the file used to track grant utilization for the Imagining—Building Montréal 2025 agreement
- Application of memoranda of understanding terms, especially those covering eligible expenditures and work, is subject to personal interpretation rather than a structured, official interpretation at the corporate level. We determined that the individuals in charge of monitoring funded projects had not seen or read the applicable memoranda of understanding:
 - In the parc Riverside project, the memorandum of understanding was sent to the project manager the day before our meeting, even though the project had already been completed.
 - In the aréna Jacques-Lemaire project, the project manager had never received nor read the memorandum of understanding governing the project.

FINDING

In the \$140,000,000 agreement the Imagining—Building Montréal 2025 action plan, we noted the existence of a handbook prepared by the Service de la mise en valeur du territoire et du patrimoine (SMVTP) in 2009 specifically to inform, support and provide a step-by-step guide to coordinators, managers and front-line staff for projects funded under the memorandum of understanding. This handbook, which the Direction générale adopted as an administrative directive, was distributed to all project managers whose activities were funded under the Imagining—Building Montréal 2025 agreement.

This handbook outlines the administrative procedure for including a project in the program, eligibility criteria for projects and expenses, the decision-making process and the documentation required for project approval, key reports and their frequency for accountability purposes. The handbook also includes the names of the individuals involved at each step of project implementation, as well as a copy of the memorandum of understanding between the city and the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT).

In our view, this handbook constitutes a good management practice because it ensures the program is carried out in an organized, structured and cohesive manner. It reduces the risk of

misinterpretation and omission, as it spells out the decision-making process and the responsibilities of each of the parties involved in processing and managing grant applications.

The use of this type of tool should be expanded to all business units that deal with grant programs to address the shortcomings observed in shared responsibilities, accuracy of financial and operational information and application of program requirements.

3.1.B. Recommendations

In order to ensure a consistent, organization-wide approach to managing grants and the corresponding memoranda of understanding, we recommend that the Direction générale adopt a grant management policy, supported by the necessary directives and procedures. This policy would include the following elements:

- **Scope of application**
- **Definitions**
- **Policy statements**
- **Roles and responsibilities**
- **Processing procedures**

We recommend that the Direction générale ensure that all divisions administering grant programs or specific memoranda of understanding involving several parties produce and distribute an internal handbook on managing these programs and agreements to guide the grant administration process.

3.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “In collaboration with the other units involved, propose policies or a management framework to the city administration to administer the grants awarded to the city by other government bodies.

The management framework will clarify the role of the key units that manage grant programs and the distribution of division-specific grant administration guides.” (Planned completion: February 2012)

“The corrective actions concerning the management handbooks are addressed in the previous action plan.” (Planned completion: February 2012)

3.2. IMAGINING—BUILDING MONTRÉAL 2025 AGREEMENT

3.2.A. Background and Findings

This is a \$140,000,000 memorandum of understanding for 2008–2012 specific to the city. This assistance covers capital project expenditures and operating expenditures for community organizations supported by the city. Projects must comply with the five strategic directions² outlined in the Imagining—Building Montréal 2025 strategy. The responsibility for administering the memorandum of understanding originally fell to the SMVTP but, following restructuring in 2010, it is now shared by the Direction générale associée – Développement et opérations and the Direction de l'administration of the SDO. Projects approved by City Council and, where appropriate, the Urban Agglomeration Council, are incorporated into a project line-up that the city submits to the MAMROT on an ongoing basis for the duration of the agreement. The projects are approved following a series of checks, correspondence and discussions. Table 1 below provides an overview of projected grants for various TCWP-related projects and initiatives involving operating expenditures covering the five-year term of the memorandum of understanding.

Table 1—\$140 Million Memorandum of Understanding: Projected Grant Use
(in thousands of dollars)

	Projected grant	Actual			Projections	
		2008	2009	2010	2011	2012
Operating budget						
Urban agglomeration projects	19,567.7	0.0	0.0	5,218.5	7,206.8	7,142.4
Corporate projects	53,253.3	1,200.0	7,440.9	9,246.6	24,092.8	11,273.0
Total	72,821.0	1,200.0	7,440.9	14,465.1	31,299.6	18,415.4
TCWP budget						
TCWP projects—Urb. aggl.	72,713.9	575.7	4,130.9	7,952.5	35,106.2	24,948.6
TCWP projects—Corporate	18,404.6	3,170.6	7,846.7	1,347.8	6,039.5	0.0
Total	91,118.5	3,746.3	11,977.6	9,300.3	41,145.7	24,948.6
Grand total	163,939.5	4,946.3	19,418.5	23,765.4	72,445.3	43,364.0
Funds awarded	140,000.0					
Difference	(23,939.5)					

Source: Direction de l'administration, Service du développement et des opérations, Report, December 31, 2010.

The main risk of this type of agreement is with investment projects in the program that are not completed by the December 31, 2012 cut-off date specified in the memorandum of understanding. In such a case, the city would be required to assume any project costs after this date.

² Strategic direction #1: Knowledge, creativity and innovation.
Strategic direction #2: Culture.
Strategic direction #3: Living environment.
Strategic direction #4: Infrastructure.
Strategic direction #5: Openness to the world.

Component – Planning and Implementing Funded Projects

Based on our detailed examination of the activities for the two projects we reviewed, as outlined in Table 2 below, and the supporting documentation (project calendar, TCWP and progress estimates), we are able to make the following observations about project planning:

**Table 2—\$140 Million Memorandum of Understanding:
Projected Grant Use for Audited Projects**
(in thousands of dollars)

	Projected	Actual				Projection	
		To date	2008	2009	2010	2011	2012
TCWP Budget							
Redevelopment of Ile des Soeurs shoreline and infrastructure	10,928.0	6,702.5	3,170.6	2,496.4	1,035.5	4,225.5	
Place du Canada and Square Dorchester	13,018.2	220.2			220.2	6,398.0	6,400.0

Source: Direction de l'administration, Service du développement et des opérations, Report, December 31, 2010.

- Features of the Île des Sœurs shoreline and infrastructure redevelopment project, overseen by the Verdun borough:
 - 61% of the grant was utilized as of December 31, 2010.
 - According to the plans in place, work will be completed in 2011, before the 2012 cut-off date for the memorandum of understanding, and 100% of the grant will have been used.
- Features of the Place du Canada/Square Dorchester project, for which a large-scale, four-phase project will be carried out in 2011–2012 (phases 1 and 2) and 2013 (phases 3 and 4):
 - 1.7% of the grant was utilized as of December 31, 2010.
 - According to the plans in place for 2011 and 2012 for phrases 1 and 2 and the cut-off date for the memorandum of understanding (2012), the project will have to be carefully managed to ensure 100% of the grant is used.

As Table 2 shows, the \$140,000,000 fund supports 11 projects that are currently underway (7 at the urban agglomeration level and 4 at the corporate level), for a total of \$91,118,000 in grants. In addition, 12 backup projects are in the pre-planning stages. In the event an authorized project cannot be implemented until after 2012, it would be replaced by a backup project, to ensure that 100% of the grant is used by the end of 2012.

Table 3—\$140 Million Memorandum of Understanding: Projected Grant Use
(in thousands of dollars)

	TCWP grant Invest.	Actual				Projection	
		To date	2008	2009	2010	2011	2012
TCWP budget – Urban agglomeration							
Revitalization – Boulevard Saint-Laurent							
Redesign – Concordia area	2,512.2	2,512.2	575.7	1,171.9	764.6		
Redevelopment – Museum of Fine Arts area	3,660.8	52.8			52.8	3,608.0	
Rehabilitation – Chaboillez area							
Rehabilitation/redevelopment – Quartier de la santé de l'Université de Montréal							
Redevelopment – Sherbrooke-Est area							
Rehabilitation – Quartier Griffintown							
Havre de Montréal – Autoroute Bonaventure, Phase 1	32,771.7	1,281.1		1,053.7	227.4	12,942.0	18,548.6
Technoparc de Montréal and rehabilitation – Ruisseau Bertrand area							
Dynamic message signs – Vieux-Montréal and Quartier des spectacles							
Place d'Armes	15,453.0	8,592.8		1,905.3	6,687.5	6,860.2	
Place du Canada and Square Dorchester (Phase 2)	13,018.2	220.2			220.2	6,398.0	6,400.0
Square Cabot – Development of public land	655.0					655.0	
Quartier chinois – Development of public land	4,643.0					4,643.0	
Subtotal	72,713.9	12,659.1	575.7	4,130.9	7,952.5	35,106.2	24,948.6
TCWP budget – Corporate							
Shoreline and infrastructure development in Île des Soeurs	10,928.0	6,702.5	3,170.6	2,496.4	1,035.5	4,225.5	
Rehabilitation – Outremont railroad yards							
Rehabilitation and redevelopment – Quartier de la santé Glen							
Redevelopment – Carrière Francon area and Contrecoeur site							
Revitalization – Saint-Viateur Est area	1,972.1	658.1		658.1		1,314.0	
Redevelopment – Saint-Jacques and Upper Lachine area							
Revitalization – Acadie-Chabanel area	5,004.5	5,004.5		4,692.2	312.3		
Redevelopment – Carrière Saint-Michel							
Lachine Est – Revitalization and infrastructure	500.0					500.0	
Subtotal	18,404.6	12,365.1	3,170.6	7,846.7	1,347.8	6,039.5	
Total TCWP budget	91,118.5	25,024.2	3,746.3	11,977.6	9,300.3	41,145.7	24,948.6

Source: Direction de l'administration, Service du développement et des opérations, Report, December 31, 2010.

We feel that 2011 is crucial from a project management standpoint, with a projected total of \$41,200,000 in grants to administer. Two large-scale undertakings dominate the 2011–2012 horizon, namely the Havre de Montréal project, with an estimated \$12,900,000 in grants in 2011 and \$18,500,000 in 2012, and the Place du Canada project, with approximately \$6,400,000 in grants expected in both 2011 and 2012.

An analysis of the current situation compared with the projections outlined in Table 4 indicates that, if all the projects currently included in the program are carried out the end of 2012 as expected, 100% of the grant will be used.

Table 4—\$140 Million Memorandum of Understanding: Projected Grant Use
(in thousands of dollars)

	Actual To date	Projected	Actual			Projection	
			2008	2009	2010	2011	2012
TCWP budget							
TCWP projects – Urb. aggl.	12,659.1	72,713.9	575.7	4,130.9	7,952.5	35,106.2	24,948.6
TCWP projects – Corporate	12,365.1	18,404.6	3,170.6	7,846.7	1,347.8	6,039.5	0.0
Total	25,024.2	91,118.5	3,746.3	11,977.6	9,300.3	41,145.7	24,948.6
Grants awarded		91,118.5					

Source: Direction de l'administration, Service du développement et des opérations, Report, December 31, 2010.

Current situation					
% grant use	4%	13%	10%	45%	27%
Project-to-date		17%	27%	73%	100%

FINDING

There is, however, a significant risk of not using 100% of the grant, as this target is contingent on the completion of two large-scale projects (Havre de Montréal and Place du Canada) which together account for 47% of the 2011 total of \$41,100,000 in grants and 100% of the 2012 total of \$24,900,000. The risk is even more difficult to manage because both projects:

- are ongoing through the last two years of the memorandum of understanding (2011 and 2012)
- have zero leeway compared with other projects that are planned for 2011 and that may extend into 2012
- have a critical timeframe in terms of grant use, with no possibility of an extension

In our opinion, the situation requires that these projects be tightly managed. If any delays were to occur, the city would have no other choice than to dip into its project reserves to compensate for the lost grant money.

3.2.B. Recommendations

Considering that 100% of the \$140,000,000 fund must be used by the end of the specified period, we recommend that the Direction générale associée – Développement et opérations ensure that rigorous measures to track investment projects of the Imaging—Building Montréal 2025 agreement be put into place by the units involved so that the 2011 and 2012 program can be carried out as planned and the annual grant-use target can be reached.

3.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “On February 11, the associate director general issued a memo to all managers in charge of projects associated with the \$140,000,000 agreement with the MAMROT, urging them to be vigilant so that the expenditure projections for the next two years (2011 and 2012) are met. The SDO Direction de l’administration is responsible for following up and compiling the projections issued in February every year.” **(Planned completion: February 2011 and February 2012)**

Component – Accountability

The guide produced in 2009 by the SMVTP clearly outlines the process for ensuring accountability, producing quarterly reports and issuing an audited annual report. It specifies deadlines, the administrative units involved, dates for submitting formal reports and so forth. Table 5, below, shows the reporting calendar.

Table 5—\$140 Million Memorandum of Understanding: Reporting Calendar

Accountability Reporting Calendar				
Quarterly reports				
	Project managers	ADG's office	DAFA	ADG's office
Data cut-off date	Project fact sheets delivered no later than:	Project fact sheets compiled and summary report produced	Report on MOU-related expenditures	Issue report to MAMROT and DG
March 31	April 10	April 10-20	April 15-20	As of April 21
May 31	June 10	June 10-24	June 15-24	As of June 25
August 31	Sept. 10	Sept.10-20	Sept.15-20	As of Sept. 21
Audited annual report				
	External organizations	City's Auditor General	ADG's office DAFA	DG ADG's office
Data cut-off date	Delivery of audited annual statements and audited report on project-related expenditures and revenues no later than:	Production of annual report	Validation of auditor's report	Issue of audited annual report to MAMROT and partners
December 31	Feb. 10	Feb. 15-March 30	Feb. 20-March 25	Before March 31

We examined the quarterly reports for 2009 and 2010 as well as several project sheets. According to the procedure currently in place, project managers are responsible for updating the status of their projects and reporting relevant information, such as the issue of a call for tenders, the awarding of a contract, contract amounts and so forth. Then information on expenditures in projects included in the program is updated. New projects are also added to the program and

exemptions requested, if necessary. This file, which also contains the project fact sheets, is then submitted quarterly to the MAMROT.

FINDING

We examined the report submitted to the MAMROT on grant payments made in accordance with the schedule indicated in the memorandum of understanding. The report clearly documents project-related expenditures and summarizes the city's efforts to meet its obligations and comply with guidelines on ineligible expenditures.

FINDING

Accompanying this report is a file used to monitor grant utilization projections, which indicates all operating and capital projects that have received funds from the \$140 fund, the amount allocated to each project and the total amount of the grant used to date.

As of December 31, 2010, 34% of the grants had been utilized (\$48,130,200/\$140,000,000). The total projected cost of the projects associated with the grant exceeds \$140,000,000, bringing the projected grant use for operating and capital expenditures to 117% by the close of 2012. This 17% buffer is primarily the result of project "overplanning," which accounts for some \$23,939,500.

Table 6—\$140 Million Memorandum of Understanding: Projected Grant Use
(in thousands of dollars)

	Actual To date	Projected	Actual			Projection	
			2008	2009	2010	2011	2012
Operating budget							
Urban agglomeration projects	5,218.5	19,567.7			5,218.5	7,206.8	7,142.4
Corporate projects	17,887.5	53,253.3	1,200.0	7,440.9	9,246.6	24,092.8	11,273.0
Total	23,106.0	72,821.0	1,200.0	7,440.9	14,465.1	31,299.6	18,415.4
TCWP budget							
TCWP projects - Urb. aggl.	12,659.1	72,713.9	575.7	4,130.9	7,952.5	35,106.2	24,948.6
TCWP projects - Corporate	12,365.1	18,404.6	3,170.6	7,846.7	1,347.8	6,039.5	
Total	25,024.2	91,118.5	3,746.3	11,977.6	9,300.3	41,145.7	24,948.6
Grand total	48,130.2	163,939.5	4,946.3	19,418.5	23,765.4	72,445.3	43,364.0

Grants awarded	140,000.0
Difference	(23,939.5) -17%

Source: Direction de l'administration, Service du développement et des opérations, Report, December 31, 2010.

Current situation					
% grant use	4%	14%	17%	52%	31%
To date		17%	34%	86%	117%

FINDING

The Direction de l'administration also produces a report on the status of reimbursements received, compared to the terms of the memorandum of understanding (reimbursement schedule).

3.3. GRANT PROGRAMS FOR SPORTS AND RECREATIONAL FACILITIES

There are two assistance programs in this category, the PIL and the PSISR. As these programs have similarities in processing grant applications (see Appendix 4.2), managing funded projects (see Appendix 4.3) and ensuring accountability, we will cover them both in this section and propose shared recommendations for them at the end. Whenever necessary, we will point out the differences between them and, as appropriate, put forth recommendations specific to each.

The PIL is a program that is open to all municipalities in Québec and community organizations with projects supported by the city (e.g., Tennis Canada). Given its "open" nature, there is no fixed budget set aside for the city. This program was introduced in August 2009 and wrapped up on December 31, 2010. Given its short duration, the funds allocated to the program ran out quickly. Consequently, the government redirected applications to other grant programs, such as the one run by the FCCQ. Assistance focussed primarily on recreational infrastructure investment projects. The cut-off date for the PIL was subsequently extended to October 31, 2011.

The PSISR is also open to all municipalities in Québec, community organizations with projects supported by the city and educational organizations. It was introduced in August 2006 and will end on March 31, 2012, at which time all eligible work must have been completed. The fund will have therefore been active for six years and eight months. It provides assistance primarily to infrastructure investment projects designed to facilitate physical and sporting activities.

The SDO's Direction des sports – Division des orientations, équipements, événements et pratique sportive and the boroughs are the main users of these two programs and submit applications to the funding ministries, namely the Ministère de l'Éducation, du Loisir et du Sport (MELS) and MAMROT.

Table 7 indicates the number of PIL and PSISR projects submitted by the city to the two ministries (MELS and MAMROT), total estimated project cost, total amount of assistance requested and the total amount of assistance granted.

Table 7—PIL and PSISR Projects Proposed and Accepted

Applicant	Projects proposed	Estimated cost of projects	Amount requested MELS/MAMROT	Projects accepted	Amount rec'd MELS/MAMROT
PIL					
Boroughs	8	\$37,175,710	\$25,858,689	7	\$8,300,000
Central (Direction des sports)	2	\$4,220,705	\$2,813,804	2	\$2,813,804
Subtotal	10	\$41,396,415	\$28,672,493	9	\$11,113,804
PSISR					
Boroughs	46	\$151,048,135	\$82,960,793	16	\$19,526,380
Central (Direction des sports)	18	\$112,633,608	\$100,806,112	6	\$15,539,873
Subtotal	64	\$263,681,743	\$183,766,905	22	\$35,066,253
Total programs delivered					
Boroughs	54	\$188,223,845	\$108,819,482	23	\$27,826,380
Central (Direction des sports)	20	\$116,854,313	\$103,619,916	8	\$18,353,677
Total - Ville de Montréal	74	\$305,078,158	\$212,439,398	31	\$46,180,057

Source: Division des orientations, équipements, événements et pratique sportive, December 2010.

To break it down, ten grant applications were submitted to the PIL by the boroughs (eight projects) and the Direction des sports³ (two projects). Nine of these were accepted: seven from the boroughs and two from the Direction des sports. Out of the 64 applications submitted to the PSISR (46 by the boroughs and 18 by the Direction des sports), 22 were accepted (16 for the boroughs and 6 for the Direction des sports). In total, the city submitted requests for assistance for 74 projects totalling \$212,439,398 and obtained \$46,180,057 for 31 of them. As of December 2010, 43 applications were awaiting ministerial decisions.

3.3.1. COMPONENT – GRANT APPLICATION MANAGEMENT

3.3.1.A. Background and Findings

Applications to both programs are submitted by either the boroughs or the central unit represented by the Direction des sports. When a borough makes an application, it must be supported by a resolution of the borough council and documented by the borough administration. To meet ministerial requirements, all applications—by the Direction des sports or by a borough—must be backed by a resolution of support from City Council.

During our audit, we made the following observations about the way responsibilities are shared.

Applications are prepared by the organizational unit making the request (Direction des sports or the borough). The necessary checks are performed at this stage to ensure all the required documentation (resolutions, financial plan, cost schedules, required signatures, etc.) is available. The application is submitted and contact made with the ministry to respond to any subsequent requests for information. The ministry will sign any grant agreements with the applicant.

³ The projects had originally been submitted by the Service du développement culturel, de la qualité du milieu de vie et de la diversité ethnoculturelle (SDCQMVDE).

FINDING

Although it acts as the applicant for some applications, the Division des orientations, équipements, événements et pratique sportive (Direction des sports) also monitors current and upcoming assistance programs. It is therefore in a position to advise the SDO and provide overall guidance during the application process. However, this role is not supported by any formal application procedures or manual to guide the management of grant applications and resulting memoranda of understanding.

FINDING

The Division des orientations, équipements, événements et pratique sportive (Direction des sports) provides documentation for the resolution of support at the very beginning of a project. Subsequently, its role is limited to keeping track of submitted projects and compiling any information it sees fit to update its internal records. The boroughs are not required to provide any operational information to the division on a regular basis. Because of this situation, the internal report incomplete.

If these records were regularly updated with relevant information, they could form effective performance indicators for the SDO.

When the PSISR was launched in 2006, some borough applications were also eligible for an additional program, a municipal sporting facilities support fund created by the city. The SDO produced a handbook to help boroughs present and document applications under this program. The contents of the handbook, which is updated annually, are based primarily on the governmental terms and guidelines found in the PSISR.

Between 2007 and 2009, some of the resolutions passed to support projects assigned the Service du développement culturel, de la qualité du milieu de vie et de la diversité ethnoculturelle (SDCQMVDE) to coordinate the central units, boroughs and government ministries.

3.3.1.B. Recommendations

We recommend that the Direction générale confirm the role of the Direction des sports in the management of grant programs for sports and recreational facilities to provide guidance for all grant applications submitted to funding ministries.

3.3.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “Corrective measures on the role of the units responsible for managing grant programs will be incorporated into the management framework specified in section 3.1 of the audit report for the Direction optimisation des ressources et conformité réglementaire dated February 25, 2011.” (Planned completion: February 2012)

3.3.1.1. APPLICATION SUBMISSION TIMEFRAMES

3.3.1.1.A. Background and Findings

During our audit, we also analyzed the amount of time that elapsed between the launch of a program and official approval by the ministry concerned. In this section, the two programs will be addressed separately.

The PIL is characterized by the short 17-month period between its launch (August 2009) and the cut-off date for the completion of authorized projects (December 31, 2010). Following are a few operational indicators that provide better understanding of the constraints inherent in the management of this program:

- Average time between launch date and application submission (10 projects): 6 months, around the month of February 2010
- Average time between receipt of application by the ministry and official approval: 4.7 months, around the month of July 2010
- Issue of calls for tenders to implement projects: between August and September 2010
- Awarding of contracts for projects: near the end of August 2010.

We concluded that the combination of the initial 6-month interval and the 4.7-month response time on the part of the ministry meant that very little time was left to issue calls for tenders and actually carry out the work in question.

It became evident in summer 2010 that, if the initial December 31, 2010 cut-off date were to be upheld, the city might not receive the grants it had been awarded, given the short amount of time left for the work.

The PSISR launched in August 2006 and will wrap up on March 31, 2012. All authorized projects must be completed by this date. Below are a few operational indicators for projects submitted by the city and authorized and pending projects.

As of December 31, 2010, as Table 8 shows, 46 of the 64 applications submitted to the two ministries were from the boroughs and 18 from the Direction des sports. To date, 22 projects have been authorized and 42 are awaiting a response.

Table 8—PSISR Projects Proposed and Accepted

Applicant	Projects submitted	Projects authorized	Projects pending
PSISR – MELS			
Boroughs	43	15	28
Central (Direction des sports)	2	2	0
Subtotal	45	17	28
PSISR – MELS and MAMROT			
Boroughs	3	1	2
Central (Direction des sports)	16	4	12
Subtotal	19	5	14
Combined results			
Boroughs	46	16	30
Central (Direction des sports)	18	6	12
Total – Ville de Montréal	64	22	42

Source: Division des orientations, équipements, événements et pratique sportive.

Table 9 shows the amount of time between the launch of the program and the submission of applications, as well as the amount of time before replies were received from the funding ministries. The PSISR was unveiled in August 2006, and the first applications from the city were submitted only 5 to 10 months later, in the first half of 2007. Applications were subsequently submitted every year afterward, until 2010.

Table 9—PSISR—Analysis of Processing Times

Correspondence date	Submission time ¹	Applicant	Projects submitted	Projects approved	Avg. time for approval in principle ²	Avg. time for final approval ²
PSISR						
2007/01	5 months	Boroughs	10	9	7 months	13-16 months
2007/06	10 months	Boroughs	5	2	13 months	24 months
2008/04	20 months	Boroughs	21	4	16 months	3-15 months
2010/03	42 months	Boroughs	10	1	N/A	1 month
Subtotal			46	16		
2007/01	5 months	Central (Direction des sports)	2	2	15 months	23 months
2009/04	32 months	Central (Direction des sports)	15	4	6-10 months	9-18 months
2010/03	42 months	Central (Direction des sports)	1			
Subtotal			18	6		
Total - Ville de Montréal			64	22		

Source: Division des orientations, équipements, événements et pratique sportive.

¹ From date program was launched.

² From date application was submitted.

Approvals in principle for the first applications were confirmed on average 7 months after the application was received. Final approvals were sent to the city 13 to 16 months from the date the

application was submitted. It is important to point out that an approval in principle confirms the eligibility of a project for an assistance program and indicates the amount to be awarded. Generally speaking, based on the information we obtained, an approval in principle is enough for the city or the applicant to begin planning a project in earnest (issue calls for tenders for engineering services, for example, to develop more thorough and more accurate cost estimates). Final approval confirms the compliance and scope of the work to be done and makes it possible to issue a call for tenders to carry out the project. Based on previous memoranda of understanding, confirmation of project eligibility becomes null and void if a project has not begun six months following final approval.

FINDING

For these two grant programs, we feel that the time taken to submit applications to the respective ministries was long (6 months for the PIL and 5 to 10 months for the PSISR), especially considering that this had a direct impact on official ministerial approval and subsequent project execution. Moreover, we find it difficult to understand why PIL projects were submitted a full six months after the program launch, despite having been developed well in advance by their respective business units.

Given that these grant programs are open to all Québec municipalities, community organizations and educational organizations and that the government has not announced any specific quotas for municipalities or administrative regions, the available funds may be exhausted quickly. In such a “race” scenario, it is to the city’s advantage to submit its applications as quickly as possible.

We believe that the Direction des sports and the boroughs should analyze the time it takes to submit applications and find ways of proceeding at a faster pace to speed up the grant approval process.

3.3.1.1.B. Recommendations

We recommend that the Direction des sports work with the boroughs to analyze the amount of time involved in submitting grant applications for sports and recreational facility programs to determine the underlying causes for past delays and take the action required to reduce response times and therefore receive grants to which the city is entitled as quickly as possible.

3.3.1.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “The Direction des sports, together with SDO’s Direction de l’administration, will develop a handbook on grant management for the Direction générale. It will include mechanisms for managing response times, accelerating the submission process and tracking projects associated with grant programs for sports and recreational facilities. This handbook will subsequently be made available city-wide to all those involved in this process.” (Planned completion: December 2011)

3.3.1.2. FOLLOW-UP ON APPLICATIONS WITH FUNDING MINISTRIES

3.3.1.2.A. Background and Findings

Although the city has no control over how long applications take to be approved by funding ministries, we wonder why such a high number of projects (42 out of a total of 64, or 65% of applications submitted) are still awaiting government response, despite having been endorsed by City Council. Table 10 shows the average amount of time between program launch and application submission, and Figure 1 indicates the average time taken by the city to submit applications.

Table 10—Analysis of Waiting Times

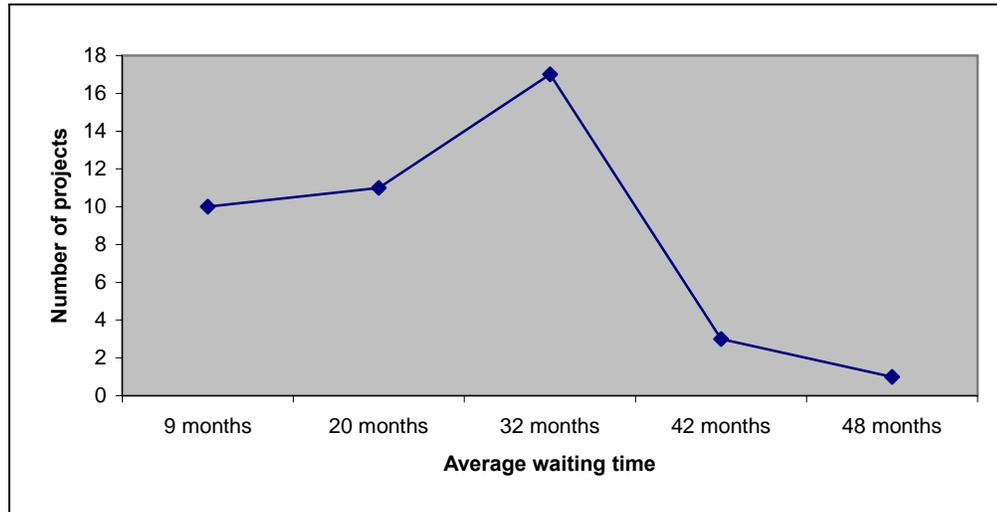
Correspondence date	Submission time ¹	Applicant	Projects submitted	Projects approved	Projects pending	Avg. waiting time ²
PSISR						
2007-01	5 months	Boroughs	10	9	1	48 months
2007-06	10 months	Boroughs	5	2	3	42 months
2008-04	20 months	Boroughs	21	4	17	32 months
2010-03	42 months	Boroughs	10	1	9	9 months
Subtotal			46	16	30	
2007-01	5 months	Central (Direction des sports)	2	2	0	0 month
2009-04	32 months	Central (Direction des sports)	15	4	11	20 months
2010-03	42 months	Central (Direction des sports)	1	1	1	9 months
Subtotal			18	6	12	
Total - Ville de Montréal			64	22	42	

Source: Division des orientations, équipements, événements et pratique sportive.

¹ From date program was launched.

² From date application was submitted.

Graph 1—Number of Projects Pending Approval, by Waiting Time



The PSISR wraps up on March 31, 2012, and the cut-off date for new applications was March 31, 2010. On December 31, 2010, 42 applications were awaiting approval. Of these, 90% (38 applications) had been pending for anywhere from 9 to 32 months (10 applications pending for 9 months, 11 pending for 20 months, 17 pending 32 months). If the business units decide to go ahead with these projects before they are approved, they will do so at the city's expense, without any assistance from the grant program.

FINDING

During our audit, we noted that applicants were not systematically following up with funding ministries about their applications. In fact, in some cases, it took our questions to prompt the boroughs to take action in this regard.

We therefore feel that the Direction des sports and applicants should put the necessary procedures in place to systematically follow up on grant applications submitted to various ministries.

3.3.1.2.B. Recommendations

We recommend that the Direction des sports work with the boroughs to periodically enquire about the status of their pending applications with funding ministries to obtain specific explanations about each of these delays, answer any questions the ministries may have, thereby accelerating the approval process.

3.3.1.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “The Direction des sports, together with the SDO’s Direction de l’administration, will develop a handbook on grant management for the Direction générale. This will include a description of the responsibilities of various stakeholders for ensuring periodic follow-up with the funding ministries, focussing on the responsibilities of a borough when acting as an applicant and the role of the city when acting as an applicant or coordinator. This handbook will subsequently be made available city-wide to all those involved in this process.”
(Planned completion: December 2011)

3.3.2. COMPONENT – PLANNING AND IMPLEMENTATION OF FUNDED PROJECTS: PIL

3.3.2.A. Background and Findings

The following comments regarding the planning of PIL projects are based on our detailed examination of the two funded projects managed by the Mercier–Hochelaga-Maisonneuve borough: full restoration of the outdoor swimming pool at parc L.-O.-Taillon (eligible work costs: \$3,000,000, including \$2,000,000 in grants) and reconstruction of the sports grounds and expansion of the chalet at parc Félix-Leclerc (eligible work costs: \$1,260,000, including \$84,000 in grants), as well as our analysis of the supporting documentation (project calendar and TCWP):

- Both projects had been submitted to other assistance programs before being redirected to the PIL, which leads us to believe they were ready and documented before the PIL was implemented.
- Considering the operational indicators in Table 11, especially the operators related to calls for tenders, the awarding of contracts and the nature of the work to be performed (weather-dependent), neither project had any chance of being completed by the program cut-off date of December 31, 2010.

Table 11—Analysis of Application Submission Times

Main steps	Parc L.-O.-Taillon		Parc Félix-Leclerc	
	Likely target date	Time since application	Likely target date	Time since application
Submit application	January 29, 2010		August 31, 2009	
Official confirmation	July 23, 2010	6 months	July 23, 2010	11 months
Sign agreement	September 21, 2010	8 months	October 22, 2010	13 months
Call for tenders	November 2010	11 months	N/A	N/A
Award contracts	November 2010	11 months	February 1, 2011	13 months
Start work	Spring 2011	16 months	Spring 2011	16 months
End work				

Based on the information we obtained, without an extension of the original program cut-off date, the consequences for the city would have been:

- The project involving the swimming pool at parc L.-O.-Taillon: only about 10% of the original grant amount (\$200,000 out of \$2,000,000) would have been recoverable, provided certain equipment purchases were made by the end of December 2010.
- The project at parc Félix-Leclerc, about \$111,203 covering soil characterization study costs (\$40,000) and professional services costs (\$71,203) would have been recoverable, representing 13% of the projected grant (\$840,000).

A report issued in late August 2010 by the Division des orientations, équipements, événements et pratique sportive contended that the total projected \$10,000,000 in financial assistance for the 10 projects submitted could not have been completely recovered by the December 31, 2010 cut-off date. The division evaluated the combined financial loss at \$4,890,000, or nearly 50% of the total projected grants.

In our opinion, the main reasons behind the loss of this grant money that the city would have had to cover are:

- Time taken to submit applications, which were forwarded to funding ministries six months, on average, after the launch of the PIL.
- Wait time for issuing calls for tenders and awarding contracts for the vast majority of these projects (between September and November 2010), which were exacerbated by the fact that much of the work was weather-dependent (running track, soccer field, outdoor swimming pool, etc.).

FINDING

The government recently officially confirmed extension of the cut-off date to October 31, 2011, for PIL projects already in progress or that had started by March 31, 2011, thereby putting an end to the threat of losing the grants awarded under this program. We nevertheless feel that rigorous follow-up is necessary to ensure the city receives projected grants.

3.3.2.B. Recommendations

Given that the cut-off date for the Programme d'infrastructures de loisirs (PIL) has been extended, we recommend that the Direction des sports and the boroughs work together to ensure that rigorous follow-up measures are taken by the designated units so that the

corresponding investment projects are implemented as planned and the city can use all its grants.

3.3.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “The Direction des sports, together with the SDO’s Direction de l’administration, will develop a handbook on grant management for the Direction générale. This will include a description of the responsibilities of stakeholders for monitoring and implementing projects covered by agreements on government contributions, so that the city receives the grants to which it is entitled. This handbook will subsequently be made available city-wide to all those involved in this process.” (Planned completion: December 2011)

3.3.3. COMPONENT – PLANNING AND IMPLEMENTING RECIPIENT PROJECTS—PSISR

3.3.3.A. Background and Conclusion

Based on our detailed examination of the planning and follow-up of the three projects approved for PSISR grants (aréna Jacques-Lemaire, Benny sports and community complex and parc Riverside) and the supporting documentation (project calendar, TCWP and progress estimates), we were able to make the following observations, applicable to each project:

- Applicants are responsible for administering memoranda of understanding, even when central departments are involved in the funding.
- Project management, work supervision, work progress and operating cost control (budgeted vs. actual) are done by the borough or administrative unit assigned by the Direction des sports to carry out the project.
- Generally speaking, plans and specifications submitted before final ministry approval is obtained are an accurate projection of the scope of the work to be done and the costs that will be incurred.
- Work monitoring is based on deliverables identified in the technical specifications (quantities, costs, etc.) that accompany the selected contractor’s bid in response to a call for tenders. These specifications provide a detailed description of the work indicated in the grant application.
- Borough project managers ensure projects stay on budget through progress estimates, which are generally established according to allowable costs authorized in the agreement.

Our analysis of PSISR projects led us to conclude that they were planned within the specified program timeframe and that the progress of funded projects was monitored on the basis of work performed, approved costs and required timeframes.

However, beyond the progress estimates, the designated project managers do not produce compulsory reports that periodically report on the status of the work, its compliance and its degree of completion. This does not provide a comprehensive view of the scheduling and budget progress of funded projects. We will address this topic in the next section on accountability.

3.3.4. COMPONENT – ACCOUNTABILITY

3.3.4.A. Background and Findings

In this section, we examine accountability as it relates to PIL and PSISR programs. Table 12 provides a summary of all grants awarded through both programs. Since these grant programs were introduced, the city has planned 74 projects with a combined cost of \$305,078,158. The SDO and the boroughs submitted a total of \$212,439,398 in grant applications to government ministries and were awarded \$46,180,057 for 31 projects, 42% of the amount requested.

Table 12—Projects Proposed and Accepted (PIL and PSISR)

Applicant	Projects proposed	Estimated cost	Amount requested	Projects accepted	Amount awarded
			MELS/MAMROT		MELS/MAMROT
PIL					
Boroughs	8	\$37,175,710	\$25,858,689	7	\$8,300,000
Central (Direction des sports)	2	\$4,220,705	\$2,813,804	2	\$2,813,804
Subtotal	10	\$41,396,415	\$28,672,493	9	\$11,113,804
PSISR					
Boroughs	46	\$151,048,135	\$82,960,793	16	\$19,526,380
Central (Direction des sports)	18	\$112,633,608	\$100,806,112	6	\$15,539,873
Subtotal	64	\$263,681,743	\$183,766,905	22	\$35,066,253
All administered programs					
Boroughs	54	\$188,223,845	\$108,819,482	23	\$27,826,380
Central (Direction des sports)	20	\$116,854,313	\$103,619,916	8	\$18,353,677
Total - Ville de Montréal	74	\$305,078,158	\$212,439,398	31	\$46,180,057

Source: Division des orientations, équipements, événements et pratique sportive, December 2010.

During our audit, we observed that an informal file is the only tool used to track these grants. It is produced by the Division des orientations, équipements, événements et pratique sportive for internal use. This file records information the division collects on projects for which a grant application has been submitted by the Direction des sports, the boroughs or a community organization.

The following comments are based on our examination of this file.

The project information it contains is rather static and includes:

- Number of the decision summary and resolution supporting the project
- Ministries approached
- Applicant organization (central department, borough or outside organization)
- Project name
- Contact for the application (generally the applicant)
- Estimated project cost
- Amount of assistance requested
- Amount of assistance awarded
- Notes indicating dates of approval in principle, final approval and signed agreement

This file would need to incorporate more financial and operational information that is updated as projects progress to be more complete and useful in the decision-making process, including:

- Degree of project completion
- Comparison of actual and budgeted costs
- Degree of grant use
- Project status compared to delivery date (ability to adhere to cut-off date)
- Other: cost overruns, potential loss of grants and explanations

FINDING

This file is not updated systematically. Boroughs are not formally required to provide regular project status reports. The Division des orientations, équipements, événements et pratique sportive obtains information on an informal, ad hoc basis to update an internal file for its own use. This file has no official value and is designed to be an informal list of funded projects. The manner in which information is shared by stakeholders (boroughs, the Direction des sports and project managers) is not optimal.

Although we noted that resolutions had been passed in 2007 for the SDCQMVDE to coordinate the involvement of corporate departments, boroughs and the ministry, this directive is no longer explicitly stated in resolutions in support of projects passed in 2010. A more formal approach is recommended.

FINDING

In conclusion, we have observed that there is no process in place to monitor the status of grant applications and projects associated with a specific program (PSISR, PIL, etc.) from either a scheduling or a budgeting standpoint, other than a single informal mechanism.

We feel that a monitoring process of this nature would give the Direction des sports a more comprehensive view of applications submitted and funded projects. The Direction des sports would therefore be made aware, in a timely fashion, of any delay in project implementation that might lead to the loss of grant money or require the city to incur unexpected cost overruns.

3.3.4.B. Recommendations

In order to ensure the Direction des sports has access to complete, up-to-date information on the status of projects funded by grant programs for sports and recreational facilities, we recommend that the Direction des sports:

- **clarify the responsibilities of each of the parties in managing funded projects, updating databases and tracking financial information**
- **introduce a process to monitor activities that generates regular reports and provides information on the status of funded projects over time.**

3.3.4.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “The Direction des sports, together with la SDO’s Direction de l’administration, will develop a handbook on grant management for the Direction générale. This will include a description of the various responsibilities with a special focus on the role of the city—as coordinator and applicant—in following up on projects covered by agreements on government subsidies. The handbook will feature follow-up tools and procedures that will allow managers to know the status of their funded projects at all times. This handbook will subsequently be made available city-wide to all those involved in this process.” (Planned completion: December 2011)

3.4. PROGRAMME DE RENOUVELLEMENT DES CONDUITES (PRECO)

3.4.A. Background and Findings

The PRECO is another program open to all municipalities throughout Québec. It was launched in April 2009 and originally set to end on December 31, 2010. This short duration caught many municipalities off guard. As a result, several of them were in danger of not meeting the program deadline. The cut-off date was therefore extended to October 31, 2011, although this applies

only to projects that were accepted under the initial program and for which work had started before March 31, 2011. The new cut-off date does not allow for new projects to be added to the program. Certain other conditions also apply:

- Projects must have incurred eligible expenses (professional fees, materials purchase or physical work) before March 31, 2011.
- Municipalities must submit projected allowable expenditures that will be incurred before March 31, 2011 and total projected allowable expenses that will be incurred between April 1 and October 31, 2011.
- A project calendar signed by an engineer or an architect must be produced for each project.
- A City Council resolution must confirm the administration's intent to complete the projects and accept the responsibility for all costs incurred after October 31, 2011.

This program is administered by the Service de l'eau. Projects are included in an general program submitted by the city to the ministry. This program is accepted once project eligibility has been checked. As Table 13 shows, the city submitted applications for \$43,100,800 to fund 58.11 kilometres of water mains and sewer line rehabilitation. As of December 31, 2010, \$39,780,700 in assistance had been confirmed under this program.

Table 13—Summary of PRECO Grant Applications

Application No.	Amount requested	Length (m)	Amount awarded	Length (m)
231327	\$7,317,100	8,817	\$6,238,000	7,628
231416	\$2,416,700	2,206	\$2,416,700	2,206
231618	\$4,313,750	11,528	\$4,313,750	11,528
231631	\$11,170,580	7,372	\$11,170,580	7,372
231645	\$15,641,670	25,603	\$15,641,670	25,603
231649	\$2,241,000	2,582	Pending	
TOTAL	\$43,100,800	58,108	\$39,780,700	54,337

Source: Service de l'eau.

In the decision summary submitted to City Council on April 19, 2010, when the preliminary program for work on secondary mains was approved, the Service de l'eau indicated that the city was eligible for a grant of \$100,000,000. To receive this amount, the city needed to set up a \$270,000,000 works program, which the Service de l'eau deemed unrealistic, given the extremely tight timeframe and budgetary limitations.

FINDING

The information we obtained indicates that several scenarios were put forward by the Service de l'eau and examined together with the Service des finances and the Direction générale to make full use of this \$100,000,000. However, we were unable to obtain any documentation to support these scenarios.

The Service de l'eau ultimately recommended City Council adopt a preliminary program of \$125,200,200 that would generate \$48,100,000 in grants. As of December 31, 2010 (Table 13), \$39,780,700 in grants had been received, with a request for \$2,241,00 still pending.

3.4.B. Recommendations

In order to make the most of external sources of funding for its investment projects when potential grant programs are announced, we recommend that the Service de l'eau:

- Take advantage of all grant opportunities available through the MAMROT
- Document the various scenarios it contemplates in conjunction with the Service des finances and city administration, as well as the reasons for the choices made

3.4.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "Approach MAMROT to attempt to obtain additional grants. **(Completed)**

Analyze MAMROT's proposals and scrutinize the consequences for the city. **(Planned completion: in progress)**

Develop scenarios for various grant programs, including corresponding budget and financial criteria. **(Planned completion: December 2011)**

Meet with the Service des finances and the Direction générale to analyze the scenarios. **(Planned completion: December 2011)**

Document the measures necessary to make full use of grant programs, whatever the criteria and circumstances of the program initiation. **(Planned completion: December 2011)**

Take minutes of meetings and keep them on file." **(Planned completion: December 2011)**

Component – Grant Application Management

The PRECO came into effect on April 1, 2009. Table 14 provides a summary of the time that elapsed between program outset, application submission and receipt of official responses.

Table 14—Analysis of Processing Times

Application No.	Application date	Processing time ¹	Confirmation date	Processing time ²
231327	2009-10-23	7 months	2010-02-09	4 months
231416	2009-12-14	9 months	2010-10-30	10 months
231618	2010-10-06	19 months	2010-10-20	2 weeks
231631	2010-10-06	19 months	2010-10-20	2 weeks
231645	2010-10-16	19 months	2010-10-25	2 weeks
231649	2010-10-19	19 months	Pending	

Source: Service de l'eau.

¹ From date program was initiated.

² From date application was submitted.

FINDING

It took 7 months for the Service de l'eau to submit its first set of projects, 9 months for the second and 19 months for the remainder of the program. We find the pace of submission slow, considering that the projects had already been planned and submitted under another program (TECQ) and given how tight the original deadline was (December 31, 2010).

According to the Service de l'eau, these long lead times were caused by several factors:

- Decision to transfer certain projects already included in the TECQ program to PRECO.
- Decision to look for projects involving rehabilitation rather than reconstruction. Rehabilitation projects were eligible for grants of 80% to 100% of the cost of the work. Reconstruction projects, on the other hand, require plans and specifications and a more intense level of effort for only a 10% "profit" over the PRECO rate.
- Need to consider certain constraints, including:
 - Projects able to fit into to the cut-off date of December 31, 2010.
 - The city's financial capacity compared with the cost-effectiveness of the project.
 - Plans for borough participation not finalized.
 - Time required for the tendering and contract-awarding process.
 - Ineligibility of some projects requiring professional services.

The ministry's response times were 4 months for the first request, 10 months for the second and then almost immediately (2 weeks) for the others. This was, however, a mere 2 months from the initial cut-off date and posed the problem of planning work to fit the December 31 deadline, which could have meant a loss of grant funds.

Component – Planning and Implementing Funded Projects

Based on our detailed examination of the activities for two types of projects (water supply and sewers) and the supporting project planning documentation (project calendar and progress estimates), we were able to make the following observations:

- In total, there were 207 projects put forward by the Service de l'eau and approved by the ministry for which the cost will be supported by grants. For operational reasons, each project covers one or more sections of the sewer or water supply system:
 - Sewer lines:
 - 2009: 49 sections to be rehabilitated
 - 2010: 93 sections to be rehabilitated
 - Water mains:
 - 2009: 36 sections to be rehabilitated
 - 2010: 29 sections to be rehabilitated
- Table 15 shows the degree of completion or progress made for work done in 2009 and 2010 under PRECO, according to the files submitted by the Divisions de la gestion stratégique des réseaux d'eau (Unité Est/Unité Sud) and updated on November 30, 2010, for the water mains rehabilitation project and December 2, 2010, for the sewer line rehabilitation project.

**Table 15—Progress of Water and Sewer System Rehabilitation Projects:
2009-2010 Program**

Year and contract	Total sections	Degree of completion (%)				Sections cancelled
		Quantity	100%	Quantity	≤ 50%	
Sewer line rehabilitation						
2009:						
- Sewer – UX-09-001/9886	30	27		1		2
- Sewer – UX-09-001/9910	19	16			1	2
2010:						
- Sewer – UX-10-001/9956	93	76		4	8	5
Total	142	119	84%	5	4%	9
Water main rehabilitation						
2009:						
- Water supply – UX-09-002/9887	21	19				2
- Water supply – UX-09-003/9888	15	15				
2010:						
- Water supply – UX-09-002 /9955	28	26				2
- Water supply – 9970	1	1				
Total	65	61	94%			4
Grand total	207	180	87%	5	2%	9

Source: Divisions de la gestion stratégique des réseaux d'eau (Unité Est/Unité Sud).

Overall, as of December 31, 2010, the degree of completion for the rehabilitation work⁴ on water and sewer pipes in 2009 and 2010 as part of PRECO can be broken down as follows:

- Work was 100% completed in 84% of sewer line sections.
- Work was 100% completed in 94% of water main sections.
- Overall, work was 100% completed for 87% of sewer and water lines targeted for rehabilitation.
- Work was 50% completed or less in 4% of sewer line sections.
- Work had yet to be started in 6% of sewer line sections in the 2009-2010 program.
- Work was cancelled in 13 sewer/water main sections (totalling 3.14 km).

FINDING

As mentioned previously, the government has officially confirmed that the cut-off date for this program will be extended to October 31, 2011 for projects already underway and projects that began before March 31, 2011.

⁴ "100% completed" means that the work on water/sewer mains, service pipes and manholes (in the case of sewers) has been finalized in every respect.

FINDING

The Service de l'eau has submitted documentation to the ministry indicating which projects would be completed after December 31, 2010. Given the degree of completion of each of the ongoing projects and the costs committed for 2011 to finalize the projects listed in Table 16, our analysis of this documentation leads us to conclude that:

- The total cost of the work completed as of December 31, 2010, is \$70,758,400, or 97% of the projected total cost.
- The total amount of the grants received before December 31, 2010, is \$39,447,540, or nearly 99% of the grants awarded to date.
- The total cost of the work to be completed in 2011 is \$2,142,600, and the corresponding grant amounts to \$1,194,491.

If the cut-off date had remained December 31, 2010, the city would have had to cover the \$2,142,600 itself, which would have represented a loss of \$1,194,491 in PRECO grants.

Table 16—Grants Received as of December 31, 2010 by Degree of Project Completion: 2009–2010 Program

Applic. No.	Amount requested	Length (m)	Amount awarded	Length (m)	Cost of work, based on % of project completion at the close of 2010			Total cost of projects
					Completed	Incurred before March 31, 2011	For completion between April 1 and Oct. 31, 2011	
231327	\$7,317,100	8,817	\$6,238,000	7,628	\$530,000	\$5,536,000	\$947,000	\$7,013,000
	Grant received at the end of 2010		\$5,310,261		\$530,000	\$4,888,000	\$552,000	\$5,970,000
	Grants to come in 2011		\$927,739			\$648,000	\$395,000	\$1,043,000
231416	\$2,416,700	2,206	\$2,416,700	2,206	\$761,000	\$1,959,000	\$102,000	\$2,822,000
	Grant received at the end of 2010		\$2,340,482		\$761,000	\$1,874,000	\$98,000	\$2,733,000
	Grants to come in 2011		\$76,218			\$85,000	\$4,000	\$89,000
231618	\$4,313,750	11,528	\$4,313,750	11,528	\$12,023,000	\$84,000	\$4,000	\$12,111,000
	Grant received at the end of 2010		\$4,312,325		\$12,023,000	\$80,000	\$4,000	\$12,107,000
	Grants to come in 2011		\$1,425			\$4,000	\$0	\$4,000
231631	\$11,170,580	7,372	\$11,170,580	7,372	\$28,162,000	\$1,151,000	\$59,000	\$29,372,000
	Grant received at the end of 2010		\$11,165,788		\$28,162,000	\$1,142,400	\$55,000	\$29,359,400
	Grants to come in 2011		\$4,792			\$8,600	\$4,000	\$12,600
231645	\$15,641,670	25,603	\$15,641,670	25,603	\$13,747,000	\$4,898,000	\$1,393,000	\$20,038,000
	Grant received at the end of 2010		\$14,904,783		\$13,747,000	\$4,553,000	\$794,000	\$19,094,000
	Grants to come in 2011		\$736,887			\$345,000	\$599,000	\$944,000
231649	\$2,241,000	2,582	\$0		\$548,000	\$946,000	\$51,000	\$1,545,000
	Grant received at the end of 2010				\$548,000	\$899,000	\$48,000	\$1,495,000
	Grants to come in 2011					\$47,000	\$3,000	\$50,000
Total	\$43,100,800.00	58,108	\$39,780,700	54,337	\$55,771,000	\$14,574,000	\$2,556,000	\$72,901,000
	Grant received at the end of 2010		\$39,447,540			\$13,436,400	\$1,551,000	\$70,758,400
	Grants to come in 2011		\$1,194,491			\$1,137,600	\$1,005,000	\$2,142,600

Source: Service de l'eau.

3.5. CANADIAN STRATEGIC INFRASTRUCTURE FUND (CSIF)

3.5.A. Background and Findings

This is a \$117,000,000 memorandum of understanding covering 2006 through 2012. It is specifically earmarked for use by the city to upgrade its Atwater and Des Bailleets water treatment plants. This memorandum of understanding is administered by the Service de l'eau.

The terms and conditions for administering this program are strict and explicit:

- The agreement includes a list of eligible work in both plants.
- Annual claims are documented in semi-annual activity reports.
- The cut-off date for all work is December 31, 2012.
- The cut-off date for all submissions is March 31, 2013.
- Expenditures on professional and consulting services are limited to 15% of allowable costs.
- Annual claims are reviewed by an external auditor, as required by the MAMROT.

Expenditures are reviewed twice a year, June 30 and December 31, in compliance with reporting requirements of both levels of government. Expenditures and work completion are reviewed internally four times a year.

Our audit for this program was limited to examining the amounts of claims made to date and checking whether all the projected grants are recovered within the specified timeframe.

Table 17 below presents the actual and budgeted costs for projects eligible for the CSIF program and the actual and budgeted claims for these projects.

Table 17—Overview of Claims

	Investments breakdown							Total
	Actual			Projected				
	2007	2008	2009	2010	2011	2012	2013	
Des Bailleurs plant		\$4,394,504	\$16,050,982	\$6,666,950	\$19,715,110	\$21,461,378	\$11,490,680	\$79,779,604
Atwater plant	\$1,441,422	\$2,290,700	\$19,551,128	\$33,742,590	\$56,189,120	\$44,236,003	\$15,216,328	\$172,667,291
Professional fees				\$989,021	\$1,085,679	\$2,042,494	\$162,470	\$4,279,664
Total	\$1,441,422	\$6,685,204	\$35,602,110	\$41,398,561	\$76,989,909	\$67,739,875	\$26,869,478	\$252,446,895

Eligible	\$234,000,000
Difference	-\$18,446,895

Contribution	Monitoring claims							Total
	Claim 1		Claims 2, 3 & 4	Projected				
	2007	2008	2009	2010	2011	2012	2013	
Federal	\$360,356	\$1,635,149	\$8,535,872	\$10,750,447	\$19,247,477	\$16,934,968	\$1,035,730	\$58,500,000
Provincial	\$360,356	\$1,635,149	\$8,535,872	\$10,750,447	\$19,247,477	\$16,934,968	\$1,035,730	\$58,500,000
Subtotal (fed. + prov.)	\$720,711	\$3,270,298	\$17,071,744	\$21,500,895	\$38,494,955	\$33,869,937	\$2,071,461	\$117,000,000
Ville de Montréal	\$720,711	\$3,270,298	\$17,071,744	\$21,500,895	\$38,494,955	\$33,869,937	\$2,071,461	\$117,000,000
Grand total	\$1,441,422	\$6,540,596	\$34,143,488	\$43,001,790	\$76,989,910	\$67,739,874	\$4,142,922	\$234,000,000

Claims requested	\$7,982,020	\$34,143,488					
% projected recovery	3%	14.6%	18.4%	32.9%	28.9%	1.8%	
Project to date		18.0%	36.4%	69.3%	98.2%	100.0%	

Actual cost vs. claim	-\$144,606	-\$1,458,622					
% actual recovery	98%	95.9%	0.0%	0.0%	0.0%	0.0%	
Project to date		96.3%					
Projected vs. actual		-3.7%					

Source: Rapport mensuel des coûts de projets admissibles au FCIS, September 30, 2010.

Based on the monthly summary of eligible project costs dated September 30, 2010, claims filed in 2008 totalled \$7,982,020 (Claim 1) and \$34,143,488 in 2009 (Claims 2, 3 and 4), for a combined total (2008 and 2009) of \$42,125,508. When this is compared with the total actual costs of \$43,728,736, it yields a recovery rate of 96.3%. The difference between the projected and actual amounts is \$1,603,228, or -3.7%. This should be recovered in 2010.

FINDING

As of September 30, 2010, the program projects work beyond the authorized cut-off date in 2013, to the tune of some \$26,869,478. This would result in a claim of \$4,142,922, including \$2,071,461 in grants. The representatives of the Service de l'eau could not provide us with proof that the agreement would be extended for another year. It is therefore important to obtain official confirmation of whether the CSIF program will run until 2013. If there is no extension, the Service de l'eau stands to lose the grant when the agreement expires.

3.5.B. Recommendations

We recommend that the Service de l'eau obtain official confirmation of the agreement extension to 2013 for the two water treatment plants so that it can profit from the anticipated grants. If this confirmation cannot be obtained, the Service de l'eau will need to review its plans to ensure that all work is completed before the end of 2012 so it can use the full amount of the grant.

3.5.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "Letter asking for a one-year extension sent to the MAMROT. (Completed)

Follow up with the MAMROT about confirming the extension. (Completed)

The MAMROT must follow up with the federal government representative. (Planned completion: December 2011)

Letter of confirmation received." (Planned completion: December 2011)

4. APPENDICES

4.1. GRANT PROGRAMS AT A GLANCE

<p>Grant program or agreement</p> <p>Goal of program or agreement</p> <p>Business unit in charge</p>	<ul style="list-style-type: none"> • Expected amount of grant • Funding ministry • Cost of work covered by the grant (%) 	<ul style="list-style-type: none"> • Length • Cut-off date
<p>1. Imagining—Building Montréal 2025</p> <p>Support the development and implementation of Imagining—Building Montréal 2025 strategy based on five strategic directions.</p> <p>Direction générale</p>	<ul style="list-style-type: none"> • Total amount: \$140 M • MAMROT¹ • 100% of eligible costs (provincial) 	<ul style="list-style-type: none"> • Length: 2008-2012 • Cut-off date: December 31, 2012
<p>2. Programme d'infrastructures de loisirs (PIL)</p> <p>Modernize and renovate recreational facilities to provide communities with service infrastructure that will promote community, cultural, economic, sports and tourism development.</p> <p>SDO (Direction des sports) et arrondissements.</p>	<ul style="list-style-type: none"> • Amt. requested: \$28.7 M • Amt. received: \$11.1 M • MAMROT • Federal: 33.33% of eligible costs • Provincial: 33.33% of eligible costs 	<ul style="list-style-type: none"> • Length: August 11, 2009 to December 31, 2010 • Initial cut-off date: December 31, 2010 • Extended cut-off date: October 31, 2011
<p>3. Programme de soutien aux installations sportives et récréatives (PSISR)</p> <p>Construction, renovation, development and standardization of sports and recreational facilities.</p> <p>SDO (Direction des sports) and boroughs</p>	<ul style="list-style-type: none"> • Amt. requested: \$183.7 M • Amt. received: \$35,1 M • MELS² • Provincial: 50% of eligible costs 	<ul style="list-style-type: none"> • Length: August 1, 2006 to March 31, 2012 • Cut-off date: March 31, 2012

¹ MAMROT: Ministère des Affaires municipales, des Régions et de l'Occupation du territoire.

² MELS: Ministère de l'Éducation, du Loisir et du Sport.

Grant program or agreement Goal of program or agreement Business unit in charge	<ul style="list-style-type: none"> • Expected amount of grant • Funding ministry • Cost of work covered by the grant (%) 	<ul style="list-style-type: none"> • Length • Cut-off date
<p>4. Programme de renouvellement des conduites (PRECO)</p> <p>Rehabilitation of secondary water mains and sewer lines.</p> <p>Service de l'eau</p>	<ul style="list-style-type: none"> • Amt. requested: \$43.1 M • Amt. received: \$39.8 M • MAMROT • Rates vary based on pipe length and diameter 	<ul style="list-style-type: none"> • Length: April 6, 2009 to December 31, 2010 • Initial cut-off date: December 31, 2010 • Extended cut-off date: October 31, 2011
<p>5. Canada Strategic Infrastructure Fund (CSIF)</p> <p>Upgrades to meet new water regulation standards at the Atwater and Des Bailleurs water plants.</p> <p>Service de l'eau</p>	<ul style="list-style-type: none"> • Total amt: \$117 M • MAMROT • Federal: 25% of eligible costs • Provincial: 25% of eligible costs 	<ul style="list-style-type: none"> • Length: 2006-2012 • Cut-off date: December 31, 2012

4.2. GRANT APPLICATION AND APPROVAL PROCESS

1. Program announced by the government and related published
2. Project documentation prepared:
 - Familiarization with contents of grant program
 - Technical documentation
 - Administrative documentation
 - Application form
3. Application submitted to the funding ministry
4. Ministry sends notification confirming receipt of the application
5. Requests for additional information made by the ministry addressed
6. Ministry analyzes applications
7. Ministry issues approval in principle
8. Ministry issues final approval (letter to applicant and letter to mayor)
9. Ministry issues agreement for signatures
10. City signs agreement (central departments/boroughs)

4.3. PROCESS FOR MANAGING GRANT AID PROJECTS

1. Call for tenders for professional services
2. Tenders analyzed, winning bids selected, contracts awarded
3. Execution of professional services contracts
4. Call for tenders for construction and other work (construction supervision)
5. Tenders analyzed, winning bids selected, contracts awarded
6. Work starts:
 - Monitoring of work by project manager
 - Progress estimate: validation and approval
7. Work completed
8. Final estimate: validation and approval

V.6. Infrastructure Implementation Plan (Division des Ponts et Tunnels)

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V.6. INFRASTRUCTURE IMPLEMENTATION PLAN (DIVISION DES PONTS ET TUNNELS)

1. INTRODUCTION

The road network, which falls under the jurisdiction of Ville de Montréal (the city), consists of close to 600 engineered works and related structures¹ (overpasses and underpasses, bridges, ramps, walkways, noise barriers, tunnels, retaining walls, snow sheds and other types of structures). For the purposes of this audit, the term “structure” is used to designate all these.

The city’s responsibility in this matter falls within the legal framework of the *Municipal Powers Act*, among others, which states that the municipality has jurisdiction over public roads that are not under the management of the governments of Québec or Canada, or their departments or agencies, including bridges and other structures.

In certain cases, responsibility for a structure may be shared between the city and other entities, most often the Ministère des Transports du Québec (MTQ). The *Act respecting roads* stipulates that the MTQ is responsible for maintaining “that part of an infrastructure that acts as a bridge for a municipal road which passes over a road which is under the management of the Minister,” with the exception of the roadway, sidewalks, railings and lighting, which remain the responsibility of the municipalities.

As to the structures for which the city is fully responsible, the legal framework in force following the merger and reconstitution of certain municipalities on the Island of Montréal implies splitting responsibility for road network into two categories (arterial system and local system). Structures located in the arterial road system fall under the jurisdiction of the city in which they are located (main city or related cities), while structures located in the local road system fall under the jurisdiction of the boroughs or related cities involved. Some substructures of common interest where structures may be present (e.g., bicycle paths, Parc Jean-Drapeau and others) fall under the jurisdiction of the agglomeration.

According to an assessment filed by the Direction des transports in September 2010, the replacement value of the entire inventory is \$3 billion. Such an inventory progressively loses its

¹ In civil engineering, engineered works or a related structure is a special work, as opposed to a building. For example, it provides a communications lane (road, railway line) to cross an obstacle. It can also be, among other things, a bridge, an overpass or a tunnel. It can also provide reinforcement as is the case, for example, of a retaining wall.

value. In fact, structural material begins to deteriorate as soon as it is put into service. Factors such as traffic volume, loads over the allowable limit, ice, severe weather, de-icing salt and vehicle collisions all contribute over time to deterioration of structures.

Data currently in inventory at the Division des ponts et tunnels shows that the structures for which the city is responsible are aging. In fact, nearly 65% are over 50 years old. To assess their degree of deterioration, the city conducts regular inspections, which allow it to act in cases of urgent safety concerns and plan the action required to preserve the useful life of structures and maintain them in good condition.

Under the present circumstances, the planning process is all the more important because the city is facing major deficits in maintenance and restoration of these structures. In September 2010, the Direction des transports estimated that \$82,000,000 would need to be invested annually over the next 10 years to reach the point at which 85% of the assets would be in good condition. However, delegated budgets are tight and fail to meet all the needs that have been identified. It is vital that the right choices are made and that approved investments have maximum impact.

The challenge at the planning stage, therefore, is to determine as efficiently as possible what work needs to be done on each of these structures and to decide on the best time to do the work based on the life cycle of the structures, while being mindful of the need to maintain service for users and keeping within a limited budget.

2. AUDIT SCOPE

The main purpose of our audit of the infrastructure implementation plan projects was to ensure that the work carried out on the city's infrastructure was based on specified priorities. The audit scope covered the infrastructure of the local water and sewer system, the arterial road system, as well as bridges, tunnels and related structures.

The assignment was divided into two phases. This first report deals with the city's actions to maintain and up-grade bridges, tunnels and other related structures under its responsibility because of their strategic importance to the transportation safety of passengers and goods. We examined how responsibilities are shared in the jurisdictions of various levels of government: agglomeration, city and boroughs. We also analyzed the planning process implemented by the Division des ponts et tunnels of the Direction des transports.

The planning process determines the preservation needs of the structures. It includes the inventory, condition assessment, needs identification and prioritization. We then looked at the programming component, which consists of coordinating and scheduling the actions to be carried out and allocating the necessary funds.

We did not verify the condition of the structures as such, or the degree of risk involved or the relevance of the projects considered as priorities.

Our audit dealt mainly with investment project planning for 2010, but we also took into account information from 2008 and 2009.

3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

The Division des ponts et tunnels implemented a priority planning process for managing structures under its responsibility. Our audit revealed certain shortcomings, however, regarding:

- updating the division of powers
- inaccessibility of certain inventory data
- partial completion of the annual inspection program
- obsolescence of the inventory data management system
- absence of a decision support function in the inventory data management system
- integration of maintenance, repair and restoration functions into a comprehensive action strategy
- need to add a cost-benefit analysis when prioritizing projects
- accountability for the impact of project reports
- absence of approval for a desired level of service
- consequences of underfunding in recent years

Because of these shortcomings, the Direction des transport is not positioned to make optimal use of public funds by planning the right action at the right time to preserve the structures.

3.1. DIVISION OF POWERS

3.1.A. Background and Findings

We should clarify here that jurisdiction over and responsibilities for structures is divided among several of the city's decision-making bodies and business units. From the *Act to amend the Charter of Ville de Montréal* (December 2003) to the *Act to amend various legislative provisions*

concerning Montréal (June 2008), responsibility for the road network has been divided into two main categories:

- Depending on their location, structures in the arterial system were under the exclusive jurisdiction of the city or related cities
- Structures in the local system were under the jurisdiction of either the boroughs or cities concerned

Structures of common interest, such as those in Parc Jean-Drapeau and some bicycle paths, were under the jurisdiction of the agglomeration.

As shown in Table 1, arrangements were made to divide responsibility based on expertise and resource availability rather than on location:

- Following an offer of professional services made to each borough, the Direction des transports Division des ponts et tunnels was assigned to inspect structures in 2008 and subsequent years and undertake any mitigating measures required.
- Under By-law 08-055,² City Council delegated to each of the borough councils the responsibility for maintaining the arterial system, especially minor maintenance of bridges and tunnels (cleaning, minor structural repairs, emergency signposting, removal of loose material, and the like.)

Table 1—Division of Responsibilities for Managing Structures and Budget Allocations

	Investment		Maintenance		Inspection	
	Responsibility	Capital budget	Responsibility	Operating budget	Responsibility	Operating budget
Local system	Borough Directions des travaux publics	City Direction des transports	Borough Directions des travaux publics		City Direction des transports ¹	
Arterial system	City Direction des transports		Borough Directions des travaux publics ²		City Direction des transports	
Structures of common interest³	City Direction des transports		Borough Directions des travaux publics		City Direction des transports	

¹ Function transferred by the boroughs following approval of an offer of professional services (Resolution CM08 0660).

² Power delegated by City Council under By-law 08-055.

³ Structures located in the Ville de Montréal only.

In short, boroughs are responsible for maintaining structures, regardless of their location, and receive operating budgets to perform this activity. The Division des ponts et tunnels, on the other

² City council by-law concerning the delegation to borough councils of certain powers relating to the arterial road system.

hand, is responsible for inspecting all structures, including those in the local system, and receives budgets accordingly.

The investment aspect remains problematic because, under applicable acts and by-laws, the boroughs currently have jurisdiction over planning and management of investment projects for structures in the local system. According to the stakeholders we met, however, the complexity of these structures requires state-of-the-art expertise that is not available in the boroughs. In fact, several of these structures, such as the la Concorde Bridge, the Île Sainte-Hélène Overpass, Monk Bridge and the Jolicœur Bridge over the Aqueduc Canal, are mid- to large-size structures.

FINDING

Given safety and road network functionality issues, as well as the need for specific technical expertise, the Division des ponts et tunnels retains the planning and management functions for all investment activities, including structures in the local system. The three-year capital plan (TCWP) prepared by the Division des ponts et tunnels and related budget have always included all structures in the local system, even though boroughs have jurisdiction over them. This has created a non-compliant situation.

To formalize the situation, however, a project is under way at the Direction des transports to recommend that City Council declare itself competent to manage structures in the local system. This is possible under Section 85.5 of the Charter of Ville de Montréal, which allows City Council to declare that it is competent to exercise a jurisdiction assigned by law to a borough if it is in the city's general interest and applies to all boroughs. The proposal must be approved by a two-thirds majority of council members if the period in question exceeds two years.

3.1.B. Recommendations

We recommend that the Direction des transports encourage City Council to assume jurisdiction over the management of structures in the local system so that it can manage all investments in compliance with the legal and regulatory framework.

3.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "Consult the Service des affaires juridiques et de l'évaluation foncière and the boroughs to evaluate various scenarios for sharing jurisdiction. (Planned completion: June to October 2011)"

Submit a proposal to the Direction générale associée – Développement et opérations to guide the decision-making bodies.” (Planned completion: December 2011 to March 2012)

3.2. INVENTORY DATA

3.2.A. Background and Findings

The first step in planning priority projects is to draw up an inventory of structures. The Division des ponts et tunnels uses a database that was implemented in 1992 to maintain inventory and log results of summary inspections. It includes a fact sheet for each structure, which contains the following information:

- site of the structure and borough where it is located
- geometry (length, width)
- type of structure (e.g., slab-girder, portico, arch bridge, other)
- city’s responsibility – complete or partial (shared responsibility based on a memorandum of understanding with adjoining cities, the MTQ, rail or other company)
- year of construction
- status – active or non-active (closed or demolished structures)
- presence of public utilities
- load bearing capacity (date of the last assessment and indication of load limits)
- comments specific to the structure

In addition to this fact sheet, there is an electronic file and a paper file for each structure. The file includes general information, inspections, drawings, studies, photos, actions taken and correspondence. In 2007, the Commission of Inquiry into the Collapse of a Portion of the la Concorde Overpass recommended that municipalities with populations over 100,000 adopt a comprehensive online system containing all the records and data relevant to the structure, including inspections and repairs. In recent years, the Division des ponts et tunnels has made efforts to collect the maximum amount of data on each of the structures. According to the information we obtained, however, in some cases the files are incomplete.

FINDING

As-built drawings are missing for a few structures, some of which were built several years ago and others that have undergone recent repairs, e.g., seven cases where work was done in 2007 and 2008. These drawings are required to plan future maintenance and repair work. The Commission of Inquiry into the Collapse of a Portion of the la Concorde Overpass recognized the importance of such documents when, in 2007, it recommended that *“for all structures built in Québec, the supervisor of the work be required, upon delivery of the completed structure, to assemble all the documents associated with the work and the structure, including [...] the ‘as-built’ drawings...”*

The availability of these drawings helps manage risks to user safety and project costs. When these drawings are missing, inadequate work may be done or studies may become necessary to compensate for missing data, thus incurring cost overruns.

In 2010, for example, \$225,000 was authorized to hire a consulting firm to assess the load bearing capacity of a particular structure. To limit damage, the firm used a specialized exploration method to locate the structural frames. According to the information we received, if the firm had had access to good as-built drawings, approximately 50% of these exploration costs could have been avoided.

In another case, a structure is currently showing major signs of deterioration, but it is impossible to predict the consequences because the city has no drawing on file. The structure is supposed to be demolished in a few years to make way for redeveloping the intersection where it stands but, because of the uncertainty caused by the lack of drawings, demolition work must be moved forward to ensure the safety of users.

In general, when an external firm is contracted to supervise work, the technical specifications include a clause that requires the firm to provide as-built drawings. According to stakeholders, however, this element is often neglected in the final stages of the work, in spite of the requirement.

To solve this problem, a clear process must be set up to make site supervising firms accountable so that, in future, as-built drawings are systematically filed with the Division des ponts et tunnels, in accordance with the recommendation of the Commission of Inquiry into the Collapse of a Portion of the la Concorde Overpass.

We found an example of technical specifications for professional site supervision services dating from 2004, which stipulated withholding 10% of the fees, which would be paid upon delivery of as-built drawings. This process could be persuasive, but it was not repeated in the later contracts that we examined.

3.2.B. Recommendations

We recommend that the Direction des transports define and implement a clear process to procure as-built drawings and systematically put them on file when work is completed to have comprehensive data for planning future action and avoiding cost overruns.

3.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “Review the roles and responsibilities of all departments with the Direction des travaux publics and establish a process to require and recoup as-built drawings. (Planned completion: October 2011)”

Review, with the Direction des travaux publics, current and completed contracts to retrieve the as-built drawings. (Planned completion: April 2011)

Together with the Direction des travaux publics, examine current professional service contracts to establish measures that would encourage the delivery of as-built drawings. (Planned completion: May 2011)

Revise the technical specifications for professional services and the standard work requirements to include delivery of as-built drawings for awarding future contracts.” (Planned completion: September 2011)

3.3. ASSESSMENT OF STRUCTURE CONDITION

The data management system fact sheets and electronic files describe the physical features of the structures. Managing these assets, however, also relies on specific knowledge of the condition of each structure. A yearly inspection program and other assessments should be carried out to ascertain the condition of the structures, especially those that are aging. The management system must also have the functional capacity to store historical results of inspections to indicate the rate at which the structures are deteriorating. This will provide a general idea of future work needed in the short, medium and long terms.

3.3.1. YEARLY INSPECTION PROGRAM

3.3.1.A. Background and Findings

We should first clarify that a structure is made up of several elements or components. For example, a bridge is comprised of the following elements: abutments, bearings, piers, expansion joints, beams, deck, sidewalk, roadway surface, barrier and structure walkway.

The Division des ponts et tunnels database includes an inspection record for each structure. The division carries out regular inspections to update this information and provide a comprehensive picture of the condition of the structures for which the city is responsible.

During this inspection, a score is assigned to each element based on a variety of factors (significance, size, material defect, functional defect.) The scores are then added up to establish the overall deterioration score for the structure. Based on the assigned deterioration score, the structures are then grouped into five categories. Table 2 illustrates the situation as of January 10, 2011.

Table 2—Quantity and Percentage of Structures by Category as of January 10, 2011

Status	Deterioration score	Features	Structures	
			Quantity	Percentage
Critical	≥ 80	<ul style="list-style-type: none"> • Several defective elements • Non-functional structure that sometimes requires complete or partial closing • Short-term response required 	12	2%
Defective	40-80	<ul style="list-style-type: none"> • Some defective structures • Partially functional structures 	44	8%
Poor	25-40	<ul style="list-style-type: none"> • Elements show signs of deterioration • Functional structure 	38	7%
Deteriorated	8-25	<ul style="list-style-type: none"> • Limited number of elements showing deterioration • Functional structure 	81	15%
Good	0-8	<ul style="list-style-type: none"> • No elements showing signs of deterioration • Functional structure 	380	68%

Source: Division des ponts et tunnels.

A yearly inspection program examines the condition of structures to determine the type of assessment needed and its recurrence. If a structure has a score above 40, or includes the critical functional score as a main element, a yearly general inspection is scheduled to ensure

the safety of users. For structures presenting specific problems, additional assessment may be carried out (e.g., ongoing remote monitoring, assessment of load bearing capacity, follow-up of cracking).

The 2010-2011 Direction des transports action plan aimed at a general inspection³ of all structures on a four-year cycle (25% each year) and a quick inspection⁴ during the year of all structures not part of the general inspection. The 2010-2011 action plan reflects the objectives of the different divisions that make up Direction des transports and has not been approved by the city's decision-making bodies.

The targets set are in keeping with the practices set out in the MTQ inspection manual, which suggests a two- to four-year interval between general inspections. In 2010, 48 planned general inspections (22%) and 35 planned quick inspections (10%) had to be postponed to 2011 (see Table 3).

Table 3—Status of the Annual Inspection Program for 2010

Inspection	Planned	Completed	Deferred (work under way)	Rescheduled to 2011
General	214*	145	21**	48**
Quick	331***	296	—	35

* 25% of inventory in addition to structures whose condition requires a general inspection for safety purposes.

** 15 quick inspections carried out as a compensatory measure.

*** All structures for which a general inspection was not planned.

Source: Division des ponts et tunnels.

³ The general inspection of a structure consists primarily of visiting the site to determine the inspection method to be used, conducting a "close-up" inspection of the structure and drafting an inspection report.

⁴ The quick inspection of a structure consists primarily of visually inspecting the structure and drafting an inspection report.

FINDING

The Division des ponts et tunnels also anticipates that not all 2011 planned inspections will be carried out, because in January:

- the division experienced administrative delays in awarding a contract to an outside firm to conduct inspections that exceeded the capacity of the division's internal staff. According to the information obtained, even if the contract were awarded in the next few weeks, it would be difficult to meet the planned schedule, given the time constraints;
- the division determined that it would not have the internal staff needed to conduct 100% of the planned inspections unless it received approval for the creation of new positions. A staffing request was made, therefore, to the Direction des transports in August 2010, but no confirmation has been received to date. On a positive note, the division can count on an extension to fill these positions and integrate and train new employees to be ready to carry out the inspections. There would thus be a time lag in the schedule of planned inspections.

FINDING

Based on the information obtained, the division's targets for the number of structures to be inspected were not met in 2010 and will likely not be met again in 2011 because of a lack of adequate staff (internal and external). Consequently, the information in the database on the condition of the structures not yet inspected is out of date.

The yearly inspection program plays a strategic role in providing data on the condition of structures, ensuring that they are functional and safe, and detecting problems that require short-, medium- or long-term response. When the condition of a structure requires it, for example, measures are taken to remedy defects and ensure the safety of users (restricting loads, prohibiting overweight loads, closing traffic lanes, installing guardrails to make barriers safe, closing walkways or pedestrian tunnels no longer in use) while awaiting repairs, rehabilitation or demolition work.

3.3.1.B. Recommendations

We recommend that the Direction des transports take the steps required to complete its yearly inspection program within the established timeframe so that it will know the current conditions of structures and plan appropriate responses in a timely manner to ensure the safety of users.

3.3.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “In an effort to maintain annual inspection program operations:

- Carry out inspections in sequence based on current priority response criteria (the first of which is the safety of users) (**Planned completion: under way**)
- Continue the current process to evaluate the awarding of a second inspection contract in the 10-11416 call for offers (**Planned completion: under way**)
- Begin the process of awarding new inspection contracts from the existing professional service framework agreements (**Planned completion: May 2011**)

Remark: The process to add five new positions for this purpose has been completed. The Direction des transports is currently hiring.”

3.3.2. DATA MANAGEMENT SYSTEM

3.3.2.A. Background and Findings

Even if the inspection program was completed each year, a major problem still exists. We concluded that the inventory data management system fails to meet current needs. Users also qualify the system as obsolete, especially because:

- It does not allow all the information collected during general inspections to be entered and processed (the system is designed for summary inspection results).
- It does not save the details of earlier inspections (access is only to results of the last inspection).
- It does not include a data analysis function or way to model various investment scenarios.

Because electronic tools are not available, data that is essential to decision-making must be compiled by hand. For example, while the Division des ponts et tunnels has compiled an inspection history to track structures' deterioration over time and identify future trends, it has not been updated each year.

Consequently, in the absence of data from earlier inspections, the current inventory data management system can only provide a static picture of the condition of the structures. Historical data would enable the Division to look at how the deterioration has evolved over time, make projections for coming years and better manage any detectable risk of rapid deterioration.

FINDING

Given the obsolescence of its data management system, the Division des ponts et tunnels is unable to simulate multiple investment scenarios without considerable effort. This prevents it from setting optimal priorities and acting on the right structures at the right time. Currently, optimization is done manually by professionals, but only a few scenarios undergo simplified analysis.

Without the use of software that contains structure history, simulates aging, models various response scenarios and facilitates decision-making, the complexity of the structures and the many factors that need to be taken into account make this exercise especially onerous. The *National Guide to Sustainable Municipal Infrastructure*⁵ confirms, moreover, that identifying and prioritizing the needs of large municipalities cannot be done effectively without specialized software.

FINDING

During a September 2010 presentation to members of the City Council finance, administrative services and human capital committee, and the Agglomeration Council finance and administration committee (hereafter called “the finance committees”), the Direction générale acknowledged that the city’s diagnostic methods and tools for medium- and long-term planning needed to be improved and supplemented. This is true for the Division des ponts et tunnels structure management system, which lags behind some of the city’s other business units that are already using or developing this type of tool (Direction de la gestion stratégique des réseaux d’eau and Division gestion des actifs de voirie of the Direction des transports).

A project is under way to implement a new data management system. The Executive Committee has, in fact, approved an agreement between the city and the MTQ to use an MTQ structure management software package that would be adapted for the city’s specifications. Provision is being made for the software to include a strategic planning module that integrates a function that would simulate various scenarios to assist in decision-making.

However, the \$550,000 investment that was set aside in the 2010 TCWP to complete the project has been carried over to a later year. Lack of staff and the priority level assigned to it by the Service des technologies de l’information are two of the impediments mentioned to explain the

⁵ *National Guide to Sustainable Municipal Infrastructure*, [TRANSLATION] Priority planning and budgeting for the maintenance and rehabilitation of roadways, National Research Council of Canada, November 2003.

deferral. Because of uncertainties about its ability to complete the project, the Division des ponts et tunnels did not set out the means to complete this project, nor the related targets and specific indicators, in its action plan.

3.3.2.B. Recommendations

We recommend that the Direction des transports continue with plans to implement a new data management system, which includes a function to facilitate decision-making, to ensure that historical inspection data is available to analyze different scenarios and optimize structure management.

3.3.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “Include implementation steps and timeline for the new management system in the 2011-2012 Division des ponts et tunnels action plan. (Planned completion: June 2011)

Submit this action plan to the Direction générale associé – Développement et opérations to be added to the city’s master plan and investment plan, depending on budget availability.” (Planned completion: December 2011)

3.4. NEEDS IDENTIFICATION

3.4.A. Background and Findings

As part of the planning process, needs identification points out responses that are considered necessary following inspection and then classifies them according to their priority. The various types of responses are described in Table 4.

Table 4—Types of Responses

Response	Description	Budget
Preventative maintenance	<ul style="list-style-type: none"> To prevent or slow the progression of damage that could result in premature deterioration Recurring or non-recurring responses For structures in good condition Optimal strategy for use of public funds 	Operating
Routine maintenance	<ul style="list-style-type: none"> To correct faults or damage that could lead to accidents or seriously harm the comfort of users Minor corrective work Priority response following an accident 	Operating
Repairs	<ul style="list-style-type: none"> When a structural element has reached an advanced stage of disrepair To maintain or improve its condition and avoid investing greater funds later on Ability to extend the structure's useful life and cost determine if a repair is relevant Effectiveness and durability of repair techniques determine how and when the response will be carried out 	Operating or Capital Asset (based on the scope of the work)
Major rehabilitation	<ul style="list-style-type: none"> To restore as new or to full functionality Non-standard reinforcement responses (structural damage), widening (geometric and functional damage) or reconstruction work. 	Capital Asset

Source: *Manuel d'entretien des structures*, MTQ, December 2010.

Comprehensive Response Strategy

In terms of needs identification and priority setting, the *National Guide to Sustainable Municipal Infrastructure* and the *Manuel d'entretien des structures* published by the MTQ (two reference tools for best practices) indicate a preference for using a comprehensive response strategy that examines the entire structure inventory. They suggest applying this strategy to determine and prioritize needs in the area of infrastructure preservation, i.e., accounting for maintenance as much as repairs and rehabilitation work.

The city's [TRANSLATION] Equipment and Infrastructure Policy takes a similar position, stating that the city determine its needs based on the condition of its assets, i.e., establish the preservation methods to be used and the corrective actions to be taken in the short, medium and long terms. The policy suggests classifying assets into categories based on whether the decision will be to:

- replace
- preserve, but make major repairs in the short or medium term
- preserve and perform routine maintenance
- stop all maintenance, postpone repair work and carry out more in-depth studies

It also recommends that a defined maintenance program be designed, providing specific information about the work to be done to protect and maintain the quality of all structures.

Inspection reports already provide those in charge of planning with a choice of a few preventative or routine maintenance activities (e.g., sealing cracks), repairs (e.g., replacing deck joints) or major rehabilitation (e.g., full reconstruction) to correct damage in partial compliance with the Equipment and Infrastructure Policy. The needs deemed important by inspectors are indicated in the database.

FINDING

Contrary to the provisions of the policy, however, structures are not systematically classified by category of response required. Although a structured preventative maintenance program is recognized as an optimal strategy for the use of public funds, no such program exists per se. This strategy prevents premature deterioration of structures that are in good condition and delays the moment when a greater investment will be necessary.

In reality, sharing of responsibilities between the Division des ponts et tunnels and the 19 boroughs is not conducive to a comprehensive response strategy. As previously mentioned, the Division des ponts et tunnels is responsible for determining work of a capital nature (repairs and major reconstruction work), while the boroughs are independently responsible for planning operational needs (preventative maintenance, routine maintenance and certain minor repairs). Sometimes the Division des ponts et tunnels will inform boroughs of requests for specific action in their jurisdiction and, conversely, the boroughs will bring action requiring more specialized expertise or equipment to the attention of the Division des ponts et tunnels.

FINDING

Allocating operating budgets to boroughs and investment budgets to the Division des ponts et tunnels is not conducive to integrated planning. The importance of performing preventative maintenance, paid for from the borough's operating budget, may be less obvious when the consequences of neglecting that work is reflected in the capital budget of the Division des ponts et tunnels.

FINDING

In summary, needs identification and priority planning are not being done according to a comprehensive response strategy as suggested by the:

- ***National Guide to Sustainable Municipal Infrastructure***
- ***Manuel d'entretien des structures* published by the MTQ**
- **Management practices stipulated in the city's Equipment and Infrastructure Policy**

FINDING

Those in charge of planning have no assurance they are choosing the right responses for the right structures at the right time to optimise public spending.

By-law 08-055, adopted by City Council in December 2008, deals with the delegation to borough councils of certain powers related to the arterial system. The by-law contains an article that could have fostered a more comprehensive approach to the planning process, at least for structures located in the arterial system.

Article 6 of this by-law stipulates that the borough council must submit a report on March 15 and another on November 15 of each year to the Executive Committee and the assistant director general responsible for infrastructure. This report must indicate how the assigned activities were carried out (in particular, minor maintenance of bridges and tunnels in the arterial system, such as cleaning, minor structural repairs, emergency signposting, and removal of loose material, among others) and include technical information that will help develop output indicators for managing and maintaining the arterial system.

FINDING

This report could have served as a management tool to allow the Division des ponts et tunnels to consider borough maintenance activities on their arterial system structures in its planning process. However, article 6 of By-law 08-055 has apparently never been applied, as no report has been produced since it came into effect.

3.4.B. Recommendations

We recommend that the Direction des transports, together with the boroughs:

- prepare a comprehensive response plan to identify and prioritize needs, which integrates preventative and routine maintenance work, repairs and major rehabilitation to maintain structures in a desired condition at a better cost;
- design, document and implement a structured preventative maintenance program for all structures, in accordance with the Equipment and Infrastructure Policy, which came into force in January 2009, to prevent premature deterioration.

We recommend that the Direction générale associée – Développement et opérations ensure that the boroughs comply with the requirements of City Council By-law 08-055 concerning the delegation of certain powers related to the arterial system to borough councils to produce the structural maintenance data needed to draft the Direction des transports's overall response strategy.

3.4.C. Action Plan of the Relevant Business Unit

- **DIRECTION DES TRANSPORTS**

[TRANSLATION] "The Direction des transports establishes and prioritizes responses based on the city's issues and objectives for all road system assets (roadway, sidewalks, lighting, traffic lights and engineered works) according to its budget. Preventative and routine maintenance costs are charged to the operating budget, while rehabilitation expenses are charged to the TCWP.

Include needs prioritization and preventative and routine maintenance in the Division des ponts et tunnels global response strategy, taking into consideration activities related to the recommendation found in the "division of powers" section (audit report of the Direction optimisation des ressources et conformité réglementaire, dated March 17, 2011):

- *Prepare a strategy adjustment plan and add it to the division's 2011-2012 action plan (Planned completion: June 2011)*
- *Meet with boroughs to update the strategy and look into possible maintenance operation methods (Planned completion: September to December 2011)*
- *Prepare a preventative maintenance program and assess the resources needed to implement preventative maintenance (Planned completion: April 2012)*
- *Recommend a structured preventative maintenance program to the Direction générale associée – Développement et opérations that meets service and investment levels in the proposed corrective action, to respond to the Direction optimisation des ressources et*

conformité réglementaire audit report recommendation dated March 17, 2011 on the investment level (Planned completion: May to November 2012)

- *Document preventative and routine maintenance (Planned completion: July 2012)*

Apply the strategy with the boroughs.” (Planned completion: January 2013)

- **DIRECTION GÉNÉRALE ASSOCIÉE – DÉVELOPPEMENT ET OPÉRATIONS**

[TRANSLATION] “The Direction générale associée – Développement et opérations will implement the necessary measures to ensure that information is provided to the Executive Committee and to the Direction générale associée – Développement et opérations as required in Article 6 of By-law 08-055.” (Planned completion: November 2011)

3.5. PRIORITY PLANNING

3.5.A. Background and Findings

Each year, the Division des ponts et tunnels determines investment needs (repairs and major rehabilitation) based on the information contained in the inventory and the methods of analysis at its disposal. It assigns a priority to potential projects, first considering:

- projects where work has already begun
- condition of the structures (impact on user safety, structure lifespan and road network serviceability)
- projects in the study and preparation phase (preliminary project, plans and estimates)

It then adapts the project schedule to allow for opportunities that arise and work planned by its partners:

- other city rehabilitation projects planned
- city development or redevelopment projects
- projects with the MTQ on structures with shared responsibility

Justification for each potential project is documented in the project report. In general, the projects that we examined had been selected because of the structure’s state of deterioration and safety factors.

FINDING

The concept of “right time” rarely appears in analyses at the planning stage except in emergencies. For example:

- Compromises between less costly responses that need to be paid now and more costly ones that will have to be paid later are not evaluated.
- The impact of advancing or deferring response on related cost estimates is not assessed.

This financial information would be useful to those in charge of long-term planning in determining the appropriate timing for work to be done.

3.5.B. Recommendations

We recommend that the Direction des transports incorporate cost-benefit analyses into the planning stage, taking into account the date scheduled for the work, to determine the appropriate response and the best time to carry it out.

3.5.C. Action Plan of the Relevant Business Unit

[TRANSLATION] *“Integrate an analysis of general economic parameters into scheduling for 2013 and subsequent years pending implementation of the new management system. This analysis should be done for the projects and works that were prioritized in the first step of the technical analysis. (Planned completion: January 2012)*

Update the investment plan for rehabilitating roads and related structures.” (Planned completion: December 2011)

3.6. PROGRAMMING AND ALLOCATION OF RESOURCES

Each year, the Division des ponts et tunnels sets its priorities and submits them in its capital budget request. The allocated budgetary envelope helps set apart projects that are part of the coming year’s schedule. For example, the main projects programmed in 2010 are listed in Table 5.

Table 5—2010 Scheduling

Project	Response	2010 Budget (thousands of dollars)
Structures under city responsibility		
Jolicœur Bridge	Major reconstruction	2,775
Various contracts awarded before 2010	Various	1,557
Various structures	Minor repairs	1,253
Claude-Brunet Bridge (formerly de l'Asile Bridge)	Major reconstruction	775
Louis-H.-La Fontaine Overpass	Major reconstruction	525
Gouin Culvert	Major reconstruction	263
Rue Saint-Jacques/Chemin Upper-Lachine Underpass	Demolition	201
Subtotal		7,349
Structures with shared responsibility		
Curatteau Bridge over Highway 25 (MTQ)	Major reconstruction	2,500*
Querbes Ave./avenue du Parc Overpass (MTQ)	Major reconstruction	2,400*
Various structures – Côte-de-Liesse (MTQ)	Major reconstruction	2,157*
Saint-Jean-Baptiste Bridge over Highway 40 (MTQ)	Major reconstruction	400*
Viau Bridge (MTQ and Ville de Laval)	Major reconstruction	400*
Bridges over Highway 720 (MTQ)	Repairs	200*
Lachapelle Bridge (MTQ and Ville de Laval)	Repairs	130*
Subtotal		8,187
Computerized management system for structures	Implementation	550
Total		16,086

* Ville de Montréal's portion of projects carried out with the MTQ for structures with responsibility shared between the two administrations.

Source: Division des ponts et tunnels.

A substantial part of the budget is allocated for work on structures under shared jurisdiction with the MTQ. When work is needed on these structures, the MTQ supervises the project and invoices the city for its portion in accordance with a joint memorandum of understanding outlining each party's responsibilities and cost sharing. The Division des ponts et tunnels estimates \$10M needs to be invested on average each year to meet its commitments to the MTQ.

In 2010, \$8,187,000, i.e., 51% of the total TCWP budget of \$16,086,000, was earmarked for projects with the MTQ. According to budget monitoring made available to us in January 2011, only \$3,443,000 was spent out of the total available budget for 2010. This included \$3,031,000 for projects that were part of agreements with the MTQ. The Division des ponts et tunnels indicated, however, that this data required changes that were pending at the time of our report.

Without mentioning specific amounts, Division des ponts et tunnels representatives confirmed that the complete envelope was not spent and that expenses for the current year mainly involved work on structures shared with the MTQ.

3.6.1. PROJECT REPORTS

3.6.1.A. Background and Findings

Our audit identified several major projects involving structures under the city's jurisdiction planned for 2010 but deferred to the following year, for example:

- Rehabilitation projects on the Jolicoeur Bridge and Claude-Brunet Bridge (formerly de l'Asile Bridge) are only at the preparatory stage of drawings and estimates, setting this work back to a later year.
- The minor repair work program planned for various structures has not been implemented.
- Demolition of the Rue Saint-Jacques/Chemin Upper-Lachine Underpass was deferred.

The Division des ponts et tunnels had several explanations for rescheduling these priority projects. Several activities are under way to mitigate the consequences and improve the situation (see Table 6).

Table 6—Main Causes for Deferring Projects Identified as Priorities

Cause	Consequence	Current activity
Lack of staff	The Division des ponts et tunnels cannot fully complete its mission, especially planning activities.	<ul style="list-style-type: none"> • An internal analysis assessed the number of additional staff required. • A request for the creation of new staff positions was made to the transportation manager.
Late approval of the TCWP budget	<p>A revised 2010 budget was approved in May 2010 (an initial budget of approximately \$4M was approved in January 2010), which leaves little time to implement the program considering :</p> <ul style="list-style-type: none"> • The 3 months needed to award contracts • Restrictions due to winter conditions 	<ul style="list-style-type: none"> • In October 2010, the finance committees recommended moving TCWP approval to September of the previous year for a higher completion rate. In March 2011, this recommendation, like the other 29, was tabled before City Council and Urban Agglomeration Council, and there has yet to be a response from the Executive Committee.
Lack of coordination	<p>Some projects are part of an administration unit's program and funds are set aside for them but they are not a priority for other administration units whose involvement is required. For example:</p> <ul style="list-style-type: none"> • A rehabilitation project may be delayed for several years awaiting a planning decision because the different administration units do not give it the same priority. • A project that moves from the planning stage (Division des ponts et tunnels) to the construction stage (Direction des travaux publics) can be delayed due to the preparation of directives or role- and responsibility-sharing agreements. 	<ul style="list-style-type: none"> • The Direction générale established requirements for more efficient and effective planning, including improvements to work coordination methods. • A new business process at the Direction des travaux publics is intended to clarify the responsibility and accountability of stakeholders.

In general, activities in progress are too recent for us to evaluate their results. In principle, they involve methods that are likely to bring about some improvement in the current situation.

Deferring these kinds of responses usually has major consequences, including:

- The need for monitoring to ensure user safety until the situation is rectified, which adds to costs
- Deterioration in the condition of the structures concerned, which may increase the cost of future responses
- Deterioration in the general state of the assets, which goes against 2008 Transportation Plan guidelines.

Mitigation measures intended to ensure the safety of users were implemented during the long deferral periods, generating additional costs. For example, 2007-2008 planning documents for a particular structure mentioned that a response *[TRANSLATION]* “is a priority because of the structure’s advanced deterioration [...] rehabilitation should be considered. [...] Work must begin as soon as possible.” Since then, the work has not been done, the structure has required regular inspections and concrete Jersey barriers have been installed to make the site safe. The total costs generated by deferring this project have not been compiled by the Division des ponts et tunnels.

In another case, road traffic on the affected structure has been restricted since 2007 because of deterioration and load bearing limitations. A reconstruction or rehabilitation project initially planned for 2008 was deferred and has yet to be completed. In the meantime, securing the structure has generated costs that could have been avoided if the project had been originally carried out when planned. Various measures had to be implemented until rehabilitation or demolition to ensure the safety of users, since 2007 for example:

- Continuous remote monitoring at an annual cost of \$32,000
- Seven inspections by the Division des ponts et tunnels or outside firms
- Twelve requests, including nine about falling fragments of concrete, that required response from the Division des ponts et tunnels or outside firms
- An estimated \$100,000 of work in the short term to prevent falling fragments
- Load bearing capacity tests estimated at \$80,000 needed in the short term to calibrate the remote monitoring instruments

FINDING

The assessment of costs incurred when a project is deferred is important management information. The Division des ponts et tunnels does not perform this analysis systematically, although the data would be useful for performance reporting on deferred projects identified as priorities. It would update the Direction générale on the impact of deferrals in the interests of informed decision-making.

3.6.1.B. Recommendations

We recommend that the Direction des transports account, in a structured way, for the consequences of deferrals and problems in completing work deemed to be a priority, regularly informing the Direction générale about the current situation of:

- specific projects not carried out during the year
- reasons for deferrals
- future costs incurred by deferrals
- temporary measures in place to ensure the safety of users

3.6.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “Revise the accountability process to inform the Direction générale adequately. (Planned completion: July 2011)

Submit the updated process to the Direction générale for review. (Planned completion: July 2011)

Implement structured performance reporting that complies with the recommendation.” (Planned completion: August 2011)

3.6.2. LEVEL OF SERVICE

3.6.2.A. Background and Findings

In recent years, some projects identified as priorities were not included in the annual planning process due to lack of available funds. The condition of the structures damaged over time as a result of this underfunding. We observed an inconsistency between the investment allotted and the service desired, which does not facilitate implementation of a comprehensive response strategy that is efficient and effective.

In its 2005 investment plan, the Direction des transports defined the desired state of the network (level of service), but authorities failed to vote on the plan and make it official. The Direction des transports wanted in particular to ensure that 80% of the structures were in good condition (including those in the “damaged” category) with a deterioration score between 0 and 25 and that no structure was in critical condition with a score above 80. This objective was comparable to the recommendation of the Commission of Inquiry into the collapse of the Concorde Overpass in its report to the Québec government in October 2007 to adopt a rehabilitation program over at least 10 years, at the end of which the proportion of bridges in good condition would rise to 80%.

Table 7 shows the desired state of all structures compared to their actual states in 2005 and 2008, based on data from the Direction des transports.

Table 7—Comparison Between Desired State and Actual State in 2005 and 2008

Condition	Deterioration score	Desired state	Actual state	
			2005*	2008**
Critical	≥ 80	0%	6%	4%
Defective	40-80	5%	10%	9%
Poor	25-40	15%	10%	12%
Damaged	8-25	10%	74%	22%
Good	0-8	70%		53%

* Investment plan prepared in 2005.

** Presentation of the Division des ponts et tunnels, [TRANSLATION] “Condition of structures,” in February 2010.
Source: Direction des transports.

The real condition of the structures improved slightly between 2005 and 2008 due to investments of \$43,000,000 and \$34,000,000 respectively.

In January 2008, the Direction des transports prepared a new investment plan for 2008 to 2015, based on the same desired condition. The plan recommended a gradual increase in investments from \$19,000,000 to \$70,000,000 over the targeted period to eliminate all structures in critical condition and bring those in defective condition down to 5%. One of the guidelines in the 2008 Transportation Plan took a similar approach, underscoring the city’s commitment [TRANSLATION] “to return the road network (arterial, local, structures and other components) to good condition and ensure its maintenance.”

In reality, the level of investment has been below the \$19,000,000 mark every year since 2008, which is clearly inadequate to meet priorities:

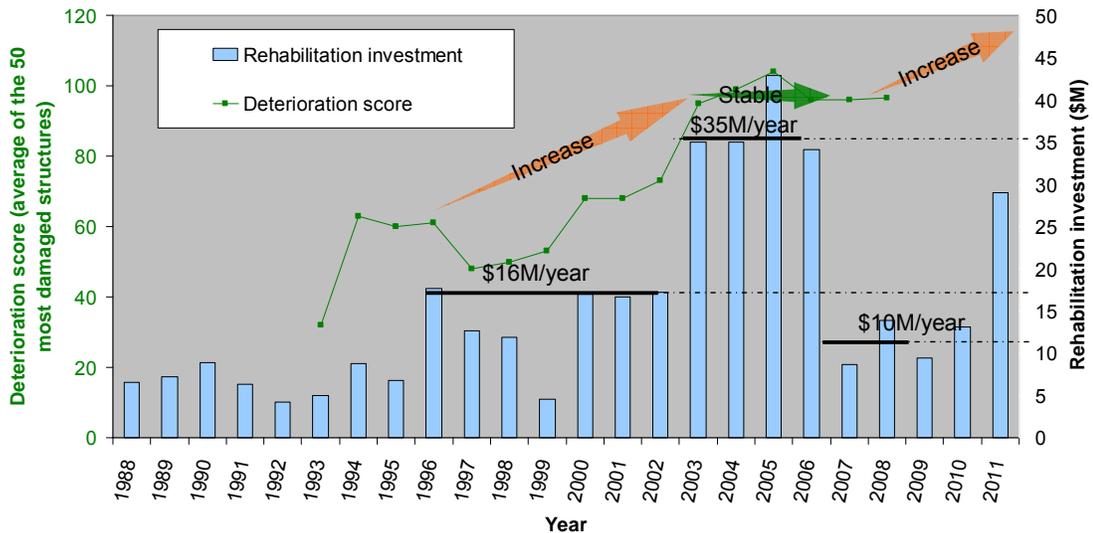
- \$14,000,000 in 2008

- \$10,000,000 in 2009
- \$16,000,000 in 2010

FINDING

Based on the estimates of the Direction des transports, underinvestment since 2008 has escalated structure deterioration, which is far from the commitment expressed in the 2008 Transportation Plan. If the situation is not rectified, the consequences will be serious as the number of structures in poor condition increases and future investment needs increase with the year. This is illustrated in Graph 1, which shows the evolution of structure condition in terms of investment.

Graph 1—Evolution of Structure Condition as a Function of Investment



Source: Direction des transports.

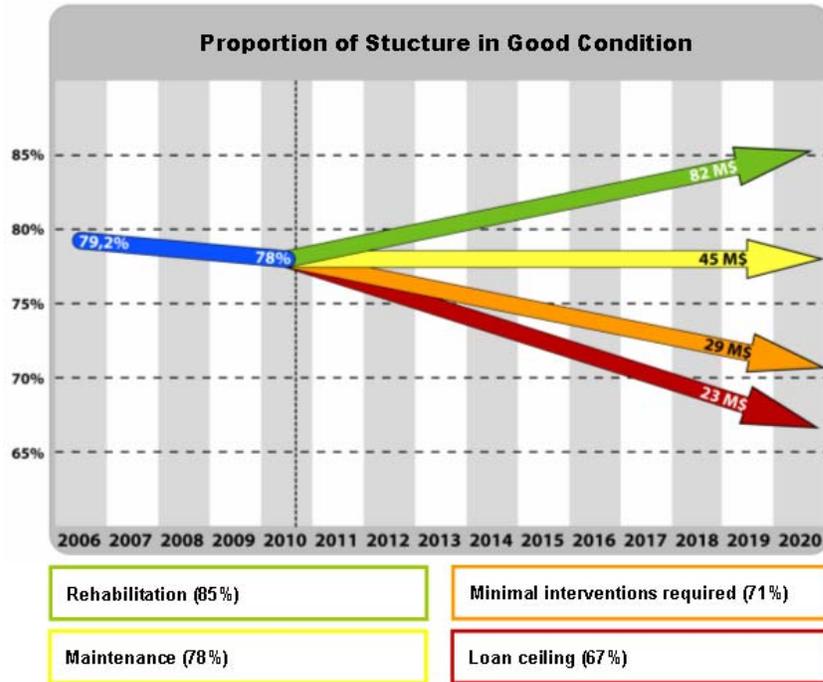
La Direction générale is aware of the problem and in 2010 created a project to produce a 10-year investment plan. This undertaking, which looked at all business units including the Division des ponts et tunnels, would produce a planning process allowing the city administration to:

- develop response plans needed to maintain and develop its assets over 10 years
- adopt investment management policies to ensure an optimal level of asset condition

Sectorial committees were formed to draw up investment plans. This resulted in the tabling of long-term investment planning reports to the finance committees in September 2010. The Direction des transports's report focused mainly on updating the amount required in the future to

meet various long-term objectives. Graph 2 shows the effects of various levels of investment on the percentage of structures in good condition over 10 years.

Graph 2—Effect of Various Levels of Investment on the Percentage of Structures in Good Condition



Source: Direction des transports.

FINDING

In September 2010, the Direction des transports estimated that the annual investment required to maintain the inventory of structures in their 2010 condition would be around \$45,000,000 over the next 10 years. The budget allocated by the Division des ponts et tunnels in 2010 rose, in fact, to \$16 M and was used primarily to defray the costs of commitments stemming from agreements with the MTQ.

We were unable to assess the specific impact of underinvestment on the condition of structures since 2008. Data for January 2011 presented in Table 2 cannot be compared with the desired condition shown in Table 7, because changes were made to structure classification in 2010 that skews the comparison.

The budget for 2011 is \$29,000,000 (Chart 1) and is meant to cover minor responses required in the short term on infrastructures in critical condition. The Direction des transports estimates that

this level of investment is not enough to maintain the assets in their current condition. Instead it is likely to drive down the percentage of structures in good condition from 78% to approximately 70% over 10 years.

FINDING

To date, there remains a gap between the established levels of investment and the 2008 Transportation Plan guidelines, which focus on returning structures to good condition. No commitment has been made regarding the service level or desired condition for all structures and, consequently, the effect on the level of long-term investment that will be needed.

Several sources agree on the importance of settling these points:

- The *National Guide to Sustainable Municipal Infrastructure* stipulates that levels of service related to the condition of infrastructure must be established prior to determining and prioritizing needs. This activity must take into account a number of factors, such as the city's strategic directions, the condition of the network and available funds. The Guide specifies that City Council must approve service levels to give them legal status.
- In June 2010, the finance committees established 15 guidelines for city administration directions and Montréal's 2011 financial framework. Among these is the need for services and service levels to be clearly established.
- In its Equipment and Infrastructure Policy, which came into force on January 30, 2009, the Direction generale pointed to the need to set clear objectives for the condition in which the city's capital assets should be maintained.
- The Service des finances drafted a new financial policy for the 10-year investment plan setting funding objectives that would help determine a desired level of investment, to be approved by the Executive Committee at the end of August 2010.

FINDING

Ultimately, municipal decision makers failed to clearly and specifically approve the service level (desired state of the network) and long-term investment level, contrary to what leading expert sources suggest and what was proposed in a long-term investment planning process that took place in summer 2010. Without specific objectives, it is difficult to determine the needs to be met, predict appropriate network responses to prioritize over the long term and strike a balance with investments.

FINDING

The low investment rates, from 2007 to 2010 in particular, are not in line with Division des ponts et tunnels objectives and 2008 Transportation Plan guidelines for the desired condition of structures for which the city is responsible.

To reverse the trend and halt deterioration, authorities must approve a desired level of service and long-term investment levels so that those in charge can:

- plan priority responses in a timely manner within a comprehensive response strategy
- assess whether clear objectives have been achieved

3.6.2.B. Recommendations

To plan and implement priority responses in a timely manner and halt structure deterioration and the growth of a maintenance deficit, we recommend that the Direction générale:

- **translate the directives of the Transportation Plan into specific service objectives**
- **set a desired long-term investment level**
- **seek City Council approval for the service level and long-term investment level**
- **evaluate results annually**

3.6.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “The Direction des transports will update the investment plan for bridges and tunnels for the ‘Development of a 10-year investment plan’ project. The update will take the Auditor General’s remarks into account and include, in particular, the appropriate cost-benefit analyses and an annual updating process.

City Council arbitrations, decisions and approvals will be part of current operating budget and TCWP processes. The ‘Development of a 10-year investment plan’ is part of that process and is a valuable information tool for elected officials.

In September 2010, various organizational performance initiatives were launched by the Direction générale. One of these dealt with the ‘Development of a 10-year investment plan.’ The aim of the city’s long-term investment planning process is to help city administrators prepare response plans to maintain and develop its assets, i.e., city infrastructure and equipment that it owns, for a period of up to 10 years.

This process will also allow the city administration to adopt investment management policies that will ensure an optimal condition level for its assets. This process covers all business units and all categories of assets and investments.” (Planned completion: February 2012)

V.7. Quartier des Spectacles Development Projects

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V.7. QUARTIER DES SPECTACLES DEVELOPMENT PROJECTS

1. INTRODUCTION

Development of the Quartier des spectacles will add a culture and design component to downtown Montréal. The project, extending over more than a square kilometre, is bounded by rue Saint-Alexandre, boulevard René-Lévesque, boulevard De Maisonneuve and rue Saint-Dominique.

Enriching the Quartier des spectacles is a priority for Montréal. The city's main goal is to host major festivals within the downtown core and create a true urban redevelopment project that can promote Montréal's culture, encourage tourism and revitalize the sector.

This project, which was formulated in 2001 by the Association québécoise de l'industrie du disque, du spectacle et de la vidéo (ADISQ), is backed by the performing arts community.

The city began conducting studies, banking land and expropriating property to implement this concept. On March 24, 2004, the Executive Committee directed the Société de développement de Montréal (SDM) to set up and obtain approval for a short- and medium-term property strategy alongside the city's own activities in the sector bounded by rue Saint-Urbain, rue Ontario, rue Sanguinet and boulevard René-Lévesque.

In May 2006, Ville-Marie borough commissioned a non-profit organization (NPO) to propose a revitalization strategy for the Quartier. In 2008 and 2009, the organization presented the city with three revitalization projects (2-22 rue Sainte-Catherine Est, the Quadrilatère Saint-Laurent and Saint-Laurent metro station) for the Quartier des spectacles sector development plan.

The city expropriated 2-22 Sainte-Catherine Est in the summer of 2006 and demolished the structure in February 2008 for safety reasons. On June 16, 2008, the City Council approved a draft long-term lease. Under its terms, the city would transfer this land to the NPO for 75 years at no charge to develop an arts and culture centre, if 75% of the rentable space is set aside for cultural purposes. On April 19, 2010, however, the City Council rescinded the long-term lease and approved a draft deed under which the city transferred the building without payment, because the developer wanted to turn the building into a condominium. The developer (an NPO) agreed to construct a structure of at least six stories worth \$12 million in terms of its construction

costs and tenant alterations. Construction was to be completed within 30 months of the deed's signing. Work began in May 2010. However, the developer construction in June 2010 while waiting for confirmation of the federal and provincial government grants that the building's future occupant-owners were supposed to receive.

To date, the NPO has signed deals to acquire 8 of the 10 businesses that were located on boulevard Saint-Laurent to develop a large mixed-use office and commercial project in the Quadrilatère Saint-Laurent, with Hydro-Québec expected to be the lead tenant. The city then began expropriation procedures to transfer ownership of the two remaining parties to a third party for construction of a building complex. On September 21, 2009, the City Council approved a development agreement between the city and the developer's property fund to proceed promptly with the acquisition of properties covered by this project. Following a challenge by an owner, however, the expropriation procedure is awaiting for a Superior Court hearing so that the parties can be heard. Construction work had not, accordingly, begun as of April 30, 2010.

The Council approved the NPO's draft offer to purchase the property around the Saint-Laurent metro station. The organization plans to develop a cultural property project at an estimated cost of \$35 million. This offer, however, lapsed on May 31, 2010.

2. AUDIT SCOPE

This audit seeks to ensure that the city's approach to project development has been clearly defined and has been consistent with current laws and regulations. We also considered if appropriate controls were in place and if all activities were properly documented.

Our audit focused on the steps taken to develop and revitalize the following three projects in the Quartier des spectacles:

- 2-22 rue Sainte-Catherine Est.
- Quadrilatère Saint-Laurent.
- Saint-Laurent metro station.

We studied documents that were submitted to the authorities pertaining to the approval of different efforts involved in the implementation of these three projects and the existence of control mechanisms concerning such factors as:

- Planning of the three projects.
- Partner responsibilities promoting sound management of the three projects.

- Legal considerations with respect to a land bank and the expropriations.
- Establishment of fair market value for purchasing properties and buildings through expropriation (2-22 rue Sainte-Catherine Est and Quadrilatère Saint-Laurent projects).
- Public hearings and amendments to urban planning regulations regarding implementation of these projects.
- Grants and authorization of the Ministère de la Culture, des Communications et de la Condition féminine (MCCCF).
- Accountability reporting.

Our audit primarily covered 2005 to the present (June 2010). It was conducted in Ville-Marie borough, at the Service de la mise en valeur du territoire et du patrimoine (SMVTP), the Service du développement culturel, de la qualité du milieu de vie et de la diversité ethnoculturelle (SDCQMVDE) and the Service des affaires corporatives.

3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

3.1. DEVELOPMENT AND REVITALIZATION PROJECT PLANNING

On March 24, 2004, the Executive Committee directed the Société de développement de Montréal (SDM) to set up and obtain approval for a short- and medium-term property strategy, alongside the city's own activities, in the sector bounded by rue Saint-Urbain, rue Ontario, rue Sanguinet and boulevard René-Lévesque.

By September 2004, documents pertaining to the detailed Quartier des spectacles planning section of the Development Plan set out such general strategies such as:

- Promotion and support for centres for the creation, production and dissemination of cultural works.
- Stimulation of property development and development of vacant lots.
- Support for a diversified residential presence in Faubourg Saint-Laurent.
- Uninterrupted continuation of activities along rue Sainte-Catherine.

3.1.1. AWARD OF THE PROJECT PLANNING CONTRACT

3.1.1.A. Background and Findings

In May 2006, the mayor of Ville-Marie borough asked an NPO to propose an urban revitalization strategy for boulevard Saint-Laurent between rue Sainte-Catherine and boulevard René-

Lévesque in line with the then-current strategy for the Quartier des spectacles (prior to formulation of the Quartier des spectacles Special Planning Program [SPP] in June 2008). This three-month, \$20,000 project was to begin by providing the city administration with an assessment of the site and a report including recommendations for the use and development of converted or acquired land and buildings. The NPO was supposed to work closely with the SMVTP and the SDM. The SMVTP had launched a land bank in late 2005 for properties on the southeast corner of boulevard Saint-Laurent and rue Sainte-Catherine. In August 2006, this NPO produced a revitalization plan that was to be deployed over three to five years.

FINDING

Our review of the documents demonstrates that the contract for developing an urban revitalization project on this section of boulevard Saint-Laurent was awarded to this NPO based on correspondence dated May 16, 2006, and signed by the Ville-Marie borough mayor.

Under section 52 of the *Cities and Towns Act* (C.T.A.), a borough mayor exercises “the right of superintendence, investigation and control over all departments and officers or employees of the municipality or borough and especially shall see that the revenue of the municipality or borough is collected and expended according to law, and that the provisions of the law and all by-laws, rules and regulations of the council are faithfully and impartially enforced. He shall lay before the borough council such proposals as he may deem necessary or advisable, and shall communicate to the council all information and suggestions relating to the improvement of the finances, cleanliness, comfort and progress of the municipality” (borough). This section makes absolutely no mention of any contract-awarding authority of the mayor. However, “in case of irresistible force that would imperil the life or health of the population,” a borough mayor “may order any expenditure deemed necessary and award any contract necessary to remedy the situation” of a borough, under section 573.2 of the C.T.A. “[T]he mayor must make a report . . . to the council at its next sitting.” We do not believe that the circumstances under which a contract was awarded to an NPO to propose a revitalization strategy in this case can be likened to an emergency.

3.1.1.B. Recommendations

We recommend that Ville-Marie borough ensure that contract awards comply with tendering rules set out in the *Cities and Towns Act*.

3.1.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “The borough has upgraded its ability to monitor procurement, acceptance and supplier payment activities, particularly in terms of the separation of duties concept and the Cities and Towns Act, pursuant to the internal control committee established in 2009.” (**Planned completion: May 2009**)

3.1.2. ACCEPTING SUBMISSIONS FOR PROJECT DEVELOPMENT

3.1.2.A. Background and Findings

The intersection of rue Sainte-Catherine and boulevard Saint-Laurent is clearly one of Montréal’s key nerve centres. It is “the gateway” to the Quartier des spectacles and is a strategic location requiring its own significant architectural input.

The development of an SPP for the Quartier des spectacles in 2007 and its adoption on June 16, 2008 by the City Council to cover the “Place du Quartier des spectacles” makes that document the municipal reference for designing and developing the Place des Arts sector of the Quartier des spectacles. The SPP establishes a general framework that provides guidance to those involved in the development process and sets out regulatory criteria for land-use designation and occupation density.

This improvement to the city’s Master Plan also marks the launch of a variety of projects aimed at revitalizing the sector and maintaining and expanding its cultural function.

The 2-22 rue Sainte-Catherine Est project grew out of extensive consultation with all partners involved in the revitalization of boulevard Saint-Laurent and rue Sainte-Catherine. Local stakeholders, such as the Corporation de développement urbain du Faubourg Saint-Laurent, the Table de concertation du Faubourg Saint-Laurent and members of the Partenariat du Quartier des spectacles, also worked closely on this effort.

The developer submitted a request for project approval to Ville-Marie borough on March 10, 2009 so that it could launch the project. At the same time, the developer proposed two other construction projects (the Quadrilatère Saint-Laurent and the Saint-Laurent metro station projects) in the same area of the borough.

Applications for the 2-22 rue Sainte-Catherine Est and the Quadrilatère Saint-Laurent projects were submitted by the City Council to the Office de consultation publique de Montréal (OCPM) in April 2009 so that the OCPM could hold a public hearing under the CTA. Public hearings on

these two projects provided opportunities for various members of the public to comment on such issues as the overall planning and approval of these revitalization project sites.

Following these public hearings, the OCPM submitted two reports to Montréal's mayor and the Chair of the Executive Committee, on July 27, 2009. One report dealt with 2-22 rue Sainte-Catherine Est and the other with Quadrilatère Saint-Laurent project. The OCPM presented its analysis of the two projects, taking into consideration the information provided during the public meetings as well as comments and suggestions from participants. The OCPM expressed some reservations about the planning of these two projects along with recommendations.

We have reviewed the two public hearing reports, and there was no doubt among participating members of public, the city or the OCPM about the need to revitalize the rue Saint-Catherine and boulevard Saint-Laurent sector. However, the OCPM concluded: *[TRANSLATION] "The project schedule will have to be more flexible so that the Quadrilatère Saint-Laurent project, which will have a major structural impact on a cornerstone of Montréal life, can move forward."*

The proposed projects are designed to help revitalize sector, in line with the SPP plans for the Quartier des spectacles. These projects must also fit into a complex social environment.

FINDING

We have observed that several changes to the SPP (maximum building height and building density) must be made in the Quadrilatère Saint-Laurent project to meet the project's construction standards. The architectural adaptation and historical treatment of the 2-22 rue Sainte-Catherine Est and Quadrilatère Saint-Laurent projects, which are located within the Monument National protected area, must correspond with that of this heritage district. More detailed planning for this area, in accordance with specific project evaluation guidelines, is needed to ensure compliance with existing criteria.

Municipal policies specific to the sector will provide clearer guidelines for developers seeking to invest there. Its cultural landscape and historical heritage must play roles in the sector's revitalization process, considering the importance of rue Sainte-Catherine and boulevard Saint-Laurent as historic districts.

FINDING

We also noted that the city (SMVTP) did not seek proposals from developers for the development of the public property at 2-22 rue Sainte-Catherine Est and Saint-Laurent metro station, choosing instead to award the contract to launch the revitalization of the sector by private agreement with the same NPO.

The city administration has asserted its right to do business in this manner with NPOs and is compliance with the CTA in so doing. However, a call for proposals from other developers would have served to permit comparison with other revitalization projects for developing this area and would have provided city and Ville-Marie borough administrators with other concepts and initiatives to consider.

3.1.2.B. Recommendations

We recommend that the Direction du développement économique et urbain of the Service du développement et des opérations ensure that the Quadrilatère Saint-Laurent project meet the terms of the Special Planning Program so that it complies with the regulatory requirements pertaining to a developer.

We recommend that the Direction stratégies et transactions immobilières of the Service des immeubles et des systèmes d'information promote the use of calls for proposals to develop public lands to develop projects that more closely correspond with decision makers' expectations. A rationale should appear in the executive summary if this procedure cannot be applied.

3.1.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "A working subcommittee tasked to translate these requirements and their method of implementation will be set up as part of a joint coordination mechanism for large projects pairing the DDEU (Direction du développement économique et urbain) and Ville-Marie borough. This mechanism for consultation between central city administration and the borough was initiated during the fall of 2010. Its role includes facilitating the management of major projects through transparency in decision-making, effective communication and regular meetings. The committee will also consider issues of common interest for major projects."
(Planned completion: September 2011)

[TRANSLATION] "The DSTI (Direction stratégies et transactions immobilières) generally favours public calls for proposals for the sale of city land. Attaining specific development goals requires

occasional recourse to private sales. This was the case of the 2-22 Sainte-Catherine Est transaction, for example, in which a public call for proposals could not have accommodated the project's cultural development goals.

We will carefully document such situations when they arise in their decision records.

Public calls for proposals will continue to be employed for most transactions.” (Planned completion: June 2010)

3.1.2.D. Auditor General's Comments

We consider that the 2-22 rue Sainte-Catherine Est project is a priority in terms of Quartier des spectacles development projects. A public call for proposals to developers that includes such cultural development requirements as architectural and historical considerations could allow decision-makers to choose the project that would best fit into this heritage area. Several changes to the SPP were particularly important in terms of meeting project implementation conditions.

3.2. FINANCIAL VIABILITY STUDY

3.2.A. Background and Findings

In 2006, the city established an investment fund with plans to contribute \$60 million into it annually for three years to ensure implementation of such major projects as the Quartier des spectacles. This new investment strategy would provide the city with a financial tool for actively contributing to the growth of its property value while meeting its economic concerns, as part of the Imagining—Building Montréal 2025 and the Success@Montréal development strategies.

This fund was established to allow the city to invest in projects providing significant financial returns, while addressing the socio-economic and organizational implications of the selected projects.

Three principles govern the creation of a separate fund allocation under the traditional Three-Year Capital Works Program (TCWP):

- The city wishes to invest in projects with high projected property taxes.
- The city wants to acquire a system of funding that will gradually finance major project investment on its own.

- City investments are intended to ensure three years of uninterrupted funding for investments committed to major development projects.

The city created a project analysis and investment process to set investment priorities essentially involving two stages of analysis:

- Assessment of financial returns.
- Environmental impact assessment

A preliminary financial analysis as of October 30, 2006 was conducted as part of the budget planning process (TCWP 2007–2009) to provide a general idea of the relatively long-term tax revenues that the Quartier des spectacles' Quadrilatère Saint-Laurent project would generate. No specific official criteria were required at that time for assessing profitability or priorities. The Service des finances and the SMVTP established financial criteria for the investment fund, however, in the 2007 Budget.

Investment projects must demonstrate their financial viability to the city in terms of net surplus tax income to be selected. Indicators of this projected performance include the required investment payback period of no more than 10 years and the requirement for a positive net present value (NPV) based on the projected internal rate of return (IRR). Each project's impact on the city's external and internal environments must also be considered to ensure a proper fit.

We obtained the October 30, 2006 study on the financial analysis of the complete Quartier des spectacles project from the Direction de l'analyse financière et de l'administration of the SMVTP as part of our audit. This study of the cash flow generated by the project reveals:

- NPV (net present value): \$235.8 million.0
- Payback period: six years (number of years before the cumulative discounted cash flow will turn positive).

A second study was conducted in 2010. Comparisons between the two profitability studies (2006 and 2010) are complicated, however, because the project was redefined using different factors affecting both content and area covered. The zone targeted by the 2007 SPP (Place des Arts area only) is not the same as that of the 2006 financial feasibility study. Economic conditions have also changed significantly over the past few years.

Although it is not possible to compare it with the analysis used in the TCWP 2007-2009 budget preparation, the new analysis for the Place des Arts sector presents a positive NPV with a maximum five-year payback period.

Financial viability studies were conducted for two of the three development projects chosen as part of our audit: 2-22 rue Sainte-Catherine Est and the Quadrilatère Saint-Laurent. No study was done for the Saint-Laurent metro station since no development project had been drawn up. However, a financial analysis of all Quartier des spectacles projects must provide a basis for assessing overall impact on the investment fund.

The results demonstrated that, unlike the Quadrilatère Saint-Laurent project, 2-22 rue Sainte-Catherine Est does not on its own meet criteria for inclusion in the investment fund.

FINDING

We have also determined that the authorities made critical decisions with respect to these projects before they knew the results of completed or planned viability studies.

For example:

- **On June 16, 2008, the City Council approved a promise to conclude a long-term lease in which the city pledge to transfer a property at 2-22 rue Sainte-Catherine Est to an NPO for 75 years, although though the financial viability study was only completed on April 17, 2009.**
- **On September 21, 2009, City Council approved a draft development agreement between the city and an NPO for the Quadrilatère Saint-Laurent project without having received the financial viability study completed on September 15, 2009.**

It should be noted that the overall Quartier des spectacles projects met criteria for inclusion in the investment fund, based on the financial viability study conducted in October 2006, which covered the three audited projects.

FINDING

Although the Quartier des spectacles project has evolved over the past four years, this financial viability study has only been updated once to take into account decisions that would have a great impact on the project. A further update would allow us to assess whether or not the project's established goals will permit its overall viability and to provide the authorities with information on how specific projects will influence the Quartier des spectacles as a whole.

3.2.B. Recommendations

To monitor monetary flows resulting from project development and keep authorities informed as to the effects of decisions, we recommend that the Direction de l'analyse financière et de l'administration du Service du développement et des opérations:

- Communicate the selected projects' financial viability analyses to the authorities prior to their approval.
- Regularly produce and communicate financial viability analysis for the entire Quartier des spectacles project to the authorities when major events occur.

3.2.C. Action Plan of the Relevant Business Unit

- *[TRANSLATION] "The Urban Agglomeration Council adopted a municipal asset management program and project governance framework (GDD 1104544002, CG10 0158) in April 2010. This governance framework covers large-scale projects and municipal asset management programs.*

The administrative rules of this governance framework consist of seven guiding principles. Under these principles, units responsible for projects and programs must prepare or update their respective business cases in view of decision points. These updates include:

- *Risk and opportunity analyses.*
- *Forecasts of project revenues and benefits.*
- *Financial viability analysis.*
- *Potential funding sources.*
- *Study of deviations from the basic business case.*

The process has, accordingly, been officially approved already. The administration should not make any decisions with respect to decision points without first considering the business case, as stipulated in the governance framework.

- *Reports will be periodically generated (with TCWP budget evolution) to reflect changes in a project's overall financial status. Furthermore, an updated financial analysis must be included in any project's GDD if an important financial event is reported during the project that requires a decision by the administration." (Planned completion: April 2010)*

3.3. PROPERTY EXPROPRIATION AND TRANSFER

The SMVTP's Direction de la planification stratégique et du soutien began to consider transforming and developing the Quartier des spectacles in October 2005. This undertaking sought to define appropriate strategies and actions for revitalizing this sector. Measures were taken at the start of planning to preserve and protect important sites harbouring potential that could be impaired by activities inconsistent with project goals. The city accordingly placed two sites on the southeast corner of rue Sainte-Catherine and boulevard Saint-Laurent in a land reserve. Moreover, the SDM was asked on March 24, 2004 to participate in the sector's property development. However, the SDM's attempts to negotiate purchases have been unsuccessful.

3.3.1. 2-22 RUE SAINTE-CATHERINE EST PROJECT (EXPROPRIATION)

3.3.1.A. Background and Conclusion

The SMVTP's Division expertise et évaluation immobilières estimated that the potential purchase price of properties targeted by the reserve was some \$1.7 million as at October 24, 2005. A recommendation was made at the City Council meeting of November 29, 2005 that the city's Direction du contentieux be tasked with following through on these purchases.

However, the condition of properties targeted by the land was adversely affecting the status of the sector's buildings and businesses. In April 2006, the SMVTP's Direction stratégies et transactions immobilières estimated a potential purchase price for budgetary purposes of these properties at approximately \$1.9 million. The City Council authorized the SMVTP on June 19, 2006 to keep this \$1.9 million available as compensation for the expropriated owners and to deposit with the Superior Court, at the request of the Direction du contentieux, the provisional compensation set out under the *Expropriation Act*. This expropriation pertained to a building with five registered business leases and a vacant lot.

In February 2008, the building was demolished because the SSIM ruled that it was unsafe and unfit for occupancy.

An out-of-court settlement with the owner ultimately approved final compensation of \$2,150,000 for the 2-22 rue Sainte-Catherine Est parcels on May 6, 2008. Both parties signed this deal and the City Council approved the settlement on August 25, 2008.

We obtained the chartered appraiser's report of June 19, 2008 on this property, which offered a favourable opinion on this settlement. The chartered appraiser considered the scarcity of large vacant lots, the presence of this lot in a busy downtown area and the sector's changing nature. The main features of the application zoning regulation are:

- Permitted height: from three to five stories.
- Maximum height: 16 metres (52.5 feet).
- Authorized density: six times the land area (potential surface area: 9,869.7 square feet).

The chartered appraiser considered in his assessment of market value that the land was vacant and available for future development under zoning by-laws as at the date of the appraisal, as well as its best and most profitable use. Based on the foregoing statements, he appraised the market value of the properties under consideration at \$150 per square foot. The settlement, at the rate of \$165 per square foot, is 10% higher than the appraiser's assessment. However, the \$165 per square foot rate represents a better-than 30% discount from the some \$2,465,400 (equivalent to a square foot rate of \$250) initially sought by the expropriated party.

Conclusion

The audit of the documents relating to the expropriation of property at 2-22 rue Sainte-Catherine Est demonstrated that the expropriation procedure was properly observed, that agreements between the city and the expropriated parties were approved by the City Council and that all pertinent information was forwarded to the Council.

3.3.2. 2-22 RUE SAINTE-CATHERINE EST (ASSIGNMENT)

3.3.2.A. Background and Findings

The same organization (NPO) has become the developer (NPO) of a cultural project aimed at creating a symbolic and visual point of reference for Montréal arts, shows and entertainment on the site of 2-22 rue Sainte-Catherine Est, in line with the development strategy cited in its August 2006 report on the Quartier's revitalization strategy.

The SMVTP's Direction stratégies et transactions immobilières declared in an internal announcement on November 10, 2006 that the city planned to transfer the property at 2-22 rue Sainte-Catherine Est without charge to an NPO for cultural purposes.

On June 16, 2008, the City Council approved a draft commitment to enter into a long-term lease. Under its terms, the city would transfer some 900 square metres (9,869 square feet) of land at the intersection of rue Sainte-Catherine and boulevard Saint-Laurent to a developer (the NPO) for 75 years to permit construction of an office building devoted primarily to arts and cultural enterprises, all without monetary consideration, on the condition that at least 75% of the total building space was set aside for cultural purposes. The terms included an agreement by the developer to complete the project within 24 months of signing the long-term lease and to construct a building of at least five stories and a value of some \$15 million for cultural purposes that complied with Leadership in Energy and Environmental Design (LEED) standards. The developer's budget for the 2-22 rue Sainte-Catherine Est building was based on construction costs of recently completed projects.

The financing package assumed that the NPO would contribute up to some 55% of the funding, with about 45% provided by public partners. The project's planned funding package is outlined in Table 1:

Table 1—Financing Package

Participants	Amount
The NPO's initial investment	\$4,500,000
Interim financing during construction	\$3,909,000
Municipal contribution (property)	\$2,000,000
Government of Québec contribution	\$2,500,000
Government of Canada Contribution	\$2,500,000
Total	\$15,409,000

The principles guiding formal design of 2-22 rue Sainte-Catherine Est were primarily based on the building's cultural function of serving as a showcase for the Quartier des spectacles.

We obtained the long-term lease and verified that the Direction du contentieux of the Service des affaires corporatives had approved the project and noted that the contract complies with the plan to conclude a long-term lease. We also reviewed the decision summaries accompanying the City Council resolution of June 16, 2008 with respect to the approval of the draft commitment conclude a long-term lease with an NPO. Finally, we confirmed with the Direction du contentieux that the long-term lease was genuine and checked the various clauses cited in the contract and the official signatures of the duly authorized legal entities dated December 16, 2008.

FINDING

The project developer conducted a brief feasibility study of the proposed building's construction and appended it to the long-term lease. However, we noticed there were no studies or assessments identifying measures needed to meet objectives (market analyses, study of technically and economically feasible measures, project viability and the expectations of future building tenants).

The feasibility study stated that the developer expected to receive financing from public sources of some \$7 million (\$2 million from the city, \$2.5 million from the Government of Québec and \$2.5 million from the Government of Canada) to follow through on the project. It planned to make up the difference (\$8.4 million) between the total cost of the building and its actual value with a special rental structure benefitting artists and cultural businesses.

FINDING

Investor participation in this \$8.4 million was not, however, sufficiently substantiated by this study.

The developer sent a letter to the SMVTP's Assistant Director General on October 15, 2009 to discuss changes to the long-term lease that would allow sales of divided shares of the property to different owners. The developer asked the city to change the financial and legal structure of the project and indicated that the long-term lease was not an effective vehicle for the project as originally defined and in view of the required financing. The City Council was accordingly obliged to terminate the long-term lease on April 19, 2010 because of funding problems and partner concerns as to project implementation.

3.3.2.B. Recommendations

To ensure partner interest in the financing package, we recommend that the Direction stratégies et transactions immobilières of the Service des immeubles et des systèmes d'information require developers to provide:

- **A complete and detailed feasibility study to support the investments needed to develop their projects as outlined in the agreements.**
- **A confirmation of project financing from public and private sector partners.**

3.3.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “Planned investments in projects involving building transfers usually depend on a feasibility study. The city, however, ensures project completion through a cancellation clause whereby it ownership of the transferred land reverts to it if the developer defaults on such obligations as investment in the property.

We lack adequate in-house resources to obtain full confirmation of funding by public and private partners. We believe that the city’s ability to repossess the property in the event of project non-completion is a sufficient guarantee.

The DSTI does not accordingly have to monitor the frequent changes in the share ownership of our buyers and constant changes in financial partners.” (Planned completion: June 2010)

3.3.2.D. Auditor General’s Comments

As stated in our recommendation, we urge that the DSTI require, in addition to a cancellation clause, that the developer provide a detailed and complete feasibility study to support the necessary investments.

The developer must also provide confirmations of financial contributions from its partners to demonstrate their commitment and their conviction that the project will materialize. The cancellation clause will only serve in the last resort, when there is no further basis for agreement.

3.3.3. 2-22 RUE SAINTE-CATHERINE EST PROJECT (COMPLIANCE OF THE PLANNED CONSTRUCTION)

3.3.3.A. Background and Findings

To continue with the project following termination of its long-term lease, it was necessary to transfer full and absolute ownership of the property at 2-22 rue Sainte-Catherine Est to a limited partnership in which the sole general partner was the same project developer (NPO). The developer promised, in a notarized transfer deed approved by City Council on April 19, 2010, to construct an LEED-complaint building of at least six stories worth some \$12 million in terms of its construction costs and tenant alterations.

Ville-Marie borough’s Direction de l’aménagement urbain et des services aux entreprises of Ville-Marie borough prepared an executive summary for the borough’s elected officials regarding the

adoption of a resolution on April 12, 2010 concerning construction of a commercial building at 2-22 rue Sainte-Catherine Est.

FINDING

Information on the project's financial aspects demonstrate, however, that construction costs would total some \$9 million, although the April 19, 2010 transfer deed required the developer to construct a building worth some \$12 million in terms of its construction costs and tenant alterations.

We could not obtain a breakdown of the building's construction costs during the audit, so we could not reconcile the \$3 million difference between the information revealed in the executive summary prepared for the elected representatives of Ville-Marie borough and the transfer deed.

The ownership agreements must be submitted in advance to the Direction du contentieux to ensure that the city is satisfied with the provisions and that they do not dilute requirements pertaining to the building's cultural purpose. The developer agreed to sell or lease at least 75% of the building's rental space to cultural businesses for a minimum period of 30 years following the conclusion of the transfer deed between the city and the developer. The contract contains a cancellation clause to ensure that the developer meets these conditions.

With the assistance of a notary from the Direction du contentieux, we reviewed the long-term lease's cancellation agreement, the draft deed for transfer of the property by the city to the developer, the prerequisites for approval by the city of a "designated purchaser" and the terms and conditions of the mortgage security prepared by the designated purchaser in favour of the city. The Direction du contentieux received written confirmation from the developer's legal advisor that the administrators concurred with these draft deeds and schedules and that the developer was committed to signing them without modification.

We also reviewed the positive comments on these transactions from the following business units:

- The SMVTP's Direction de l'analyse financière et de l'administration.
- The SMVTP's Direction stratégies et transactions immobilières.
- The SDCQMVDE's Direction générale adjointe.
- The SMVTP's Direction de l'aménagement urbain et des services aux entreprises (DAUSE).

Our review of the various documents pertaining to the agreements demonstrated that they had been approved by the authorities and parties concerned.

FINDING

Work on this project began in May 2010. However, we observed that several factors must be taken into consideration to ensure its completion. These factors include:

- Implementation of the new project according to the conditions of the transfer agreement within 30 months of the contract's signature.
- Municipal authorization of the project's architectural changes in view of the sector's heritage status; furthermore plans for these changes must comply with existing laws and regulations and must be certified by professional architects.
- The building's construction costs, taking into consideration the financial capacity of future renters or owners, 75% of which will be active in the cultural sector.
- Requirement for maintaining this cultural function for 30 years after signing.
- Compliance with SPP guidelines for the Quartier des spectacles.
- Compliance with construction industry standards for sustainable development (LEED certification).
- MCCCCF grant authorization.

3.3.3.B. Recommendations

We recommend that the Direction du développement économique et urbain of the Service du développement et des opérations ensure, in conjunction with Ville-Marie borough, ensure that the information in the executive summary on the construction of a building (at 2-22 rue Sainte-Catherine Est) complies with the terms of the transfer deed approved by the City Council on April 19, 2010.

3.3.3.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "The project manager is responsible for a project's management process and ensures compliance with terms of the transfer deed (or the proposal to and acceptance by the authorities concerned of a contingency plan). Project management with Ville-Marie borough is has been facilitated now that the DDEU-borough coordinating committee is in place.

Actions

- Prepare a regular follow-up report on the work's progress, with particular focus on transfer deed requirements.
- Present a contingency plan with respect to the 30-month construction period." (**Planned completion: March 2011**)

3.3.4. QUADRILATÈRE SAINT-LAURENT PROJECT (EXPROPRIATION)

3.3.4.A. Background and Findings

On September 21, 2009, the City Council approved a development agreement with the developer to proceed promptly with the acquisition of the properties targeted by the Quadrilatère Saint-Laurent project. Under the agreement, acquisitions made by the city through a private sale or expropriation would be subsequently transferred to the developer. Property transactions between the city and the developer would be at no cost to the city, since the developer would purchase the property when taking possession of it, by paying the total cost of the expropriation, including eventual damage costs and all expenses incurred by the city. The developer would also assume the cost of demolishing the buildings and of all risks relating to land contamination. Finally, the developed would pledge to provide the city with a letter of credit from the bank guaranteeing payment of the total price for the properties concerned.

We confirmed with the Division du droit fiscal, évaluation et transactions foncières that the expropriation process consisted of the following procedures:

- A notice of expropriation was delivered by bailiff to the owners of the buildings on October 9, 2009.
- A notice of expropriation was published at the Bureau de publicité on October 16, 2009.
- Notification to tenants was sent on October 27, 2009.
- The city received notification of a motion to quash and contest its right to expropriate the property on November 9, 2009.
- The Direction du contentieux filed its defence with the Superior Court and served it on the opposing party on December 21, 2009.

On April 15, 2010, the Division du droit fiscal provided us with the market value of the property prepared by a firm of chartered appraisers, accompanied by proof of an irrevocable and unconditional letter of guarantee issued by a banking institution to cover all of the developer's acquisition costs.

The parties were awaiting a Superior Court hearing on the expropriation procedure as of April 22, 2010.

The principal tenant in this project was expected to be Hydro-Québec. Hydro-Québec had, in a May 2008 letter of intent, expressed its interest in leasing 300,000 square feet of space.

FINDING

In December 2009, due to such issues as delays caused by the expropriation procedures, Hydro-Québec downgraded its requirements to 100,000 square feet. The individuals we met said that delays caused by these proceedings could undermine the initial rental scenario and the developer might have to find new tenants.

3.3.4.B. Recommendations

We recommend that the Direction du développement économique et urbain ask the developer about this project's progress and the importance of developing alternatives in the event that the initial scenario is not feasible.

3.3.4.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "Various scenarios for breaking the expropriation deadlock have been considered. The Direction du développement économique et urbain in conjunction with the Direction des services juridiques of the SDO and Ville-Marie borough instituted technical studies in October 2010 to explore the various regulatory options for amending the by-law in question to permit completion of the project in phases." (Planned completion: the city is currently continuing to explore development scenarios for the site [February 21, 2011]. There will be quarterly follow-ups on this project.)

3.3.5. SAINT-LAURENT MÉTRO STATION PROJECT (LAPSED OFFER TO PURCHASE)

3.3.5.A. Background and Conclusion

The city has for several years wanted to have a cultural project on this site that would prove a good fit with the Quartier des spectacles. In September 2007, the SMVTP's Division du développement urbain produced a document entitled *Balises de développement pour le terrain du métro Saint-Laurent*. Its guidelines included a stipulation that project density must approach the maximum permitted by the Master Plan, since the open space ratio (OSR) will be increased to 9 under the current revision process.

The NPO submitted an offer in 2009 to buy this property and develop a cultural project.

On September 21, 2009, the City Council approved the developer's draft offer to purchase a vacant lot at the corner of boulevard Saint-Laurent and boulevard De Maisonneuve in Ville-Marie borough for the sum of \$2,872,275, based on a unit rate of \$25 per square foot for each OSR unit and a minimum OSR of 6 (basic OSR).

The property was valued at \$1,726,900 on the 2007-2009 assessment roll. We have reviewed the external assessment report dated January 22, 2008 that set the property value at \$2,730,000. This value was established using an OSR of 6. However, in adopting the Quartier des spectacles SPP, the Master Plan and zoning regulations were changed to increase this property's density to an OSR of 9.

Conclusion

The developer had not submitted a request to the Direction de l'aménagement urbain et des services aux entreprises of Ville-Marie borough for regulatory permission to develop a property project as of May 31, 2010, the date on which the draft offer to purchase the building made by the developer expired.

3.4. PUBLIC HEARING ON PROJECT IMPLEMENTATION

3.4.A. Background and Conclusion

The OCPM was created under section 75 of the Charter of Ville de Montréal. The OCPM conducts public hearings pertaining to the city's various areas of authority, particularly for urban development and land planning projects and all other projects designated by the Council or the Executive Committee. This agency is independent and members are not elected representatives or municipal employees.

Under the Charter of Ville de Montréal, the OCPM holds public hearings on all by-laws adopted by the City Council pertaining to projects pertaining to recognized or classified cultural properties and historic monuments designated under the *Cultural Property Act* or to projects planned for a historic borough or a heritage site as defined in this *Act*.

On April 28, 2009, the City Council directed the OCPM to hold a public hearing on the 2-22 rue Sainte-Catherine Est and Quadrilatère Saint-Laurent projects. The Saint-Laurent metro station project was not referred to the OCPM because the administrative process involved in project implementation was not sufficiently advanced.

Implementation of these projects requires changes to the city's Master Plan companion document and one project must be adopted under Ville-Marie borough's *By-law concerning special projects regarding the construction, modification or occupation of a building*.

Furthermore, the projects were submitted in accordance with current regulations to Ville-Marie borough's Comité consultatif d'urbanisme (CCU), to the city's ad hoc Comité d'architecture et d'urbanisme (CAU) and to the Conseil du patrimoine de Montréal (CPM).

Hearings were publicly announced on May 6, 2009 and advertisements appeared in daily newspapers that day and the next.

These hearings comprised two components. The first was a general information session about the proposed project and its regulatory framework. In this case, some topical information sessions were held on the project's social implications, its architectural concept and its integration into the urban landscape. Resident opinions and submissions were presented in the second part.

The OCPM then reviewed the information and opinions presented at these hearings in the second component. The OCPM issued two reports on July 27, 2009, with one on the 2-22 Sainte-Catherine and the other on Quadrilatère Saint-Laurent.

The report on 2-22 rue Sainte-Catherine Est stated that it was favourably viewed by most of its stakeholders and had received enthusiastic support from the cultural sector. Some misgivings were expressed with respect to the architectural proposal (concept), the building's height and the structure and treatment of its facades (in keeping with local history). The OCPM issued a recommendation supporting the project. The OCPM also stated that the proposed building complies with its intended use and that the request for exemption from the sector's height restriction was justified. However, the OPEC recommended that the architectural adaptation of the building façade be more expressive and be developed in closer keeping with the history of the Saint-Laurent and Sainte-Catherine intersection.

The report on Quadrilatère Saint-Laurent stated that the large majority of public hearing participants expressed different opinions as to project's architectural adaptation, but not as to its relevance. Participants generally considered the project concept from a heritage perspective or in terms of a smoother integration of the structure within the urban setting.

The OCPM's report presents nine recommendations for various aspects of the developer's proposal.

The OCPM ultimately stated that the project was too vast to be subjected to such tight deadlines and that some flexibility should be included in the completion schedule to permit the evolution of a project that will have a considerable structural impact on one of Montréal's key sectors.

The OCPM emphasized that the project needs to evolve and will benefit from additional work, particularly with respect to its integration into a complex and iconic sector of Montréal.

Conclusion

The OCPM sent its public hearing reports on 2-22 rue Sainte-Catherine Est and Quadrilatère Saint-Laurent to the Mayor of Montréal and the Chair of the Executive Committee on July 27, 2009 and were publicly disclosed on August 10, 2009. These reports presented a number of recommendations.

3.5. REGULATORY PARAMETERS AND EXEMPTIONS

Montréal's Master Plan, which the City Council adopted on November 22, 2004, established 26 detailed planning sectors, including the Quartier des spectacles, across Montréal. These sectors represent parts of the city presenting major and complex issues that required additional consideration and new urban planning studies subsequent to the Plan's adoption. Ville-Marie borough accordingly launched in-depth planning for the Quartier des spectacles by commissioning an external firm in March 2007 to develop an SPP for the Place des Arts area of the Quartier des spectacles. The SPP serves as tangible support for economic development efforts by the city and by Ville-Marie borough in this sector. On June 16, 2008, City Council adopted the *By-law modifying the Master Plan* to include the Place des Arts sector of the Quartier des spectacles SPP in the Master Plan. Ville-Marie borough adopted the concordance by-law of the *By-law amending the Urban Planning By-law for the Ville-Marie borough* during its council meeting on December 2, 2008.

One of the SPP's goals is to maintain and develop cultural functions in the Quartier des spectacles. However, these three revitalization projects deviate from the Master Plan, which falls under City Council jurisdiction and the *Urban Planning Bylaw of the Borough of Ville-Marie*.

3.5.1. 2-22 RUE SAINTE-CATHERINE EST PROJECT

3.5.1.A. Background and Conclusion

The developer filed a request for regulatory authorization for this project with Ville-Marie borough on March 10, 2009. The proposed 2-22 rue Sainte-Catherine Est project is one component of the Quartier des spectacles' SPP. However, it deviates somewhat from the Master Plan (City Council jurisdiction) with respect to:

- Height: the building would be 33.5 metres high, although the city's Master Plan allows for a maximum height of 25 metres. The Master Plan must be amended to add a new zone with a maximum height of 44 metres, corresponding to the limit of the next higher category, if the project is to be implemented.
- Maximum building density: 6.3 for the project, although the Master Plan allows a maximum of 6.0.

Examples of how the project also departs from Ville-Marie borough's [TRANSLATION] *Planning By-law* follow:

- Maximum height in stories and metres: the planned building would be eight stories and 33.5 metres, although official limits are five stories and 16 metres.
- Maximum construction density: the project is designed for 6.3, although the official maximum is 6.0.
- Number of parking spaces for cars: the project does not provide for any space, although a minimum of 11 is required.
- Number of parking spaces for bicycles: the project does not provide for any, although a minimum of 12 is required.

Because of the kinds of the variances requested (special construction project and amendments to the Master Plan's supplementary document), the following advisory bodies gave opinions in the matter:

- CPM (Conseil du patrimoine de Montréal), at its March 30, 2009 meeting
- CCU (Comité consultatif d'urbanisme) at its April 2, 2009 meeting
- CAU (Comité ad hoc d'architecture et d'urbanisme), at its April 3, 2009 meeting

These agencies issued favourable opinions for the height exemption, since the proposed building's model blends well with its surroundings. However, they believe that the architectural adaptation must be revised in view of the highly commercial nature of the sector, the surrounding architecture and boulevard Saint-Laurent's importance as a historic district.

On April 28, 2009, City Council adopted the draft regulation entitled *By-law modifying the Montréal Master Plan* and will submit the matter to the OCPM so that the latter can hold the required public hearing under the Charter of Ville de Montréal to amend Ville-Marie borough's building height map.

The OCPM held public hearings on this draft by-law in May and June 2009, as appears in its report of July 27, 2009.

On August 25, 2009, City Council adopted the by-law entitled *By-law modifying the Montréal Master Plan* to include the amendments of Ville-Marie borough's building height map in its companion document.

On September 1, 2009, the Ville-Marie borough council stated that it had not received a request for a referendum. In accordance with the plans prepared and submitted on August 18, 2009 by the project architect, the borough council granted its authorization for an exemption from the *Urban Planning By-law for Ville-Marie borough*.

The Direction de l'aménagement urbain et des services aux entreprises issued the construction permit for the new building on October 23, 2009.

Conclusion

We reviewed the requests for required exemptions from the *Urban Planning By-law for Ville-Marie borough* to permit construction of the 2-22 rue Sainte-Catherine Est project and we have verified compliance with *Act respecting Land Use Planning and Development* and Charter of Ville de Montréal procedures (opinions of the CCU and public hearings conducted by the OCPM and the borough, referendum approval, respective areas of jurisdiction of the city and borough councils).

On February 22, 2010, the developer submitted a request to Ville-Marie borough to authorize the changes to the Special Planning Program previously approved by a borough council resolution on September 1, 2009. The request deviates from this resolution because the new plans propose the construction of a building with fewer stories and a different architectural style. The changes requested can be granted through the *By-law on specific construction, alteration or occupancy proposals for an immovable* if they comply with the by-laws standards and directives.

In its first reading of the resolution on April 12, 2010, the borough council approved changing the maximum height of the building under the September 1, 2009 by-law from 34 metres to 28 metres, including roof protrusions. The final vote on this change is scheduled for June 15, 2010.

The Ville-Marie borough planning calendar indicates that the request for a building permit will be filed on June 16, 2010.

3.5.2. QUADRILATÈRE SAINT-LAURENT PROJECT

3.5.2.A. Background and Findings

The Quadrilatère Saint-Laurent site is identified on the Master Plan as a developed sector of great heritage value. In March 2009, the developer filed a request with Ville-Marie borough's Division de l'urbanisme to permit construction of a commercial building on the northwest part of the block bounded by boulevard Saint-Laurent, boulevard René-Lévesque, rue Clark and rue Sainte-Catherine. The project requires an exemption from Ville-Marie borough's *Urban Planning By-law* that can be allowed under procedure set out in section 89 of the Charter of Ville de Montréal. An amendment to the Master Plan is also required to adapt the site's allowed height and density restrictions. Such an amendment also requires the inclusion of a building purchase program in the Quartier des spectacles SPP to ensure the reparcelling of land needed for the project. The city may, in other words, have to expropriate properties that the developer has not been able to acquire.

Section 89 (Article 1, Paragraph 3) of the Charter allows the City Council to adopt a by-law to carry out certain projects despite any by-laws adopted by a borough council. The City Council can accordingly adopt a by-law permitting exemptions from certain provisions of the borough's urban planning by-law and preclude the application of other provisions of this by-law in this area. Furthermore, adoption of such a by-law is not subject to referendum approval. That is why provisions also require the OCPM to hold hearings if the City Council applies section 89.1 of the Charter of Ville de Montréal.

Construction of the Quadrilatère Saint-Laurent project requires such exemptions as:

- Open space ratio of 7.7 rather than 6.0 as set out in the Master Plan.
- Maximum height of 48 metres/12 stories instead of 16 metres/5 stories.
- Less than 80% masonry.
- More than 40% door and windows.

The rationale for the requested exemptions is based on the special situation of the site, the proposed urban integration measures and the objectives of the Quartier des spectacles' SPP (a pleasant, well-balanced and attractive neighbourhood).

The project was presented to three advisory bodies:

- The CPM, at its March 30, 2009 meeting.
- The CCU (Comité consultatif d'urbanisme), at its April 2, 2009 meeting.
- The Comité ad hoc d'urbanisme (CAU), at its April 3, 2009 meeting.

After receiving the comments from these organizations, the developer modified the project design by reducing the commercial space, reducing the height from 66 metres to 48 metres and transferring the overheight portion toward rue Sainte-Catherine and proposing solutions to the other concerns raised.

The OCPM held public hearings as stated in its report of July 27, 2009. The City Council took note of this report during its meeting of August 24, 2009. The draft by-laws were amended after these public hearings.

Following publication of the OCPM's report on August 10, 2009, the parties worked to enhance the project and certain improvements were proposed, particularly with regard to its total space, the preservation of heritage components and the occupancy and architectural adaptation of the first three stories.

On September 22, 2009, the City Council took note of the report from Ville-Marie borough's Direction de l'aménagement urbain et des services aux entreprises to address the proposed by-law amendments. The City Council adopted, with some changes to the draft that had been adopted on its first reading of April 28, 2009, a by-law entitled [TRANSLATION] *By-law authorizing the demolition and construction of a building on properties located on the southwest corner of the intersection of rue Sainte-Catherine and boulevard Saint-Laurent*. The proposed by-law now addresses the preservation and restoration of heritage buildings façades along boulevard Saint-Laurent in their original locations as well as maintenance of the heights of their original storeys when dismantled and a requirement to reproduce their façades. The prominence of the Monument-National is to be maintained by setbacks providing good clearance between the Monument-National and the highest part of the proposed building's mass.

FINDING

Details of the building's architectural adaptation are still awaited. The Ville-Marie borough council will, in accordance with its by-laws, conduct an architectural review of these issues, before issuing a building permit.

FINDING

Heritage issue guidelines are not clearly formulated and require studies to ensure the and inclusion of historic façades. Consistency of land use, architecture, design, development and public art in this sector would help future projects benefit from a sustainable approach to development incorporating high artistic content.

On September 22, 2009, City Council also adopted without amendment the by-law entitled *By-law amending the city of Montréal' Master Plan* to include the amendment of Ville-Marie borough's building-height map within its companion document.

We reviewed requests for exemptions made by the developer for the Quadrilatère Saint-Laurent project and have found that they are consistent with the provisions of:

- The Charter of Ville de Montréal.
- An *Act respecting Land Use Planning and Development* regarding approval for a project deviating from the planning by-law.
- Amendment to the Master Plan and to the Quartier des spectacles, Place des Arts sector's SPP.

3.5.2.B. Recommendations

We recommend that the Ville-Marie borough administration, in conjunction with the Direction culture et patrimoine of the Service du développement et des opérations, establish a development plan for this architectural sector that will ensure consistency in land use, architecture, design, development and public art, and will help ensure that future projects benefit from a sustainable approach to development incorporating high artistic content. This plan must be consistent with the city's Master Plan and Ville-Marie borough's *[TRANSLATION] Planning By-law*.

3.5.2.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "To ensure consistency in urban planning and respect for a sustainable vision of development for the targeted sector, the Direction de l'aménagement urbain et des services

aux entreprises of Ville-Marie borough initiated an innovative participatory process open to all with last May's Saint-Laurent'dez-vous. This event was a great success and was well received by the community and the 600 persons attending. A report on deliberations will be issued in October 2010 and will be accompanied by an action plan, in partnership with the Direction de la culture et du patrimoine of the Service du développement et des opérations. This action plan will include specific planning for the sector and will constitute a basis for discussion for the Master Plan revision work initiated by the Bureau du plan." (Planned completion: May 2010 to May 2011)

3.5.3. SAINT-LAURENT METRO PROJECT

3.5.3.A. Background

This project falls within the Quartier des spectacles development strategy for introducing cultural functions to the sector. The SPP, which was introduced and adopted by Ville-Marie borough, established new building density rules for the land in question and reflected a desire to change building density from 6 to 9. This agreement lapsed, however, on May 31, 2010.

3.6. GRANTS

The Government of Québec released its *Stratégie pour le développement de toutes les régions* [Strategy for the Development of all Regions] on February 20, 2007. A sum of \$140 million over five years was set aside in the Government du Québec's 2007–2008 budget to support the city's development.

The city's Executive Committee approved the draft memorandum of understanding between the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT) and the city on March 31, 2008. The draft memorandum was designed to set conditions for MAMROT to grant financial aid to the city for projects the latter chooses under the "Imagining—Building Montréal 2025" development strategy. Furthermore, the Executive Committee directed the SMVTP on that same date to oversee implementation of this program. Under this memorandum of understanding, which expires on December 31, 2012, the city must invest the amounts paid to it by MAMROT in projects overseen by the Montréal administration or by NPOs. Eligibility criteria (project valued at more than the \$1 million minimum, investment of the entire amount paid by MAMROT in projects that do not benefit from any financial assistance from another government department except with prior approval from MAMROT, etc.), accountability reporting to MAMROT

(filing of programming listing projects to receive financial contributions under the memorandum) and a visibility protocol also apply.

We reviewed a guide formulated by the SMVTP on November 5, 2009 (revised on February 3, 2010) for optimizing the partnership process needed to oversee the \$140 million memorandum. The guide is also intended for city managers who are likely to help project supervisors in their efforts to obtain financial contributions from this budget allocation.

We also obtained a report of February 12, 2010 outlining the intended use of the \$140 million grant. This report stated, for example, that 2-22 rue Sainte-Catherine Est has received a financial commitment under the \$140 million memorandum to support the construction of a building for cultural purposes.

3.6.1. 2-22 RUE SAINTE-CATHERINE EST

3.6.1.A. Background and Findings

2-22 rue Sainte-Catherine Est was added to the list of projects included in the “Imagining—Building Montréal 2025” developed strategy by a resolution of the Urban Agglomeration Council on August 28, 2008. On October 22, 2008, the Executive Committee approved the earmarking of maximum \$5 maximum contribution from the \$140 million budget allocation under the agreement with the Government of Québec for construction of a building for cultural purposes.

The developer’s financing package for the project presupposes that \$5 million of public funds, plus the land transferred by the city (a total value of some \$15 million), will be obtained to complete the construction project’s financing package.

This \$5 million reserve was formulated by the developer while arranging the financing package included in the long-term lease and signed by both parties on December 16, 2008. The amount of the grant was justified as offsetting the difference between the total cost of developing the building and its actual value in view of a rent structure targeting the needs of artists and cultural enterprises.

However, on April 19, 2010, the City Council cancelled the long-term lease between the city and the developer and approved a draft transfer of land under which the city transferred the property at 2-22 rue Sainte-Catherine Est to the developer.

FINDING

We have reviewed the draft transfer of land approved by City Council and nowhere does it mention that a grant will be awarded. SMVTP management mentions, however, that steps will soon be taken to honour a \$5 million subsidy to permit the project's construction. A significant number of provisions will have to be changed in the agreement for the \$5 million financial contribution, since the 2-22 rue Sainte-Catherine Est project will no longer be a rental building as was originally planned, but a condominium. Most of the future occupants will be cultural organizations and will receive grants from the Government of Québec for the purchase of their units. Eligibility of the 2-22 rue Sainte-Catherine Est project will have to be verified with MAMROT, considering the eligibility criteria that govern the memorandum of understanding between MAMROT and the city.

Initial construction timeframes and payment schedules for money will also have to be revised. It must be noted that no payment can be made and no amount claimed by the developer after December 31, 2012, the date on which the \$140-million agreement between the city and MAMROT expires. For that reason, the deed of sale indicates a time limit of 30 months, ending in November 2012, for project completion.

We are of the opinion that the recognition of a \$5-million subsidy for the construction of the project should have been dealt with at the same time as the deed of sale, if that was authorities' intention.

The developer halted construction in June 2010, however, pending confirmation of grants from the federal and provincial governments that the future occupants (owners) of the condominium must obtain.

3.6.1.B. Recommendations

We recommend that the Direction du développement économique et urbain of the Service du développement et des opérations, with the support of the Service des affaires juridiques et de l'évaluation foncière, verify grant eligibility terms and payment procedures to allow payment of the \$5 million financial contribution (from MAMROT's \$140-million envelope).

3.6.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “At the request of the city, the Ministère des Affaires municipales, des Régions et de l’Occupation du territoire confirmed by e-mail on July 21, 2010 that payment of the \$5 million grant from MAMROT’s \$140-million allocation was consistent with provisions of the agreement on managing this envelope and that no exemption was required to allow the \$5 million grant.” (Planned completion: July 2010)

3.6.2. QUADRILATÈRE SAINT-LAURENT PROJECT

3.6.2.A. Background

This project has not yet received any grant from the city.

3.6.3. SAINT-LAURENT METRO STATION PROJECT

3.6.3.A. Background

The city would be prepared to make a financial contribution to the developer if the latter reserves a certain portion of the building for cultural use. The city will make a financial contribution to the developer equivalent to \$269.10 per square metre of the building’s rental area occupied by a cultural organization—according to the Building Owners and Managers Association (BOMA, 1996) standards—up to a maximum amount of \$1,198,000 if the purchaser sells or rents a maximum area of 4,452 square metres to professional cultural organizations for a total period of at least 20 years.

The developer also agreed not to apply for any form of grant other than those that already exist in the city’s various standardized programs.

However, the promise to purchase approved by City Council on September 21, 2009 became null and void on May 31, 2010.

3.7. ACCOUNTABILITY REPORTING

3.7.A. Background and Findings

Systematic and permanent accountability reporting mechanisms must exist to evaluate the extent to which revitalization development projects have met projections established between the city and the developer. This requires the systematic production of management reports that include information for assessing results achieved over the reporting period.

The city's Director General formulated a governance model covering the Quartier des spectacles program's planning to completion phases. A proposal concerning this model was submitted to the Executive Committee on September 12, 2007. The city's elected representatives must oversee project decision-making, given the amount of public money at stake. A political representative (the Mayor of Montréal), an administrative representative (the city's Director General) and a project head (Division Head, Portefeuille de projets) were appointed to provide oversight for the three projects covered by this audit.

The Comité corporatif de gestion des projets d'envergure and the *Réaliser les grands projets de Montréal 2025* committee also provided accountability reporting mechanisms at the senior management and elected representative levels. Committee administrators review major projects at Comité corporatif de gestion des projets d'envergure meetings. A project follow-up chart was prepared to record any new developments since the previous meeting and subsequent steps for each project. Pictograms show if the project is on track, if any problems have arisen or if any difficulties may jeopardize the project. The city's Director General, assistant directors general, senior directors, the treasurer, the senior director of the Direction du contentieux and project managers sit on this corporate committee. Committee meetings are held every other Thursday.

The minutes of the Comité corporatif de gestion des projets d'envergure meetings pertaining to the three projects selected for our audit record recent events marking the projects' evolution, issues relating to the various architectural concepts produced to date, progress achieved and difficulties encountered.

Various committees, including the *Réaliser les grands projets de Montréal 2025* committee, conduct accountability reporting on these projects. This committee reports to the Executive Committee.

FINDING

We have examined the minutes of the Comité corporatif de gestion des projets d'envergure meetings for the period from January 13, 2009 to February 23, 2010 and we have noted that it reports observations on the progress of the three projects and their timelines.

FINDING

Our review of the three projects' statuses in terms of the completion schedules shows major risks of delay. Delays in these three projects will result in considerable losses of tax revenue for the city, in terms of the future buildings' reduced property values.

These projects also require a considerable time and energy investments from employees of the city departments concerned to ensure proper management of the projects and particularly for handling regulatory exemptions to maintain work on these three projects. We have found that mechanisms were implemented to facilitate monitoring and to report on project progress.

3.7.B. Recommendations

We recommend that the Direction du développement économique et urbain of the Service du développement et des opérations continue to monitor these three projects, reporting relevant information about developments in them and conveying this information to authorities to make them aware of difficulties involved in executing completing these projects, related risks and implications of delays.

3.7.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "The project and program governance framework for managing municipal assets adopted by City Council in April 2010 sets out the rules for project management, the mechanisms for accountability reporting to administrative and political bodies, as well as the decision points pertaining to these mechanisms.*

Project updates are constantly submitted from design to completion to the authorities, until such time that the project concludes and accountability reporting ceases. This procedure applies systematically to each of the projects covered by the targeted by Governance Framework."
(Planned completion: ongoing, December 31, 2010)

* These mechanisms are:

- The Comité corporatif de gestion des projets d'envergure (consisting of administrative representatives from senior management).
- The Comité de monitoring des projets d'envergure (consisting of Executive Committee members appointed by the mayor and representatives of senior management).
- The Executive Committee and other municipal bodies.

V.8. Faubourg Saint-Laurent Project— Phase III Land Sale

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V.8. FAUBOURG SAINT-LAURENT PROJECT—PHASE III LAND SALE

1. INTRODUCTION

The Ville de Montréal (the city) is the owner of a significant collection of buildings involving both public and private properties. Public properties include parks, streets and alleys. Other real estate is private property used, among other things, for municipal and borough departments to carry out municipal activities. This property can be acquired or disposed of for residential, industrial or commercial development purposes.

In February 2010, City Council was called upon to make a decision on the sale of a parcel of land with an area of 2,648.8 m² located on rue Charlotte (north side), on the east side of rue De Bullion and the west side of avenue de l'Hôtel-de-Ville. It was the third and final parcel of land sold by the city as part of the Faubourg Saint-Laurent Project, which is bound by boulevard René-Lévesque, rue Saint-Dominique, rue Sainte-Catherine and avenue de l'Hôtel-de-Ville.

The group of properties in the Faubourg Saint-Laurent Project, an area of nearly 10,725 m², was acquired by the city through expropriation at the beginning of the 1990s. Development activities materialized in 1992 when the Executive Committee gave its permission for lots 38-18, 38-26 and 38-28 to move on to the second phase of Opération Habiter Montréal's residential development program.

From 1993 to 1998, the city tried to find a developer for the sale and development of the lots. In April 1993, the Executive Committee authorized the Service de l'habitation et du développement urbain (SHDU) to make a public call for proposals and approved the sale prices for the lots. In September 1993, the SHDU approved one of the two proposals received. Then, in January 1997, when the developer who had been chosen withdrew, it repealed its decision. In July of the same year, the Executive Committee authorized a second call for public proposals and approved the sale prices. A single proposal that was deemed noncompliant was received at that time. Finally, in November 1997, the Executive Committee once again directed the SHDU to negotiate the private sale of the properties while abiding by the sale prices approved during the second call for public proposals. It was not until 1999 that a developer officially showed interest in the land.

In August 1999, City Council adopted a by-law for the construction and occupation of a real-estate complex on these lots (By-law 99-171). The city and the developer signed a development agreement in September 1999.

Under this development agreement and a subsequent amendment (2001), the three lots were to be sold in sequence according to the established deadlines between March 2000 and March 2003. The transfer deeds for the first two lots (38-26 and 38-18) were signed as agreed within the timeframe. However, it was not possible to sell the third lot (38-28) by the March 22, 2003 deadline for \$400,000.

Finally, in February 2010, 10 years after the approval of the development agreement, a draft transfer deed was adopted by City Council for an amount of \$1,500,000.

2. AUDIT SCOPE

The goal of this audit is to verify that the city took all of the necessary measures to conclude the sale of lot 38-28 within the prescribed timeframe at a sale price corresponding to the market value at the time of the transaction. We have, therefore, examined whether contractual obligations were respected and how the sale price was established.

Our audit work was conducted primarily in 2010 with the Direction des stratégies et transactions immobilières of the Service des immeubles et des systèmes d'information (SISI) and Ville-Marie borough. It focussed on the years 1999 to 2010, the period that elapsed between signing the development agreement and signing the transfer deed for Phase III. However given our goal, in some cases we had to consider data dating from before this period.

3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

In the first part of this report, we will present the chronology of events that occurred on and after the signing of the development agreement to the date of the real estate transaction in March 2010. We will also clarify the steps taken by the city to have the developer respect his contractual obligations. Even though our audit focuses on Phase III of the project (lot 38-28), we will also need to refer to the delays attributable to Phase II (lot 38-18). In the second part of this report, we will address the establishment of the sale price for this land, given the time that had elapsed since the signing of the development agreement.

3.1. FAUBOURG SAINT-LAURENT PROJECT—SALE OF LAND

3.1.A. Background and Findings

Under the provisions of the development agreement, the developer agreed to purchase three lots in sequence according to the following deadlines:

- The first (lot 38-26), with an area of 4,432.8 m², no later than six months after signing the development agreement (March 22, 2000) for Phase I
- The second (lot 38-18), with an area of 3,643.4 m², 18 months after signing the development agreement (March 22, 2001) for Phase II
- The third (lot 38-28), with an area of 2,648.8 m², 30 months after signing the development agreement (March 22, 2003) for Phase III

The sale prices of the three lots were \$820,000 (lot 38-26), \$550,000 (lot 38-18) and \$400,000 (lot 38-28) respectively.

In accordance with the development agreement, the draft transfer deeds for the first two lots (38-26 and 38-18) were approved by the Executive Committee on December 1, 1999 and March 21, 2001 respectively.

On November 12, 2001, City Council approved an amendment to the development agreement, postponing the signing of the transfer deed of the third lot (38-28) by one year (until March 22, 2003) and the deadlines for beginning and completing the work on the second and third lots (38-18 and 38-28).

The new provisions stipulated that the developer was to begin construction of the buildings within 12 months from the date of the transfer deed and to completely terminate construction 30 months from the same date at the latest. The construction deadlines were as follows:

- Second lot (38-18) – since the transfer deed was signed on March 22, 2001, the deadline for beginning work was March 22, 2002 and work was to be completed by September 22, 2003.
- Third lot (38-28) – bearing in mind the postponement of the date for signing the transfer deed to March 22, 2003, the developer agreed to begin construction of the buildings within the 12 subsequent months (by March 22, 2004 at the latest) and to complete construction 30 months later (by September 22, 2005 at the latest).

As the disposal of these properties was part of the Opération Habiter Montréal, the Service de l'habitation was responsible for this file up until that time, including direct negotiations with the

developer and recommending approval of the development agreement and transfer deeds for the first and second lots (38-26 and 38-18). On January 1, 2002, following municipal restructuring, the Division de la gestion des immeubles externes of the Direction des immeubles (today known as the Division évaluation, transactions et services immobiliers of the Direction des stratégies et transactions immobilières [DSTI]) became responsible for real-estate brokerage activities for all city property. Accordingly, the Division de la gestion des immeubles externes became responsible for the disposal of the third lot. When the Faubourg Saint-Laurent file was transferred, the developer had met his obligations for Phase I construction, whereas he was in default of two elements in Phase II: payment of the balance of the sales price expected on March 22, 2002, and meeting the deadline for beginning construction work. Our audit allowed us to ascertain that measures were taken by the Division de la gestion des immeubles externes beginning in 2002 to enforce compliance with contractual obligations for the second lot:

- In March 2002, a first letter, sent by the division manager, reminded the developer that he was in default and asked him to indicate his intentions to comply with his contractual obligations immediately.
- In September 2002, not having received any response from the developer, the division manager sent him a second letter to remind him once again of his non-compliance, and to inform him that the city was considering exercising its right to annul the contract and repossess the property.

In December 2002, the developer confirmed in writing that the construction of Phase II would begin on May 1, 2003 at the latest, instead of March 2002. He also asked the city to confirm this agreement, to amend the development agreement accordingly and, of course, to postpone the deadlines for the acquisition, construction and completion of Phase III.

FINDING

Following this proposal by the developer, the Division de la gestion des immeubles externes did not follow through with the city's its right to annul the contract and repossess the Phase II property, but waited for additional information from the developer on the new project deadlines.

Because of the new responsibilities transferred to the boroughs in the 2002 municipal restructuring, it was not until April 2003 that the Direction de l'habitation, under the Service du développement économique et urbain, transferred the Faubourg Saint-Laurent development agreement to Ville-Marie borough. Note that the boroughs became responsible for adopting, amending and applying various development by-laws for urban planning (e.g., zoning changes)

and issuing building permits. During this transfer, the Direction de l'habitation prepared a progress report including the outstanding non-compliance.

In the fall of 2003, as the developer had still not submitted the requested information on Phase II construction delays and had not acquired the third lot scheduled for March 2003, the Division de la gestion des immeubles externes resumed its attempts to impose compliance with the development agreement contractual obligations. We noted that two other letters were sent to the developer in this regard:

- In September 2003, the section manager reminded the developer about the outstanding construction requirements and the balance owing on the sale price of the second lot (38-18) and the sale of the third lot (38-28). The Division de la gestion des immeubles externes asked to be informed, as soon as possible, of the developer's intentions, as the city could repossess the property.
- In November 2003, the division manager once again reminded the developer of the outstanding conditions for the second and third lots. As the balance of the sale price for the second lot had been owing since March 22, 2002, the same date that construction work was to begin, payment of interest on the balance of the sale price was expected within 10 days. Unless the developer provided relevant documents showing that the beginning of construction was imminent, the city would grant the developer no postponement for construction or payment and would exercise its right to annul the agreement and repossess the above-mentioned property.

We also noted that the steps taken by the Division de la gestion des immeubles externes for the second lot (38-18) allowed the city to collect the complete and final balance of the Phase II land sale price several weeks later and interest accrued to that date. The developer also submitted a new construction schedule for Phase II. The developer also agreed to contact the city notary at the beginning of 2004 to proceed with the purchase of the third lot (38-28) and deliver a construction schedule.

To make the extension for the Phase II construction deadlines official, City Council approved an amendment to the development agreement on February 24, 2004 that was aimed in particular at postponing the start of construction to March 15, 2004 and the completion date to September 22, 2005.

With specific reference to the sale of the third lot (38-28), the developer did not meet his commitment.

FINDING

We did not discover any evidence that the Division de la gestion des immeubles externes took any action between November 2003 and December 2006 to make the developer honour his contractual obligations. According to the information obtained, no project manager was appointed to follow up on these contractual obligations during this period.

FINDING

Our audit revealed, however, that during this period the developer remained active with Ville-Marie borough. He mentioned in a letter having advised city representatives as early as June 2004 of his intention to acquire the Phase III lot (38-28) and having discussed construction with them. The developer also formally sent Ville-Marie borough's Direction de l'aménagement urbain et des services aux entreprises a specific project study request to raise the height of the building on avenue de l'Hôtel-de-Ville by two stories. We did not find evidence of authorization from the DSTI allowing the developer to discuss this type of zoning change. In spite of the unfavourable opinion rendered by the Direction de l'aménagement urbain et des services aux entreprises, the file was presented to the borough council for consideration in case it might nevertheless want to proceed with the project.

In October 2005, the borough council finally decided to turn down this file. Our audit examination shows that the developer continued his discussions with other borough stakeholders to advance his request.

The Division gestion du portefeuille et des transactions (formerly called the Division de la gestion des immeubles externes) resumed its attempts to have the developer respect his contractual obligations in January 2007.

FINDING

On January 10, 2007, the DSTI requested a legal opinion from the Direction du contentieux to determine whether the city could proceed with a call for public proposals for the sale of this property. According to the information obtained, it was the first request for a legal opinion referred to the Direction du contentieux in this file since the developer's defaults had been recorded.

Before it had even received the response from the Direction du contentieux on January 18, 2007, the DSTI, through the project advisor, sent a registered letter to the developer informing him that the development agreement and subsequent amendments were cancelled through non-compliance with certain essential conditions. To justify this decision, the DSTI cited article 10 of the development agreement, which requires the developer to rectify a default situation within 60 days:

[TRANSLATION] “In spite of all special provisions herein and subject to all its other rights and remedies, the city can cancel the agreement if the developer neglects to remedy any default attributed to him by virtue of one or any of the provisions of this agreement within sixty (60) days from a notice to this effect.”

The DSTI was first referring to its letter of November 3, 2003 in which the developer was advised of the default in purchasing the third lot (38-28). The DSTI was also referring to the developer's reply dated December 2003 in which he indicated his intention to communicate with the city's notary at the beginning of 2004 to proceed with the purchase of this property. According to the DSTI's claims, since this condition had not yet been met, in spite of the notice of default and the 60-day extension, the city was no longer bound by its commitment to sell the 38-28 lot to the developer.

Even before it received the legal opinion it had requested, the DSTI received a letter of formal notice from the developer in which he expressed his strong objection to the city's arguments. He maintained that he was not only interested in developing the property, but claimed that he had advised the city as early as June 2004 of his intention to acquire it and that he had been discussing construction of Phase III with municipal authorities since that date.

FINDING

The Direction du contentieux finally rendered its legal opinion on February 7, 2007. It did not completely share the DSTI's interpretation with regard to the letters sent to the developer in 2003 and 2007. The letters sent by the city to the developer in 2003 were more than three years old and, in reconstructing events, the behaviour of both the city and the developer could lead one to believe that the city had decided not to assert its right to cancel the agreement during this period.

As for the last letter sent by the DSTI dated January 18, 2007, the Direction du contentieux maintained that it could be considered the 60-day notice required in the agreement's "Default" clause.

FINDING

It would have been preferable if this letter had been signed by the department manager or, at the very least, by a person in authority, rather than by a real-estate consultant. The Direction du contentieux also believed the DSTI was duty bound to obtain City Council authorization to send a 60-day notice as stipulated in the development agreement. If the developer was in default and not able to acquire the property within that period, the agreement could be cancelled as a matter of right. Consequently, the launch of a new call for proposals would be possible only when the relationship with the developer had been severed.

In March 2007, an executive summary to cancel the development agreement for the purchase of the third lot (38-28) for \$400,000 was prepared, but it was never approved by the Executive Committee and, accordingly, was never presented to City Council.

FINDING

According to the information obtained, the real-estate strategy committee had first verbally commissioned the DSTI to negotiate a compromise with the developer. Even though City Council had not given its consent for closing a sale through mutual agreement, lengthy negotiations were undertaken and resulted, in October 2008, with the submission of an offer to purchase by the developer that was valid until March 2009. Following the developer's failure to comply with this deadline, a verbal legal opinion from the Direction du contentieux would have confirmed that this offer to purchase was null and void. According to the information obtained, the director general and the director of corporate affairs at the time still recommended negotiating the transfer deed. A second offer to purchase was submitted by the developer in July 2009. Even though it was valid until September 2009, a draft transfer deed was approved by City Council in February 2010 and the transfer deed was signed by the two parties in March 2010.

In short, over the 10 years that elapsed between signing of the development agreement (September 1999) and signing the transfer deed (March 2010), measures were taken by the DSTI to finalize the sale of the third lot.

FINDING

We believe that insufficient effort was made at a suitable time to compel the developer to respect the contractual obligations initially authorized by City Council in an acceptable period.

FINDING

The letters addressed to the developer in 2002 and 2003 regarding the non-compliance observed in phases II and III and in 2007 to cancel the development agreement were not corroborated by the Direction du contentieux before being sent.

FINDING

We also observe that a period of four years passed between the time the developer's non-compliance was noticed and the moment when a legal opinion was requested. It was, moreover, only at that time that the DSTI learned that its procedure did not concur with the Contentieux's intentions. Furthermore, it had neglected to inform the elected officials of the actions it intended to take before cancelling the development agreement. This unduly prolonged the timeframes for complying with the provisions of the contract and, ultimately, finalizing the transfer deed.

FINDING

DSTI contract compliance monitoring was not always rigorous and was even non-existent from November 2003 to December 2006.

This three-year period, during which no representative of the DSTI reminded the developer that he was in default in acquiring the Phase III property, led him to believe that measures would not be taken to enforce the contractual clauses. He even believed he could go ahead with modifying the building plans and make representations to have the zoning changed.

When the DSTI resumed monitoring the file in January 2007, after more than three years of inactivity, we note that it ignored the actions taken by the developer during this period. Consequently, at the time it informed the developer of its intention to cancel the development agreement, the city received formal notice signifying that other delays were to be expected in finalizing the transfer deed.

FINDING

The position of the real-estate strategic committee (March 2007) that was hoping to negotiate a solution with the developer also had the effect of creating additional delays in concluding the sale. During the period from March 2007 to March 2010, the DSTI attempted to have the developer comply with the purchase offers he submitted, but the position of the municipal administration was to encourage tolerance to reach middle ground.

FINDING

In conclusion, we are of the opinion that the carelessness displayed by both the DSTI and some managers in the municipal administration in handling this file and the lack of communication between the DSTI and Ville-Marie borough could have led the developer to believe that the city had no real desire to have the initial contractual obligations respected. Several letters were sent to the developer, none of which resulted in any concrete results. We might even suggest that the developer hardly worried about them. This situation resulted in undue delay of the Phase III land sale (more than seven years) and, as a result, the start of construction. Consequently, the city lost the tax revenues it had initially expected.

We are aware that the audit of the sale of the Phase III lot refers to shortcomings that occurred several years ago. However, the circumstances at the origin of such a situation are always of current interest and measures must be taken to make sure they do not reoccur.

This simply means that the DSTI must systematically assign someone to be responsible for monitoring contractual obligations for both development agreements that affect it and transfer deeds approved by City Council. Coordination mechanisms must be set up between the DSTI and the boroughs to exchange relevant information and take the steps required to formalize exemption clauses in a timely manner.

For example, in this case, follow-up of contractual obligations will be essential over the next two years as, under the transfer deed signed in March 2010, the developer must strictly adhere to the requirement to complete construction work within the 30-month period following the signing of the contract, which would be September 2012. In the event that this construction work is not terminated in the specified time, a provision stipulates that the developer will pay the city \$2,000 per day of default until he has signed an instrument transferring the building back to the city. As

construction work had not started as of the date of our audit report (February 2011), we believe that rigorous monitoring is required to make sure that contractual obligations are respected so the project can progress as anticipated.

In the event the developer breaches his contractual obligations, the DSTI should advise the Service des affaires juridiques et de l'évaluation foncière (formerly designated as the Direction du contentieux) as quickly as possible so it can intervene at the appropriate moment to settle the dispute.

3.1.B. Recommendations

We recommend that the Direction des stratégies et transactions immobilières systematically designate someone to monitor all contractual clauses in development agreements that affect it and transfer deeds, so appropriate decisions can be made in a timely manner and minimize the consequences for the city if there is any non-compliance.

We recommend that the Direction des stratégies et transactions immobilières establish mechanisms for obtaining all relevant information from the boroughs to ensure that projects evolve according to the provisions in the applicable development agreements and transfer deeds. Then, if necessary, steps required to formalize exemption clauses can be taken at the appropriate time.

We recommend that the Direction des stratégies et transactions immobilières notify the Service des affaires juridiques et de l'évaluation foncière as quickly as possible every time it notices a departure from the contractual obligations in the applicable development agreements and the transfer deeds so as to assert the city's rights and settle the dispute as soon as possible.

3.1.C. Action Plan of the Relevant Business Unit

- 1) *[TRANSLATION] "There is someone in charge of monitoring all of the contractual clauses referred to in the transfer deeds for which the Direction des stratégies et transactions immobilières is responsible. A computer application has been developed to systematically monitor all transfer deeds. (Planned completion: March 2011)"*

The DSTI is generally not responsible for drafting or monitoring development agreements. The people responsible are usually in other city departments or in the boroughs.

In the event the DSTI should become responsible for such agreements, they would be treated as indicated above.” (Planned completion: December 2011)

- 2) [TRANSLATION] *“The DSTI has implemented a mechanism to adjust prices (in the deeds of transfer) according to an increase in project density that could result in developers requesting zoning changes. This mechanism will be structured so that the sale price reflects the real value of the property if zoning changes. Monitoring could also be carried out by the person in charge of overseeing the transfer deeds.” (Planned completion: December 2011)*
- 3) [TRANSLATION] *“The person in charge of monitoring the transfer deeds initially notifies the client of the non-compliance. If the situation is not remedied immediately, a notice will be sent to the Service des affaires juridiques et de l'évaluation foncière for appropriate follow-up. (Planned completion: March 2011)*

Project officers will oversee development agreements.” (Planned completion: December 2011)

3.2. FAUBOURG SAINT-LAURENT—SETTING THE SELLING PRICE OF THE LOT

3.2.A. Background and Findings

In this situation, where a period of 10 years elapsed between the approval date of the development agreement (September 1999) and the date authorities approved the draft transfer deed for the Phase III property (February 2010), we have evaluated to what extent the established sale price corresponded to market value. We will address the establishment of the sale price at two different periods: when the development agreement was drawn up and later, when the transfer deed was finalized with the developer.

Setting the Selling Price for the Development Agreement

Under the development agreement authorized in September 1999, the Phase III land sale would be signed by March 22, 2003 at the latest for \$400,000. The payment terms were:

- 10% on signing the transfer deed
- 90% within 12 months of signing the transfer deed, without interest (by March 22, 2004 at the latest)

As part of our audit, we found that, when the development agreement was signed, the sale price of \$400,000 was based on a market value established two years earlier (in April 1997), whereas

the payment of the balance was not due until March 2004. We believe that is very unlikely that the market value of a property located in the heart of downtown Montréal would have remained unchanged during all of those years.

FINDING

The fact that an increase in the property's market value up to the date of payment was not taken into consideration could be considered of benefit to the developer. In this regard, the *Municipal Aid Prohibition Act* (R.S.Q. chapter I-15) stipulates “no municipality shall, directly or indirectly, assist any industrial or commercial establishment [either] by giving or lending money or other security, or in giving the use or ownership of any immovable.” The fact that no interest was charged either on the balance of the sale price during the 12 months following the signing of the transfer deed could also be considered a benefit for the developer.

We are of the opinion that the development agreement should have required that the sale price be updated at the time of final payment and should also provided for the payment of interest on the balance of the sale price to avoid granting undue advantage to the developer.

We also compared the sale price of the Phase III land in the development agreement (\$400,000) with various values known in 1999 (Table 1). We note that each of the values used for our comparison, with the exception of the 1997 value, is greater than the established sale price (\$400,000): the purchase cost (\$4,231,853), the municipal evaluation in effect at the time (\$739,600) and the estimated market value in 1993 (\$715,000). This leads us to believe that the sale price set in the development agreement (\$400,000) was underestimated.

This comparison also makes us question the original cost of the expropriated property compared not only to other known values in 1999 (Table 1) but also to those that existed between 1988 and 1991 at the time of the acquisition (Table 2). We observe that the acquisition cost is higher than the values known in 1999 (Table 1). We understand that this was an acquisition by means of expropriation and that the cost resulting from such a purchase procedure is generally higher for the purchaser.

As for the known values between 1988 and 1991 (Table 2), we notice that the acquisition cost was close to the market value at the time of expropriation. However, our questions remain when we compare the market value set at the time of expropriation (\$3,630,000, Table 2) with the

market values for this same property established four years later (in 1995) at \$715,000 (Table 1) and eight years later (in 1999) at \$400,000 (Table 1) for the development agreement.

FINDING

We find it strange that the market value of the property in 1999 represented no more than 11% of the value that had been established at the time of expropriation. Our audit did not reveal the justification for this depreciation.

FINDING

Even if the original cost was too high (\$4,231,853) or the selling price was underestimated (\$400,000), this transaction represented a major financial loss for the city.

Table 1—Faubourg Saint-Laurent: Comparison of Property Prices and Other Data in the Development Agreement

	Lots			Total
	38-26 (Phase I)	38-18 (Phase II)	38-28 (Phase III)	
Location	North side of boul. René-Lévesque, between rue De Bullion and avenue de l'Hôtel-de-Ville	South side of rue Charlotte, between rue Saint-Dominique and rue De Bullion	West side of avenue de l'Hôtel-de-Ville, to the north of boul. René-Lévesque	
Land area	4,432.8 m ² (47,715.8 ft ²)	3,643.4 m ² (39,219.0 ft ²)	2,648.8 m ² (28,624.3 ft ²)	10,725.0 m ² (115,558.8 ft ²)
Area in %	41%	34%	25%	100%
Acquisition cost ¹	\$3,656,984	\$3,834,513	\$4,231,853	\$11,723,350
Depreciation allowance ²	\$2,427,934	\$2,618,870	\$2,665,690	\$7,712,494
Net depreciated cost (1997)	\$1,229,050	\$1,215,643	\$1,566,163	\$4,010,856
Selling price in the development agreement (Sept. 1999)	\$820,000	\$550,000	\$400,000	\$1,770,000
Net loss on disposal	\$409,050	\$665,643	\$1,166,163	\$2,240,856
Municipal assessment (1995-1997 assessment roll)	\$1,233,100	\$980,400	\$739,600	\$2,953,100
Market value appraisal (1993) ³	\$1,809,600	\$1,175,000	\$715,000	\$3,699,600
Market value appraisal (1997) ⁴	\$820,000	\$550,000	\$400,000	\$1,770,000

¹ Phase I: properties acquired through expropriation, primarily in 1991.
Phase II: properties acquired mainly through expropriation between 1989 and 1992.
Phase III: properties acquired by expropriation in 1991.

² Depreciation posted between 1991 and April 1997.

³ Appraisal conducted as part of the 1993 public call for proposals.

⁴ Appraisal conducted as part of the 1997 public call for proposals.

Table 2—Faubourg Saint-Laurent: Comparison of the Property Acquisition Cost (Phase III) with Other Known Values (at the time of expropriation) (1988 to 1991)

Evaluation	Vacant lot	Business and damages	Total
Fair market value ¹	\$3,630,000	\$1,032,157	\$4,662,157
Acquisition cost ²	\$3,258,526	\$973,327	\$4,231,853
Land value ³	\$294,910	–	\$294,910

¹ Value established by an external firm (in 1991) to support the city's position when the notice of expropriation was contested by the primary expropriated party.

² Cost negotiated in the course of an out-of-court settlement including the business. The cost was allocated in the same proportions as those established for the fair market value.

³ Land value in effect in 1988, the year in which the notices of expropriation were delivered to the expropriated parties.

Even if we now know that the sale of the third lot for \$400,000 did not take place, the facts observed with the Phase III property also lead us to wonder about how the selling prices for the Phase I and Phase II properties were set. Comparing the selling price for these properties (\$820,000 and \$550,000) with other values appearing in Table 1—the municipal assessment (1995-1997) (\$1,233,100 and \$980,400), the market value in 1993 (\$1,809,600 and \$1,175,000) and the acquisition costs (\$3,656,984 and \$3,834,513)—lead us to believe that the selling prices established in 1999 for the development agreement were also underestimated.

FINDING

We wonder about the acquisition cost of the other properties, as they had each depreciated by 66% (Phase I) and 68% (Phase II) in 1997.

Setting the Selling Price for the Transfer Deed

Following the dispute in 2007 between the city and the developer regarding the Phase III property, the DSTI was directed to negotiate the best possible agreement. Since the selling price agreed to in 1999 no longer represented the parcel's market value, a new selling price had to be set. The DSTI's Division évaluation et expertise was mandated to do this on January 29, 2007. The information used for this appraisal was, specifically, size, the by-law authorizing the construction and occupation of a rental housing development for this project specifying the construction of at least 75,000 ft² of living space on five and six floors, and finally, the construction of 125 residential units pursuant to the development agreement. On March 15, 2007, the market value was established as a range varying between \$2,125,000 and \$2,250,000.

FINDING

According to the information we obtained, the DSTI used this market value to set a target price of \$1.9M as the basis for negotiations for selling the parcel. During our audit, we were not able to find documentation supporting this amount or the reasons for which the market value had not been used as the target price.

FINDING

Negotiations between the two parties began in 2007 and carried on until October 2008, the date on which the developer made an offer to purchase. The sale price negotiated was \$1,500,000. We were not able to find any documentation supporting this amount either.

Subsequently, new discussions were held, which delayed signing of the transfer deed, originally set for March 2009. A new offer to purchase, preserving the \$1,500,000 selling price was signed on July 19, 2009. This last offer to purchase was valid until September 2009, the date at which a transfer deed was supposed to be signed.

FINDING

In December 2009, before having the draft transfer deed approved by City Council, DST sent a file to the strategic real-estate committee. There we discovered information estimating the market value of the land (in December 2009) to be between \$3,500,000 and \$4,000,000 and that the sale price of \$1,500,000 was a compromise. We should clarify that the Division transactions immobilières updated this market value. We found no documentation supporting this new market value.

In January 2010, when the executive summary to have the transfer deed approved by City Council was being finalized, the Division transactions immobilières once again directed the Division expertise et évaluation immobilières to produce a brief and preliminary update of the lot's value. In a note dated January 25, 2010, the Division expertise et évaluation immobilières indicates that, considering the delay allowed for fulfilling the mandate, a brief list of relevant transactions that had taken place in the downtown area during the 2006-2009 period had been made. Furthermore, the Division expertise et évaluation immobilières mentioned that it had been informed that the number of planned units in the project had increased from the original 125 to 139. This information signified that the market value estimated in March 2007 had been

underestimated by \$250,000. However, as of January 25, 2010, the new appraised market value was set at \$3,300,000.

FINDING

As part of our audit, we compared the transfer deed selling price (\$1,500,000) with the target price for negotiations (\$1,900,000), the March 2007 market value assessment (\$2,125,000 to \$2,250,000), the market value update in December 2009 (\$3,500,000 to \$4,000,000), the January 2010 market value (\$3,300,000), the municipal assessment (\$2,052,000) and finally the acquisition cost (\$4,231,853) (Table 3). The results of our comparison reveal that the selling price was lower than the original cost, the market values established since March 2007 and the municipal assessment.

Table 3—Evaluations Compared to the Transfer Deed Selling Price (March 2010)

Evaluation	Amount	Selling price for the March 2010 transfer deed	Variance
Target price used for the negotiations	\$1,900,000	\$1,500,000	\$400,000
Market value—March 2007 (for 125 units)	\$2,125,000 to \$2,250,000	\$1,500,000	\$625,000 to \$750,000
Market value—March 2007 (for 139 units)	\$2,375,000 to \$2,500,000	\$1,500,000	\$875,000 to \$1,000,000
Update of the Market value—December 2009	\$3,500,000 to \$4,000,000	\$1,500,000	\$2,000,000 to \$2,500,000
Market value—2010	\$3,300,000	\$1,500,000	\$1,800,000
Municipal assessment (1997-2010 roll)	\$2,052,800	\$1,500,000	\$552,800
Acquisition cost (1991)	\$4,231,853	\$1,500,000	\$2,731,853
Net book value (March 2010)	\$388,227	\$1,500,000	(\$1,111,773)

Considering that the market value established in March 2007 (\$2,125,000 to \$2,250,000) is the one that prevailed at the time the sale price was established at \$1,500,000, the variance between the two values ranges between \$625,000 and \$750,000. We did not find any documentation justifying this difference. According to the information obtained from the DSTI director, by adding various charges borne by the developer, such as site clean-up, archeological inventory and retaining the security deposit paid by the developer when the development agreement was signed, to the \$1,500,000 sale price, the transaction would have amounted to between \$2,000,000 and \$2,200,000.

FINDING

We should remember, however, that the last market value set in January 2010 was \$3,300,000, which varied \$1,100,000 to \$1,300,000 from the set selling price, minus the costs assumed by the developer. Our audit did not find justification of the difference between the last market value and the negotiated sale price, in addition to all the other costs assumed by the developer. Considering the existence of the *Municipal Aid Prohibition Act* (R.S.Q., chapter I-15), we are of the opinion that the DSTI should have documented the variances to show that favours were not granted to the developer. In the absence of such justification, we are not able to affirm that the transaction was concluded at fair market value.

When the sale of the land was to be approved, we found that the DSTI gave City Council the following information so that they could make an informed decision:

- Sale price of \$400,000 initially agreed upon when the development agreement was signed
- Cash sale price of \$1,500,000, taxes not included
- Readjustment of the selling price at a rate of \$22.62/ft² for any additional square footage should By-law 99-171 be amended
- Market values of the building as of March 15, 2007 (\$2,125,000 and \$2,250,000) and as of January 2010 (\$3,300,000)
- Municipal assessment of \$1,026,300 based on this lot's area of 1,324.3 m²
- Net book value of the property of \$388,227

The DSTI also specified that the city had obtained other benefits, such as retaining the \$100,000 security deposit collected prior to signing the agreement and the developer's assumption of Phase III costs for lot clean-up and an archeological inventory, which is carried out prior to any excavation

The executive summary also indicated, for information purposes, that the tax revenue generated by the sale of this property and the construction of the building would be in the order of \$375,000 per year.

FINDING

In conclusion, even though several relevant items of information were provided by the DSTI, we consider that City Council did not receive some information that would be essential for making an informed decision about this transaction. The executive summary fails to disclose three important elements: the original cost of the property (\$4,231,853), the 91% depreciation of the original cost between 1991 and 2007 (\$3,843,626) and the municipal assessment of \$2,052,800 for the total lot area. Explanation of the variances between the last market value and the sale price of \$1,500,000 minus the costs assumed by the developer were not provided, either. In light of the information communicated to the authorities, we cannot state that the transaction was concluded at market value because information needed for that evaluation was omitted.

FINDING

Even though the DSTI estimated the project's tax benefits at \$375,000 per year, City Council did not have a financial analysis of the project (including estimated cash flows and the selling price along with the acquisition and the carrying costs).

Such information would have allowed City Council to be more knowledgeable about the payback period for the city investments in Phase III and make a decision about its practicality.

3.2.B. Recommendations

To be in compliance with the *Municipal Aid Prohibition Act* when entering into development agreements with developers, we recommend that the Direction des stratégies et transactions immobilières:

- evaluate the possibility of adding provisions to update the selling price to take into account fluctuations in the market value of the land in question in relation to the timeframe specified in the terms of payment
- anticipate adding provisions for an interest rate applicable to the balance of the sale price until the developer pays

To demonstrate beyond any reasonable doubt to what degree the selling price set for the sale of the property corresponds to market value, we recommend that the Direction des stratégies et transactions immobilières document the following in its project file:

- justification for the target price used to negotiate the selling price of a building belonging to the city
- the number of concessions granted to the developer that have an impact on the sale price established.

We also recommend that the Direction des stratégies et transactions immobilières include in executive summaries for approval of a real estate sale, all relevant information—explanation of variances between the selling price set plus the costs assumed by the developer, market value on the date of the transaction and original cost—to assure authorities that the city is not granting any undue benefits to the purchaser.

Furthermore, we recommend that the Direction des stratégies et transactions immobilières attach a financial analysis of the development to executive summaries for approval of real estate property sales, to inform authorities about the payback period for investments made by the city. We should clarify that this financial analysis should take into consideration acquisition costs, carrying charges, selling price and cash flows generated by the project.

3.2.C. Action Plan of the Relevant Business Unit

- 1) *[TRANSLATION] “As a rule, transfer deeds provide for construction within 24 to 36 months following the signing of the conveyance. In these cases, no price adjustment is made for fluctuations in the market value. We usually do not have responsibility for agreements where timeframes are longer (as in development agreements). However, we note that we will have to consider this if the DSTI is ever responsible transactions spaced out over time.*

We will see to the establishment of such a mechanism in the next review of our procedures.”
(Planned completion: September 2011)

- 2) *[TRANSLATION] “In DSTI procedures, the selling price is supported by a detailed opinion of the market value from one of DSTI’s accredited appraisers or an external accredited appraiser whose report is examined by a DSTI appraiser. All executive summaries presented to authorities for the sale of a property therefore include the market value.*

Any concession or consideration forming part of a sales transaction must be accompanied by validation of its monetary value. This practice is already in effect, particularly when deducting expenses for clean-up or infrastructure costs assumed by the developer from the selling price.” **(Planned completion: March 2011)**

- 3) [TRANSLATION] *“All costs and values related to the transaction are already included in executive summaries. Information on different evaluations (book value of buildings, market value, sale price) is found in the transaction summary attached to the executive summary. We will add, when it is available, the original cost of the property in the transaction. We will verify that all the costs assumed by the developer are found in the executive summaries.”*
(Planned completion: March 2011)
- 4) [TRANSLATION] *“The DSTI is working with the Service des finances to use the financial analysis model developed by the Services des finances for major projects. As soon as it is available, this model will be used for all real-estate sales.”*
(Planned completion: June 2011)

3.3. OVERALL FINDINGS

Several events occurred during the Faubourg Saint-Laurent Project between the time the development agreement was authorized by City Council (September 1999) and the date the Phase III land sale transaction was adopted by City Council in February 2010 and signed by the parties in March 2010. We stated our audit findings in the two preceding sections of this report (Sections 3.1 and 3.2). We also addressed recommendations to the business units involved so that corrective measures could be taken to prevent such events from recurring.

We have grouped our major findings together, however, so the reader could have a better understanding and overview of the major factors impacting the transaction of the Faubourg Saint-Laurent Project Phase III land sale and those that had an impact on the entire project.

- Significant involvement of the strategic committee and senior management in this file. For example, the verbal mandate received from the Comité stratégique immobilier in 2007 to negotiate an out-of-court settlement following the formal notice sent by the developer.
- Lack of resolve by the DSTI to apply certain clauses of the development agreement, particularly the start and end of Phase II work and signing the Phase III transfer deed.
- Unjustified delay between the time the DSTI noticed that the developer had defaulted on certain requirements (March 2002) and the time the Direction du contentieux was asked for a legal opinion (January 2007).

- The DSTI's lack of rigour in monitoring the provisions in the development agreement. No project manager was assigned to the file for a three-year period (November 2003 to December 2006) to ensure that the terms of the contract were respected.
- A great deal of tolerance displayed towards the developer by the Service de l'habitation et du développement urbain (prior to 2002) and the DSTI (after 2002) that resulted in two amendments to the development agreement (2001 and 2004). This tolerance also allowed the developer to make two offers to purchase that were not accepted (October 2008 to July 2009) before the agreement to sell Phase III land was finally signed by the two parties.
- Lack of coordination between Ville-Marie borough and the DSTI, which created ambiguity and slowed the negotiation process with the developer. The latter was discussing a change to By-law 99-171 (concerning the construction and occupation of a real-estate complex in Faubourg Saint-Laurent) with the borough Direction de l'urbanisme, whereas the DSTI wanted to have the Phase III part of the development agreement terminated.
- Substantial variances between the market values established in 1991 (\$3,630,000), 1993 (\$715,000) and 1997 (\$400,000).
- Three market values were also established at different dates (2007 to 2010) to support the negotiated sale price, but all of them were greater than the negotiated sale price appearing on the sales agreement approved by City Council in February 2010.
- 1991 purchase price of the expropriated Phase III property (\$4,231,853) greater than the negotiated sale price in the land contract (\$1,500,000 plus the costs assumed by the developer) approved by city council in February 2010, 20 years later. Nothing explains this situation, especially in consideration of the following three points:
 - The lots targeted by the Faubourg Saint-Laurent Project present a strategic location in the heart of downtown.
 - The surrounding sector is made up of major building complexes (Hydro-Québec, Complexe Desjardins, Guy-Favreau Complex, CHUM, the Monument-National theatre, Place des Arts, etc.).
 - The lot is well located in relation to the public transportation system.
- Fair market value established in 1991 for Phase III (\$3,630,000) higher than the fair market value established at \$715,000 two years later (1993) and also higher than the fair market value established at \$400,000 four years later (1997).

- 1991 municipal assessment (\$294,210) much lower than the purchase price (\$3,258,526¹).
- 1997 municipal assessment (\$739,600) greater than the sale price established for the development agreement (\$400,000).
- 2010 municipal assessment (\$2,052,800) greater than the negotiated sale price (\$1,500,000).
- Price paid in 1991 (\$4,231,883) for Phase III was very high in comparison with the net book value that was only \$388,227 19 years later.
- Even though City Council had much of the relevant information when it approved the transfer deed with the developer in 2010, some information needed to make the decision was not disclosed, such as the total acquisition cost (\$4,231,853), the significant depreciation over the years (approximately \$3,800,000) and the assessed land value for the entire parcel.

This is a file marked by irregularities and lacking due diligence in past years.

Keep in mind that the city acquired three lots for residential development in the city centre for \$11,723,000 during the 1990s and that these lots were sold for \$830,000 (Phase I lot, 2001), \$550,000 (Phase II lot, 2004) and \$1,500,000 (Phase III lot, 2010) for a total of \$2,870,000.

The project proposed by the developer initially provided for the construction of buildings representing investments of \$60,000,000 with 837 housing units. We are aware that the financial aspect, although very important, is not the only criteria to consider in evaluating the overall project. However, nothing indicates to us, from reading the documentation or from discussions with the individuals we met with, that it constitutes a one-of-a-kind residential development that would explain the variance between the purchase price and the selling price.

It is difficult to understand that properties located in the heart of downtown could depreciate over the years and be worth only 34% of the purchase price for Phases I and II in 1997 and only 11% for Phase III in 2010. Barring exceptional circumstances, the property values should have appreciated with time and not the reverse. We therefore have

¹ Purchase price excluding the business.

to make the logical deduction that the prices paid at the time the properties were acquired were too high or that the selling prices for these same properties were too low, or a combination of the two. It is difficult to determine which one of these elements is responsible, because several relevant pieces of information date back more than 20 years. However, one fact remains: there is still considerable variance between the purchase price and the selling price to the developer. All the information gathered shows that the selling price was undervalued and represented only a fraction of the purchase price, which resulted in a major and very real financial loss for the city. We can affirm, without a shadow of a doubt, that the transaction was concluded to the benefit of the developer.

V.9. Active Directory Security

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V.9. ACTIVE DIRECTORY SECURITY

1. INTRODUCTION

Background

Information technology (IT) has become vital to ensuring efficient operational management in the Ville de Montréal (the city), as it has in the administrations of most major cities throughout North America and Europe. IT must provide elected officials, employees and the public with access to relevant information on a timely basis.

The vast majority of city employees need access to a secure computer system to carry out their day-to-day duties with a desktop computer, a laptop or a mobile workstation connected to the city's IT networks.

To effectively manage these networks and the access to the data they contain, the Service des technologies de l'information (STI) and the borough IT divisions have set up centralized Windows-compatible identity and authentication services within their computer and server networks. These centralized services are provided by Microsoft Active Directory (AD).

Role and Features of Active Directory

Every server and workstation in a Windows environment has functioned as a stand-alone unit since the Windows architecture was decentralized. Microsoft AD is the technology underlying the Windows operating system. It serves as a central repository, commonly referred to as a directory service, for centralized user and security management.

AD can manage objects no matter where they are and no matter what the network protocol used, thus making it possible to manage workstations and remote users in a fully centralized way. AD organizes the directory into sections to meet the needs of any organization—from those with only a few objects to manage to those that handle millions.

More specifically, AD uses Windows operating system to provide centralized identity and authentication services to the city's computer networks. As a directory service, AD indexes all elements of a network or networks, including user accounts, workstations, servers, printers and

so forth. All AD-related information and settings are stored in a centralized proprietary database that resides on the domain controllers. This information and settings form the AD structure, which is composed of a hierarchical organization of objects.

A domain controller is a server that stores a copy of the AD directory. It ensures changes made to the directory are propagated, users are authenticated and logged in and searches can be performed in the directory. A domain can have one or several domain controllers. Each domain controller can receive or replicate changes made in any of its counterparts. Domain controller security is vital. If the security of the domain controller is compromised, overall AD security is at risk.

Windows security depends on AD. *Windows security* includes the security of workstations, users, servers, data and networks that run on the Windows operating system. If AD security is compromised, all other related security measures are in danger of collapsing as well.

The effectiveness of AD security lies in the configuration settings defined during initial setup and the maintenance of these settings throughout AD's life cycle. These settings are stored in group policy objects (GPOs), which are applied when the computer starts up and when users log on. GPOs are used to maintain an adequate level of system and data security, but they also reduce potential risk due to users by restricting their activities (e.g., locking the control panel, restricting access to select folders, disabling certain executable files).

Developed to provide high performance and security, AD allows system administrators to control access to and use of shared data and resources through distribution, duplication, partitioning and access restriction functions.

2. AUDIT SCOPE

The purpose of our audit was to evaluate the controls means ensuring Active Directory security.

The objectives of this audit were:

- Evaluate the efficiency and effectiveness of the controls ensuring the secure setup and management of AD
- Provide an independent evaluation of AD security settings

The audit process resulted from our analysis of the dangers related to AD security and circumstances specific to the city. Our method and audit criteria were designed to adhere to best

industry practices. We developed the audit program after consulting several relevant publications.

We performed our audit tests in the presence of the STI's AD administrators and the AD administrators from the boroughs created from the former suburban municipalities. We interviewed these individuals and also used Microsoft AD administrative tools.

There are several ADs in place within the city. Following our risk analysis, we focused our audit on seven ADs. Given the sensitive nature of ADs, we prefer to keep this list confidential.

The AD security audit concentrated on the management and configuration controls for:

- AD management
- AD perimeter security
- Logical security of domain controllers
- Configuration settings for domains and domain controllers
- AD policies and procedures

The following elements were excluded from our audit:

- Configuration of non-domain controller servers
- Configuration of workstations
- User identity and access management
- Domain name system (DNS) management
- Physical server security
- Application security management
- Database access
- Password management.

3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

In this section, we will list the main observations made about all the ADs. However, given the criticality of the ADs where we identified weaknesses, we have chosen to keep the audit details and results specific to each AD confidential. Confidential audit reports were remitted to the authorities responsible for each AD. They subsequently reviewed the findings and the proposed recommendations specific to them.

3.1. MULTIPLE ACTIVE DIRECTORIES

3.1.A. Background and Findings

FINDING

Our audit revealed that there are several ADs being used within the city.

The former suburban municipalities that became boroughs following the municipal mergers on January 1, 2002 are still running their own copies of Active Directory, the same ones that were installed long before the mergers occurred.

This situation was justified at the time of the mergers, as these boroughs were using their own management and operational applications and the STI did not support these applications.

However, the context has since changed. The STI now provides integrated solutions that are used by all boroughs (e.g., SIMON, Ludik), which means the boroughs' "orphan" applications will become obsolete in the very near future.

By maintaining several ADs among its business units, the city is exposing itself to the following dangers and potential impacts:

- Problems in maintaining a consistent level of security for all ADs. Security for ADs that the STI does not oversee may not comply with the city's security and operational requirements. In the event of a security breach, the boroughs' Windows environments could be compromised, and this risk could also extend to the city's Windows environment, given the relationship of trust between the city's AD and some borough ADs.
- Development and implementation of more complex contingency plans, and the corresponding higher costs, because of the need to produce operational continuity plans for each AD instead of developing one that is city wide. This could prevent boroughs from resuming operations promptly in the wake of a disaster.
- Increase in infrastructure costs, including additional software licence costs, because of the greater number of domain controllers (each AD must have at least two domain controllers to run properly).

3.1.B. Recommendations

We believe that a single, city-wide Active Directory should be set up. We recommend that the Direction générale:

- Perform a cost-benefit analysis and an impact analysis on implementing a single Active Directory.
- Have IT business units play an active part in the analysis and the project.
- Provide a sufficiently powerful architecture with enough capacity; for example, some telecommunications links will have to be replaced to accommodate higher bandwidths.
- Develop a formal service level agreement (SLA) with clients so that Windows performance and user-services quality continue to meet administrative requirements and do not deteriorate.

3.1.C. Action Plan of the Relevant Business Unit

The relevant business unit has validated our recommendations and will forward its action plan to us at a later date.

3.2. ACTIVE DIRECTORY RISK ANALYSIS

3.2.A. Background and Findings

A risk analysis identifies and assesses factors that may compromise the success of a project or the ability to fulfill business objectives. More specifically, it determines the risks that pose a threat because of their likelihood and impact.

A risk analysis also allows an organization to develop controls to reduce the probability and impact of possible danger to acceptable levels. This analysis is a basic tool for identifying the various risks facing the city.

An AD risk analysis carried out by the city and the boroughs would allow the administration to pinpoint factors that could compromise security of the confidentiality, integrity and availability of data that is processed by, transmitted through and stored on AD. A risk analysis is the first step in optimizing AD security and should be repeated periodically by the STI. Best practices suggest that this analysis be done internally and documented. It is the basis for determining which security measures (configuration settings, etc.) are appropriate. The findings of the risk analysis will influence how security settings are configured.

FINDING

Although some business units conduct some general IT risk analyses, they do not take into consideration specific AD-related risks.

Without an exhaustive analysis of the AD-related risks for the city or its boroughs, it is difficult for the business units to implement all the controls needed to reduce AD-related risks to an acceptable level. If some risks are not taken into consideration, they may cause vulnerabilities that could be exploited by attackers to undermine AD security and, consequently, the security of servers, workstations and other information assets. As a result, data confidentiality, integrity and availability would no longer be assured.

3.2.B. Recommendations

We recommend that the relevant business units integrate AD-related risks into the current routine IT risk analysis process. Active Directory security controls will need to be adjusted based on the findings of this analysis.

3.2.C. Action Plan of the Relevant Business Unit

The relevant business units have validated our recommendations and will forward their action plan to us at a later date.

3.3. LOG FILES

3.3.A. Background and Findings

A log file is a record of all the events that occur within the city's systems and networks. Log files consist of log entries, each of which contains information on a specific event that has occurred within a system or network. Many log files contain records linked to IT security-related events. These security logs can be generated by numerous sources, including server operating systems, workstations, network equipment, user applications and security software such as antivirus programs, firewalls and intrusion detection and prevention systems.

The number, size and variety of log files have increased considerably in recent years. This has created the need for a log file management process that covers the generation, transmission, storage, analysis and disposal of security log data.

Managing log files is essential to ensuring that security events are recorded in a sufficiently detailed manner for an appropriate length of time. Analyzing log files is vital to detecting security incidents, policy violations, fraudulent activities or operational problems.

Log files are also essential for forensic accounting audits and analyses and internal inquiries and in identifying operational trends and long-term issues. These log files are admissible in court as evidence in cases of fraud or embezzlement.

The accuracy and integrity of log files must be maintained at all times to prevent them from being tampered with by an attacker. Log files on a domain controller, for example, can be modified by anyone with system administrator privileges and read, write and delete rights. As a result, anyone with system administrator privileges is in a position to perform illicit actions and then erase all traces of these actions from the log files.

FINDING

We confirmed that AD-related events are recorded in log files. However, they are not automatically transferred in real time to a dedicated server that restricts system administrators to read-only access. Consequently, anyone with AD administrator rights could intentionally or unintentionally perform illicit actions and, given their high-level privileges, easily erase all traces of these actions from the log files. In the event of an investigation, it would be impossible to trace any such events back to the perpetrator. It would also be difficult to present the incomplete, inaccurate journal logs as admissible evidence in a trial scenario.

FINDING

We determined that AD administrators did not review log files on an ongoing basis. They are checked intermittently whenever a problem arises. Given the volume of information they contain, however, and the lack of automated event filtering tools, system administrators do not have enough time to manually detect suspicious activity in AD. They are therefore unable to respond proactively to potential problems or security breaches.

3.3.B. Recommendations

We recommend that the relevant business unit:

- **Implement the necessary tools to set up a centralized, dedicated server for event logging purposes. Access to this server should be restricted to read-only privileges for system administrators in the division responsible for IT operational security. All read, write, delete and other access rights on this server could be granted to the IT security department that is not in charge of tactical and operational security for the AD environment. This would help ensure the appropriate segregation of duties.**
- **Regularly review log files to detect problems and anomalies in a timely manner.**

3.3.C. Action Plan of the Relevant Business Unit

The relevant business unit has validated our recommendations and will forward its action plan to us at a later date.

3.4. ANTIVIRUS SOFTWARE

3.4.A. Background and Findings

Domain controllers are the brain and central nervous system of Active Directory. If they are not properly protected against malicious software, they could fall victim to a computer virus.

Antivirus programs are applications that make it possible to detect, disable and remove malicious software (e.g., viruses, Trojan horses, worms). Malicious software, or malware, is software that is developed and spread over the Internet for the purpose of compromising the security and performance of computer systems.

An antivirus program generally has two components. The first checks new files and emails in real time. The second performs full scans of all the data on a computer (including the hard disk, memory and any removable media) on an intermittent basis.

Antivirus software uses a signature file (which contains the virus signatures of malicious programs) to detect the presence of malware. It matches these signatures with the data on the computer.

Antivirus software is only effective if the signature file is up to date and able to detect malicious software quickly and efficiently. Having an antivirus program with an obsolete signature file is akin to having no antivirus program at all.

Antivirus software also generates reports and alerts in a timely fashion to keep system administrators abreast of any infections that are found or suspected. Infections must be treated as fast as possible to prevent them from spreading to other Windows workstations and servers. Sound security practices suggest that real-time alerts be sent to administrators' inboxes or pagers and that administrators review reports on a regular basis.

FINDING

For two of the seven ADs, which together are connected to six domain controllers, we determined the following:

- **Four domain controllers were not running an antivirus program.**
- **One domain controller was equipped with an antivirus program that had been disabled.**
- **One domain controller had an antivirus program with an outdated virus signature file.**

Should a virus hit, the risk may spread not only to the domain controllers but also to all AD resources, including workstations and other servers, and possibly beyond. The severity of the infection and the extent of the resulting damage are directly related to the speed with which malware is detected and removed.

3.4.B. Recommendations

We recommend that the relevant business units proceed as follows:

- **Ensure that all domain controllers are equipped with an antivirus program with regularly updated virus signature files**
- **Implement a formal, routine (ideally daily) process for reviewing antivirus reports**

3.4.C. Action Plan of the Relevant Business Unit

The relevant business units have validated our recommendations and will forward their action plan to us at a later date.

3.5. PASSWORD POLICY

3.5.A. Background and Findings

A password policy can be used to require users to create strong passwords. Such a policy is defined by a number of security settings, including password length, complexity, expiry and history.

One of the aspects of password policy requires users to change their passwords frequently. As a rule of thumb, the shorter the interval between password changes, the tighter the security. Similarly, longer passwords are stronger than shorter ones.

The STI procedure entitled *[TRANSLATION] Standard Concerning Access Keys for IT Resources* establishes password requirements such as expiration period, minimum length and history.

In section 3.2 of the *[TRANSLATION] Standard Concerning Access Keys for IT Resources*, the specified password requirements are as follows:

- Regular users:
 - Expiration period: 90 days
 - Minimum length: eight characters
 - Password history: six most recent passwords
- Administrators:
 - Expiration period: not specified, therefore the same as regular users'
 - Minimum length: eight characters
 - Password composition: must contain at least one uppercase letter, one lowercase letter, one numerical digit and one special character
 - Password history: not specified, therefore the same as regular users'

These standards, which are derived from the city's IT security policy, apply to all administrative units, including the 19 boroughs. They are essential, as they ensure a consistent level of security from one domain controller to the next and, consequently, from one AD to the next.

We compared the city's standard 90-day password expiry with Microsoft's recommendation of 30 to 90 days. It is worth noting that the city's standard expiry for any password was 30 days when we conducted our tests in October 2010. On January 28, 2011, the STI increased the period to 90 days for passwords for Windows, Internet access, the SIMON program and the central IBM computer. Although the 90-day expiry complies with best practices, it is on the upper end of the suggested range.

Password length and complexity are two components that can be used to strengthen network security. For example, there are over 2.1 billion (36^6) combinations possible with a six-character password based on 26 letters (A through Z) and 10 numerical digits (0 through 9). This increases to 2.8 billion (36^8) possible combinations with an eight-character password. These days,

considering the number of password decrypt tools that are readily available online, their level of sophistication and the constant improvements being made by hackers, it is more important than ever to use strong passwords that are more complex than simple dictionary words or rudimentary number combinations (e.g., 11111111).

The password history setting fixes the number of recently used passwords Active Directory records so that AD users and administrators cannot reuse them.

FINDING

We noted the following weaknesses:

- **Expiration period: for one out of seven ADs, passwords have no expiry; users are never prompted by the system to change their password and can therefore keep the same one for an indefinite period of time.**
- **Password length: for five out of seven ADs, the minimum password length falls short of the minimum specified in the city standards.**
- **Complexity: for five of the seven ADs, password complexity verification was not enabled.**

Because current password policy is inadequate, users and administrators passwords could easily be compromised. It has been proven that the strength of a password is directly proportional to how often it changes, its length and its complexity. If the passwords for high-privilege accounts were to fall into the hands of an attacker, the security of the domain controllers and assets managed by ADs would be compromised.

3.5.B. Recommendations

We recommend that the relevant business units set parameters for password expiry, minimum length and complexity to comply with the requirements of the standard established by the city.

3.5.C. Action Plan of the Relevant Business Unit

The relevant business units have validated our recommendations and will forward their action plan to us at a later date.

3.6. ACCOUNT LOCKOUT POLICY

3.6.A. Background and Findings

Account lockout policy can be used for both administrator and user accounts. Its main function is to determine the length of time an account will remain blocked after a given number of failed logon attempts. We examined the following three functions vis-à-vis the provisions in the city's standard (established by the STI):

- Account lockout duration: This security setting determines the number of minutes an account will remain disabled before automatically reverting to unlocked status. The standard is 15 minutes.
- Account lockout threshold: This security setting defines the number of failed logon attempts that triggers the lockout of a user account. A locked account cannot be used until it is reset by an administrator or the lockout duration expires. The recommended number of failed logons in the standard is three.
- Reset account lockout counter: This security setting controls the number of minutes that must elapse after a failed logon attempt before the failed logon attempt counter is reset. The standard is set at 15 minutes.

FINDING

We observed that the account lockout feature was disabled in two of the seven ADs.

An unauthorized individual could therefore use special tools to make an unlimited number of attempts to break into the domain controllers. If these attempts were successful, the security of the domain controllers and assets managed by ADs would be compromised.

FINDING

For one AD, the account lockout threshold was set at eight failed logons. In two others, the setting was five. In all three of these cases, the value exceeded the city's standard of three failed logons.

3.6.B. Recommendations

We recommend that the relevant business units align their account lockout policy with city standards.

3.6.C. Action Plan of the Relevant Business Unit

The relevant business units have validated our recommendations and will forward their action plan to us at a later date.

3.7. HIGH-PRIVILEGE ACCOUNTS

3.7.A. Background and Findings

Someone with a high-privilege account can obtain unlimited rights to AD, including domain controllers and workstations. These accounts are assigned to individuals who possess the necessary Windows qualifications, IT security skills and network architecture expertise. They must be trustworthy. In addition, the responsibilities that come with a high-privilege account must not conflict with other job duties, so that the fundamental principle of the segregation of duties is maintained.

Because high-privilege accounts give users access to event and audit logs, an ill-intentioned individual who obtains these rights could engage in illicit activity and then erase all traces of these actions from the log files.

FINDING

For six out of the seven ADs, we determined that there were a large number of high-privilege accounts that are not required for business purposes. This may mean that the accounts are unused or the privileges granted are unjustified. Both scenarios greatly increase the possibility of these privileges being used in an unauthorized manner.

FINDING

For one AD, we noted that some high-privilege accounts were assigned to groups that should not possess this level of access, including consultants, interns, test accounts and so-called generic accounts. In the latter case, the biggest danger is the widespread use by employees of the account passwords. If generic accounts were used by several individuals, it would be difficult to determine who is accountable for actions recorded in event or audit logs.

FINDING

In five of the eight ADs audited, we noticed there were accounts identified as **Administrateur** or **Administrator**. These are easy prey for attackers attempting to break in and take control of AD. Generally, an account with a generic, easily identifiable name should be renamed or downgraded. Otherwise, an attacker could use it to take over AD and compromise data, server and workstation security.

Having too many high-privilege accounts that are not required for business purposes greatly increases the risk of an attacker using one of these accounts to take control of AD to commit fraudulent acts. Should such an event occur, asset security, confidentiality, integrity and availability could no longer be assured.

3.7.B. Recommendations

We recommend that the relevant business units proceed as follows:

- Reduce the number of high-privilege accounts and ensure they are assigned solely to those who legitimately need them.
- Revoke high-level privileges from the following types of accounts:
 - consultants
 - interns
 - test accounts
 - generic accounts
- Rename **Administrateur** and **Administrator** accounts.

3.7.C. Action Plan of the Relevant Business Unit

The relevant business units have validated our recommendations and will forward their action plan to us at a later date.

3.8. DOMAIN CONTROLLER CONFIGURATION STANDARDS

3.8.A. Background and Findings

Domain controller configuration standards are technical guidelines that specify the configuration settings to be applied during server setup. These configuration settings are taken directly from security policies and procedures. The system administrator therefore knows the exact value to assign each configuration setting when installing the operating system so that domain controllers comply with the city's security requirements.

These standards are also necessary to ensure a consistent level of security, since the settings apply to each domain controller. This in turn reduces the danger of one domain controller being more vulnerable than another.

FINDING

In some cases, domain controller installation and configuration procedures are documented but have never been updated. In others, we determined that no standards or configuration guidelines had ever been developed. Servers are configured based on the level of knowledge of the system administrators.

3.8.B. Recommendations

Because setup procedures have not been updated, the configuration settings might be inconsistent with the city's security requirements. As a result, new domain controllers could be set up using inadequate configuration settings, exposing them to potential security risks. We recommend that the relevant business units prepare or update a set of domain controller setup procedures.

3.8.C. Action Plan of the Relevant Business Unit

The relevant business units have validated our recommendations and will forward their action plan to us at a later date.

3.9. NON-ESSENTIAL SERVICES

3.9.A. Background and Findings

A *service* is a type of application that runs in the background of an operating system. Services are not used directly by users, but they support features that are essential for Web, email and database servers. Services are generally long-running, i.e., they execute at system startup and remain in operation until the computer is shut down.

Industry best practices recommend that only essential services be enabled on domain controllers. This is because some services generate security risks that are even higher when a server acts as a domain controller and because each service takes up system resources, which may hinder system performance and, consequently, availability. Limiting services to those that are strictly necessary for the smooth operation of the domain controllers also minimizes the chance of potential attackers using these services to access the system.

There are three settings for enabling (or starting) services:

- Automatic: the service automatically launches when the computer starts up
- Manual: the service can be launched manually by the system administrator or another service that requires it
- Disabled: the service does not launch

Any services that are not essential to the operation of domain controller servers must be set to “Disabled” so that they cannot be enabled without a system administrator.

To determine whether essential services were the only services enabled on the domain controller servers in the business units we audited, we obtained a list of the services on each server, along with the configuration settings of each.

FINDING

We determined that several non-essential services were not disabled in the business units we audited. In some business units, for example, the following were not disabled:

- **IIS Admin Service:** This service allows the server to manage Internet services (e.g., Web server). Using IIS Admin Service, unauthorized individuals could take over the system by exploiting numerous website vulnerabilities. Moreover, it is strongly advised that Web servers not share a server with a domain controller. Otherwise, an attack on the website would compromise not only the Web server but also AD as a whole and its resources.
- **Indexing Service:** This service indexes the contents and attributes of files found on local or remote computers. An attacker could use this information to obtain unauthorized access to the information in these files and compromise data confidentiality and integrity.
- **Special Administrator Console Helper:** This service makes it possible to run system administration commands remotely. An attacker could use this service to take over the system, thus compromising domain controller and AD security.
- **Application Management:** This service provides software installation features (assign, publish and delete). Attackers could use this service to install malware or delete applications essential to user workstations, thereby reducing system availability.
- **Distributed Link Tracking Client:** This service enables client programs to track files that have been moved within a system or to another computer. Using this service, attackers could gain access to confidential information about given applications (e.g., employee files anywhere on the system) and thus compromise data confidentiality.
- **Portable Media Serial Number Service:** This service makes it possible to recover serial numbers of any portable devices connected to a computer. Using this service, attackers could download protected content to a device, thereby compromising data confidentiality.

The startup settings of the non-essential services are not properly configured. The risk of an attack on the servers is therefore greater, as attackers could take advantage of the situation to gain privileged access, similar to that of an administrator, and take over the entire server.

In such a scenario, not only would domain controller security be compromised, but AD security would be vulnerable as well. As a result, the confidentiality, integrity and availability of data and resources would no longer be assured.

3.9.B. Recommendations

We recommend that the relevant business units enable only services required to meet the city's needs and disable all non-essential services in order to increase the level of logical security for the domain controller servers.

3.9.C. Action Plan of the Relevant Business Unit

The relevant business units have validated our recommendations and will forward their action plan to us at a later date.

3.10. DOMAIN CONTROLLER SECURITY PATCHES

3.10.A. Background and Findings

Vulnerabilities are weakness in a computer system that can be exploited by attackers to jeopardize operating system security.

By taking advantage of these vulnerabilities, attackers can gain access to a system, going so far as to take over servers and workstations. Vulnerabilities are generally addressed very quickly by software providers using security patches. However, if the patches are not regularly applied, servers will remain susceptible not only to new vulnerabilities but to older ones as well.

Microsoft addresses AD-related software vulnerabilities as soon as they are identified using Service Pack or Hotfix patches. It is therefore important to ensure domain controllers have the latest Microsoft patches installed, especially as instructions on how to exploit vulnerabilities are often documented and readily available on the Web.

By installing security patches, system administrators can help minimize the possibility of attack.

FINDING

The three domain controllers belonging to one business unit's AD had not been updated since June 2010. This means that these domain controllers have been vulnerable to attack since June 2010.

Should an attack of this nature occur, unauthorized individuals could obtain administrator-level access and take over AD and its resources (e.g., workstation, file server, data).

3.10.B.Recommendations

We recommend that the relevant business unit implement a formal security patch update process on its servers. This process would need to include security patch installation tests in a test or development environment to ensure that patches installed will be compatible with existing applications and not cause any operational problems.

3.10.C.Action Plan of the Relevant Business Unit

The relevant business unit has validated our recommendations and will forward its action plan to us at a later date.

4. APPENDIX

4.1. ACTIVE DIRECTORY GLOSSARY OF TERMS

This appendix contains the definitions of various terms associated with Active Directory, presented in alphabetic order.

DOMAIN:

A domain is the basic structural unit within AD. It is a set of computers or users that share the same directory database. A domain has a unique name within the network. Domains serve as a security boundary by restricting the rights of an administrator or any other user with privileges to the resources in this domain.

DOMAIN CONTROLLER:

A domain controller is a server that stores and duplicates Active Directory data. It propagates any changes made to the directory, authenticates users and logons and performs searches in the directory. A domain can have one or several domain controllers. Each domain controller can receive or duplicate changes made to any other controller in the same domain. It is essential that domain controllers be protected by security settings, because if domain controller security is compromised, all AD security is at risk.

TRUST:

A relationship that allows the users of one AD to have access to the resources of another.

V.10. Physical Intrusion Testing

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V.10. PHYSICAL INTRUSION TESTING

1. INTRODUCTION

The Ville de Montréal (the city) and its controlled agencies have many essential and vital assets located, stored or kept in various buildings and premises.

Given their importance, these assets must be properly safeguarded to guarantee the safety of people and goods and also ensure the continuity of services essential for the operation, well-being and prosperity of the municipality.

Physical intrusion is one of the first avenues considered by malicious individuals who are intent on defacing, destroying or tampering with the assets or data housed in these assets. Physical security, therefore, is the first line of defence needed to manage risks to the city's assets.

To prevent theft or sabotage, effective protection, monitoring and access controls must be implemented.

Security best practices advocate conducting physical intrusion tests under real conditions to ensure a reasonable level of confidence in the quality of controls used to safeguard the physical protection of existing assets.

Accordingly, the city's Bureau du vérificateur général (BVG) decided to perform an audit involving physical intrusion tests. Contrary to the BVG's normal procedures, prior notice of the audit was not given to the owners of the assets being audited. This was done to ensure that physical safety controls would be tested under real conditions and not temporarily reinforced for our visits.

Physical Security and Control Mechanisms

Physical security consists of protecting assets using physical access control mechanisms, for example fences, access doors equipped with mechanical or electronic locks, security gates, surveillance cameras or a human presence (e.g., security guards). These control methods are required to prevent unauthorized acts, whether intentional or not, that could compromise the assets' security.

Defining the level of physical protection needed should be based on the assets' importance and in proportion to the risks and threats they represent. The security mechanisms must take into account the geographic location, type of building and physical layout of the premises containing the assets.

Physical safety requirements vary according to the roles and responsibilities of the business units and the importance of the activities they provide citizens. For example, a business unit such as the SPVM requires a very high level of physical security, whereas other business units, such as municipal shops, require a lower level. Concepts of securing the periphery, control of physical access and protective measures for equipment apply universally when formulated and planned with the principle of proportionality in mind.

In the case of computer assets on magnetic media, electronic security methods will be inadequate and costly if physical security fails to prevent malicious individuals from accessing the computer equipment housing the data and stealing, damaging or destroying it.

2. AUDIT SCOPE

Our audit consisted of performing physical intrusion tests under real conditions. This is the first part of a more comprehensive audit of city management of physical security.

The objective of our audit was to obtain reasonable assurance that the control mechanisms in place adequately protect physical access to the city's assets.

This audit dealt exclusively with physical security and did not cover computer security such as access to electronic data.

The primary method used to carry out our physical intrusion tests was social engineering.

Social engineering is the preferred method of conducting physical intrusion tests when there are employees in the target. This method exploits procedural flaws and employee judgment in the targeted unit to obtain goods, services or confidential material.

Social engineering exploits the gullibility of people by using the power of persuasion and lack of appropriate procedure to pass oneself off as a city employee, for example. The BVG auditors used their knowledge, personalities and impersonation to attempt to access city premises and goods. More specifically, our social engineering methodology was as follows:

- Using an approach phase to gain the client's trust by passing oneself off as a city employee (e.g., Direction des immeubles)
- Presenting an important reason related to the safety of individuals (e.g., checking fire detection systems)
- Creating a diversion, e.g., a phrase or situation to reassure the employee and avoid raising any suspicions

At the time of our intrusions, we photographed the premises that we entered. We developed a description for each successful intrusion. In particular, we:

- noted the date and time of the intrusion
- detailed the steps followed and approaches used to carry out our intrusion tests
- specified our intrusion process, i.e., access doors entered, premises visited and hallways used
- described the assets that we observed

Before beginning the social engineering process, reconnaissance of the outer perimeter of each of the premises audited was carried out to visually detect the presence of any unlocked access points.

Our physical intrusion tests covered 31 of the city's sites and facilities and those of the Société de transport de Montréal (STM) selected through the results of our impact analysis on the importance of the assets held in buildings.

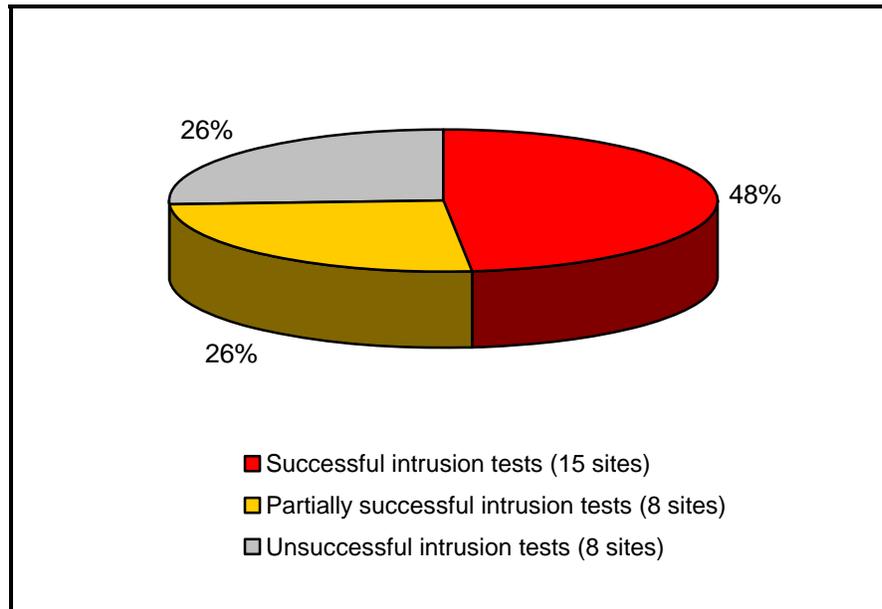
Because of the sensitive nature of these sites, we prefer keeping the list confidential.

3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

3.1. FINDINGS

We have succeeded, in whole or in part, with our physical intrusion tests for 23 of the 31 sites targeted, or **74%** of all the sites. The results appear in Graph 1.

Graph 1–Summary of Results



Successful intrusion tests: physical intrusion tests were conclusive for 15 of the 31 targeted sites. We were successful in accessing several critical areas and assets at these sites without being intercepted or raising suspicions.

Partially successful intrusion tests: physical intrusion tests were partially successful for 8 of the 31 targeted sites. We succeeded in accessing certain areas and assets at these sites without being intercepted.

Unsuccessful intrusion tests: physical intrusion tests were in vain or failed for 8 of the 31 sites targeted. We were either unsuccessful in accessing the sites because of the protection measures in place, or we were quickly intercepted and escorted off the site. In other words, only 26% of targeted sites had a level of physical protection sufficient to counter social engineering.

The three tables below show the detailed results of the intrusion tests by business unit, site and impact level (see Appendix 4 for the definition of impact levels.)

It should be mentioned here that, in the case of the successful or partially successful intrusion tests, at no time were any documents belonging to the audited unit removed or examined.

Table 1—Successful Intrusion Tests

Impact level	Number of business units	Number of sites*
Major	3	9
High	2	2
Moderate	2	4
Total	7	15

* A business unit can have several sites.

Table 2—Partially Successful Intrusion Tests

Impact level	Number of business units	Number of sites*
Major	2	2
High	1	1
Moderate	5	5
Total	8	8

* A business unit can have several sites.

Table 3—Unsuccessful Intrusion Tests

Impact level	Number of business units	Number of sites*
Major	3	6
High	1	1
Moderate	1	1
Total	5	8

* A business unit can have several sites.

This section lists our main findings for all business units. Due to the criticality of the sites where intrusions succeeded or partially succeeded, the decision was made to keep the details and results of the intrusion tests at each site secret. Under a seal of confidentiality, a detailed audit report was sent to the persons in charge of each business unit, who validated the findings and recommendations proposed for their specific business unit.

FINDING

In the case of one site that holds data of an extremely sensitive nature, we were able to move freely around the premises. We could have examined or even taken several documents without anyone noticing.

FINDING

For several business units that had a high or major impact level on public security, we were able to access a building using a false identity and motive. In other business units, we were also able to enter without meeting anyone in charge. At some of these, we were even left to our own devices, i.e., we were able to move freely about the building without being accompanied. We accessed control rooms containing equipment that is highly critical to the safety and well-being of citizens. We were also able to access, without impunity:

- confidential information
- material and equipment that was vital to public safety or comfort
- strategic city assets

FINDING

In some business units, there were several unlocked main or secondary entrance doors providing access to critical areas. We gained entry to some sites easily through these doors. We were able to walk around inside several sites without being intercepted by employees, even though, in several cases, employees were aware of our presence.

FINDING

At several sites, we were able to gain access to critical locations that were not equipped with any surveillance and whose doors were left unlocked.

We also concluded that, in several business units:

- There were no procedures in place to:
 - control visitors' identity
 - formally identify visitors with a badge
 - check the motive of the visit
 - accompany visitors at all times
- There was no visitors' log containing:
 - visitor names
 - visitors' service or company
 - person visited
 - reason for the visit
 - arrival date and time

- departure time
- signature of a person in charge
- Most of the employees do not confront and question non-authorized individuals who are walking freely about the premises.
- Surveillance cameras were installed in some critical locations, but never did a security guard notice our presence and challenge us.

In many of the audited business units, the physical safety weaknesses noted were extremely worrisome since, in our opinion, they could lead to the following threats:

- sabotage of equipment that is vital to public safety and comfort
- theft of highly sensitive documents that could affect the integrity and safety of persons
- theft of strategic equipment
- theft of valuable equipment
- terrorist act on equipment of vital importance to public safety
- theft of uniforms for identity theft

If these threats were to materialize, the consequences could be serious, even catastrophic, for the safety of the public and Montréal's social and economic activities.

3.2. RECOMMENDATIONS

We met with each business unit to explain the results of our intrusion tests. We explained the process used, our conclusions and our suggested recommendations for improving the level of physical protection of the audited sites under their responsibility. It should be understood that these conclusions are based solely on the results of our intrusion tests. A more in-depth audit on the quality of access and physical protection mechanisms, including existing procedures, is planned for 2011.

This section contains our most important recommendations. Obviously not all of these apply to all business units due to their unique characteristics and impact levels.

In order to prevent unauthorized physical access and ensure adequate protection of assets and information stored at business unit sites, we recommend the following:

- **Define strict visitor controls requiring, among other things:**
 - **the systematic verification of visitors' identity**
 - **a valid reason for the visit**

- an ID badge for visitors (the badge could be a different colour for each type of visitor)
- that visitors be accompanied throughout the visit
- raising awareness among staff of the importance of confronting and questioning strangers or unknown persons in the site
- Implement visitors' logs and assign someone to oversee it. This log should contain the following information:
 - visitor's name
 - visitor's service or company
 - reason for the visit
 - name of the person being visited
 - signature of the person in charge
 - date and time of arrival
 - date and time of departure
- Control and check surveillance camera monitors and take necessary action when suspicious activities or individuals are detected.
- Advise staff of the risks and threats of social engineering and the security measures to take.
- Identify the access points for each site and implement appropriate protection measures.
- Control physical access by ensuring doors to main and secondary entrances are properly locked.

3.3. ACTION PLANS OF THE RELEVANT BUSINESS UNITS

The relevant business units have been made aware of our recommendations and will forward their action plan to us at a later date.

4. APPENDIX

4.1. DESCRIPTION OF IMPACT LEVELS

IMPACT LEVELS	DEFINITIONS OF IMPACT LEVELS
Major	Direct consequence on public safety and health that endangers the safety of individuals. If there is the least tangible effect on public security and public health, a “major” impact level is assigned to a site or facilities.
High	While the presence of many high value assets and/or confidential and strategic information poses less of a threat to public safety, an intrusion would severely damage the city’s reputation and operation and economic activity.
Moderate	Because of the presence of certain high value assets or confidential and strategic information, an intrusion would interfere moderately with the city operations or harm its reputation.

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.	107.1. 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.	107.2. 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.	107.3. 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.	107.4. 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.	107.5. 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>107.6. 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>107.7. The chief auditor shall audit the accounts and affairs</p> <ol style="list-style-type: none"> 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. <p>2001, c. 25, s. 15.</p>
Audit.	<p>107.8. 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"> 1) to examine any document concerning the affairs and accounts relating to the objects of the audit; 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. <p>2001, c. 25, s. 15; 2001, c. 68, s. 6.</p>
Audit.	<p>107.9. 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"> 1) the annual financial statements of the legal person; 2) the auditor's report on the statements; 3) any other report summarizing the auditor's findings and recommendations to the board of directors or the officers of the legal person.
Documents and information.	That auditor shall also, on the request of the chief auditor, <ol style="list-style-type: none"> 1) place at the disposal of the chief auditor any document relating to the auditor's audit and its results; 2) provide all information and explanations the chief auditor considers necessary concerning the auditor's audit and its results.
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.	107.10. 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.	107.11. 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.	107.12. 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>107.13. Not later than 31 August each year, the chief auditor shall transmit to the mayor, to be filed with the council at the first regular sitting following its receipt, 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"> 1) control of revenue including assessment and collection; 2) control of expenditure, including authorization, and compliance with appropriations; 3) control of assets and liabilities including related authorizations; 4) accounting for operations and related statements; 5) control and safeguard of property owned or administered; 6) acquisition and utilization of resources without sufficient regard to economy or efficiency; 7) implementation of satisfactory procedures to measure and report effectiveness in cases where it is reasonable to do so.
Report.	<p>The chief auditor may also, at any time, transmit to the mayor or the chair of the board of directors of a legal person described in paragraph 2 of section 107.7 a report of the findings and recommendations that, in the opinion of the chief auditor, warrant being brought to the attention of the council or the board of directors, as applicable, before the transmission of the chief auditor's annual report. The mayor or the chair of the board of directors must file the report with the council or board, as applicable, at the first regular sitting or meeting following its receipt.</p>
Copy of report.	<p>If the chief auditor transmits a report to the chair of the board of directors of a legal person described in paragraph 2 of section 107.7, the chief auditor must also transmit a copy of the report to the mayor of the municipality, to be filed with the council at the first regular sitting following its receipt.</p> <p>2001, c. 25, s. 15; 2010, c. 18, s. 21.</p>
Report.	<p>107.14. 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, the chief auditor shall state, in particular, whether</p> <ol style="list-style-type: none"> 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). <p>2001, c. 25, s. 15; 2006, c. 31, s. 16; 2010, c. 18, s. 22.</p>
Report.	<p>107.15. 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.	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. 2001, c. 25, s. 15.
Testimony.	107.16. 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.
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.	107.17. 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.	108. 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, Regions and Land Occupancy 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; 2009, c. 26, s. 109.
Vacancy.	108.1. 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.	108.2. 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, Regions and Land Occupancy 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; 2009, c. 26, s. 109.
Duties.	108.2.1. 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, Regions and Land Occupancy 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; 2009, c. 26, s. 109.
Report to the treasurer.	108.3. The external auditor shall transmit to the treasurer 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; 2010, c. 18, s. 23.
Audits.	108.4. The council may require any other audit it considers necessary, and require a report. 1984, c. 38, s. 11.
Access to books and information.	108.4.1. 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.	108.4.2. 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.	108.5. In no case may the following persons act as external auditor of the municipality; <ol style="list-style-type: none"> 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. **108.6.** 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— Employees of the Bureau du Vérificateur Général as at December 31, 2010

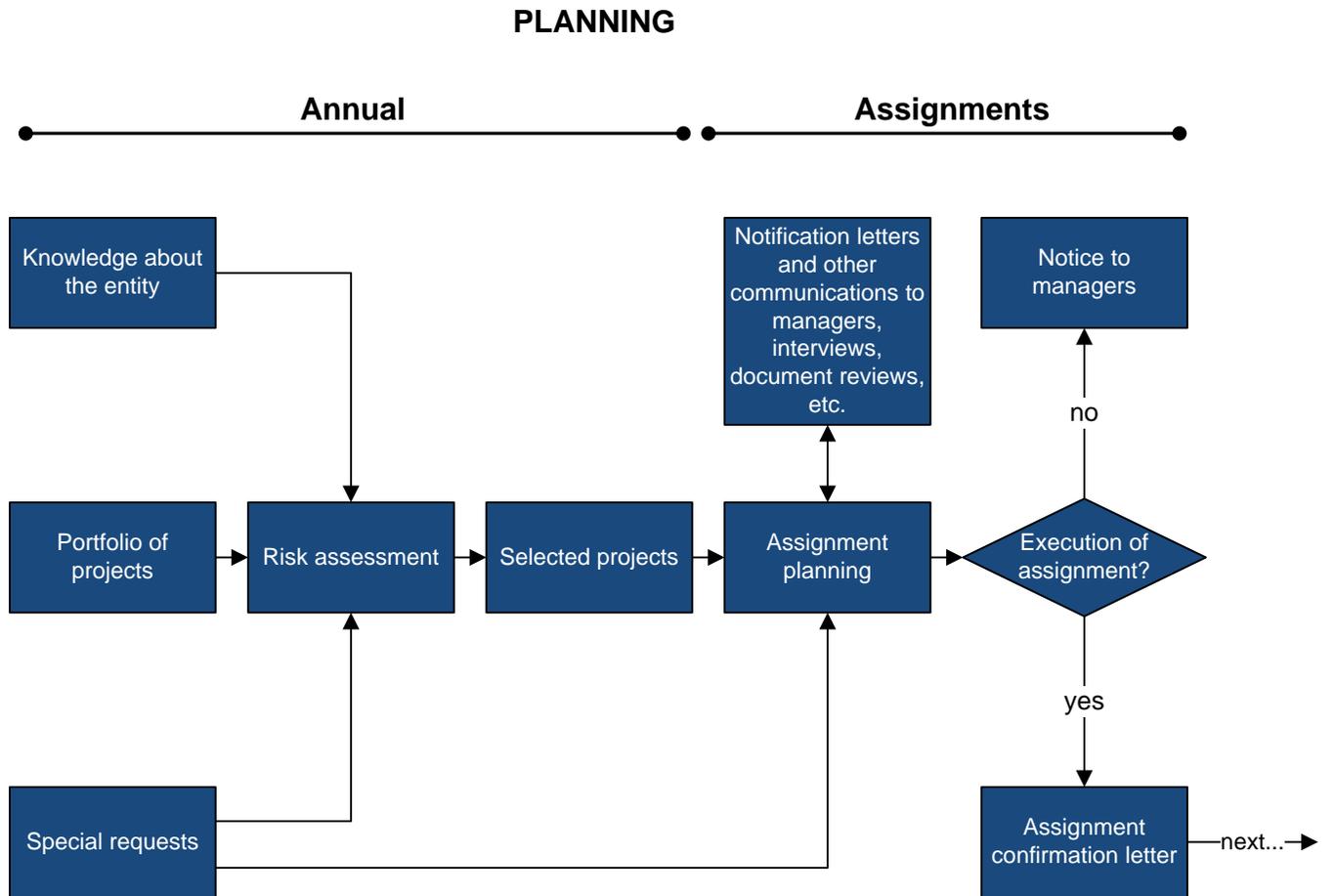
VI.2. APPENDIX 2—EMPLOYEES OF THE BUREAU DU VÉRIFICATEUR GÉNÉRAL AS AT DECEMBER 31, 2010

Auditor general of the Ville de Montréal and director Jacques Bergeron, CA, MBA, M. SC.	Executive secretary Josiane Mauriello
Assistant auditors general Robert Duquette, CA Denis Tremblay, CGA Serge Vaillancourt, CGA	Accounting analyst France Benny
	Programmer Yolaine Levasseur
Audit professionals François Arbez, CISSP, CISM, CGEIT, CISA 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* Lucie Gauthier, CGA Bernard Goyette, CGA, CMA Michelle Gravel, CA Jocelyne Laperrière, CA Éric Laviolette, CA Isabelle Léger, CA, CISA Marie-Ève Lemieux, CA, CA•EJC Chantal L'Heureux, CGA Joanne Major, CA Victor Marchand, CGA, CISA Philippe Pitre, CGA Michel Proulx, CGA Étienne Quenneville, CA, CFE Ronel Rocher, CGA André Sergerie, CA André St-Pierre, CGA*	

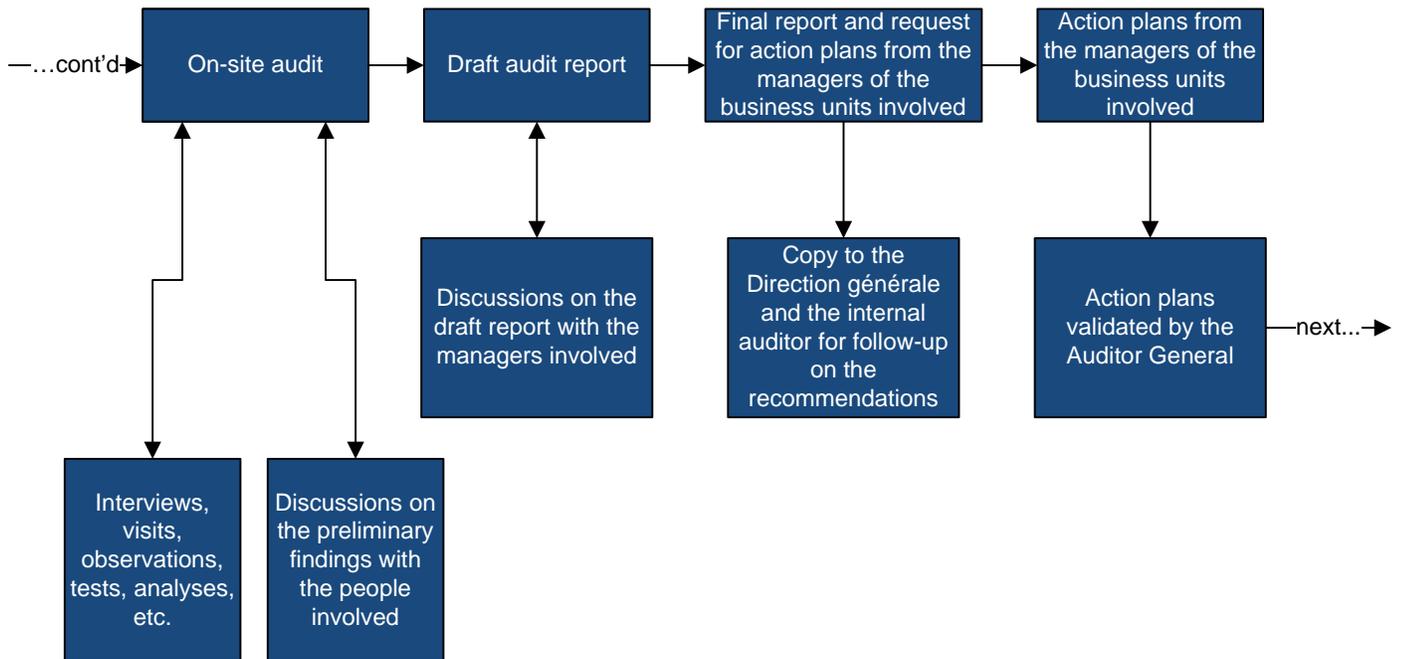
* On union leave.

VI.3. Appendix 3— Information Flow Charts— Value-for-Money and Information Technology (IT) Audit

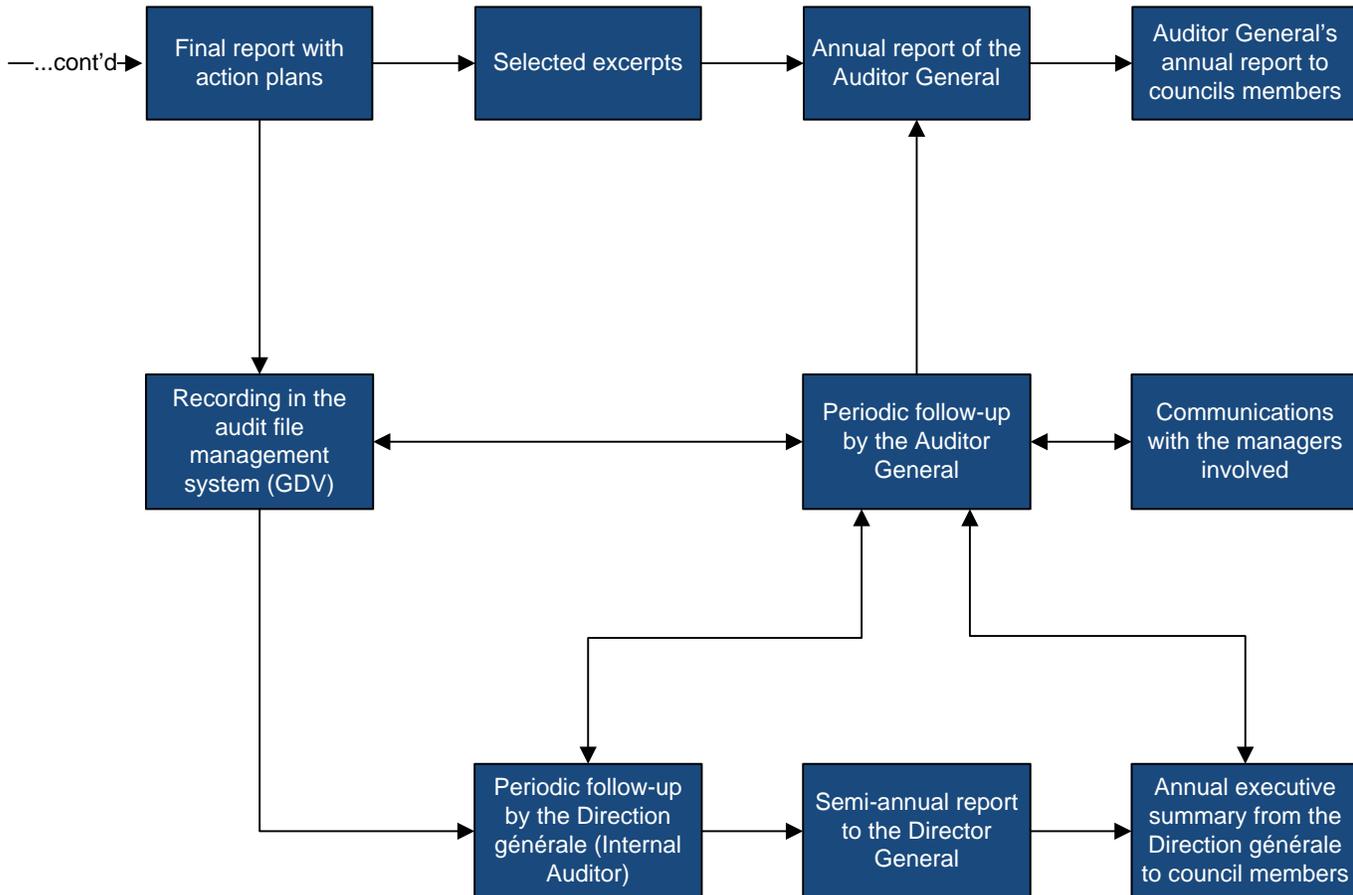
VI.3. APPENDIX 3—INFORMATION FLOW CHARTS—VALUE-FOR-MONEY AND INFORMATION TECHNOLOGY (IT) AUDIT



AUDITING AND REPORTS



ANNUAL REPORT AND FOLLOW-UPS



VI.4. Appendix 4— Bureau du Vérificateur Général Expense Accounts Statement

Schedule of expense accounts of the

**Bureau du vérificateur général of the
Ville de Montréal**

December 31, 2010

Independent auditor's report

To the Mayor,
the Chairman and Members of the Executive Committee,
the Members of the Council of the Ville de Montréal, and
the Members of the Agglomeration Council of the Ville de Montréal

In compliance with the provisions of section 108.2.1 of the *Cities and Towns Act*, we have audited the accounts related to the Bureau du vérificateur général of the Ville de Montréal (the “financial information”) for the year ended December 31, 2010.

Management's Responsibility for the Financial Information

Management of the Bureau du vérificateur général of the Ville de Montréal (“management”) is responsible for the preparation and fair presentation of this financial information in accordance with Canadian public sector accounting standards, as described in Note 2 to the financial statements of the Ville de Montréal, and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial information based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Given a difference in interpretation by the Bureau du vérificateur général of the Ville de Montréal relating to the scope of a mandate to audit accounts related to the auditor general, in compliance with the provisions set out in Section 108.2.1 of the *Cities and Towns Act*, we were refused access by management to certain supporting evidence. Consequently, we were unable to obtain sufficient appropriate audit evidence about the process of attributing contracts that must comply with Section 573 of the *Cities and Towns Act*. As a result, we were unable to determine whether a non-compliance situation should have been subject to disclosure.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial information presents fairly, in all material respects, the costs incurred by the Bureau du vérificateur général of the Ville de Montréal during the year ended December 31, 2010 in accordance with Canadian public sector accounting standards, as described in Note 2 to the financial statements of the Ville de Montréal.

*Samson Bélair/Deloitte & Touche s.e.n.c.r.l.*¹

March 31, 2011

¹Chartered accountant auditor permit No. 18190

**SCHEDULE OF EXPENSE ACCOUNTS OF THE BUREAU DU
VÉRIFICATEUR GÉNÉRAL OF THE VILLE DE MONTRÉAL**
year ended December 31, 2010
(in thousands of dollars)

	Budget ⁽¹⁾ (unaudited)	Actual	Actual
	2010	2010	2009
	\$	\$	\$
Compensation of personnel			
Salaries	2,479	2,538	2,451
Fringe benefits	831	653	634
	3,310	3,191	3,085
Professional, technical and administrative services	1,483	1,077	2,106
Other operating expenses	772	731	532
TOTAL	5,565	4,999	5,723

⁽¹⁾ Approved budget, as modified, presented in the accounting system of the Ville de Montréal for the Bureau du vérificateur général and approved by the executive committee of the Ville de Montréal.

This schedule of expense accounts of the Bureau du vérificateur général of the Ville de Montréal was prepared in accordance with Canadian public sector accounting standards, 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, 2010.