



# 1.

## Observations of the Auditor General

**2020 ANNUAL REPORT**

Auditor General of the Ville de Montréal



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# 1. Observations of the Auditor General

This report is the fifth of my seven-year term. In addition to being conducted during an extraordinarily difficult period in terms of work organization, the report is the result of a gigantic achievement by the team of the Bureau du vérificateur général (BVG). I wish to thank all the team members for their support, flexibility and desire to deliver a quality product. The BVG is dedicated to delivering **“an objective and independent look at the quality of the management of public funds.”**

## Five-year Trends

Trends have emerged from the various audits completed over the past five years. Beyond the piecemeal implementation of the recommendations, there are common issues that must be explored by the Ville de Montréal (the City) in a comprehensive approach to developing solutions aimed at improving its management of public funds.

### 1.1. Accountability

Last year, I indicated that more than 60% of the reports issued during the years 2016 to 2019 contained recommendations aimed at improving accountability. This trend continued in 2020, with recommendations to this effect in nearly 59% of the reports issued. Over a period of five years, more than 61% of reports and 48 recommendations dealt with improvements to accountability.

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

### 1.2. Documentation

In the past five years, we issued recommendations in 39% of our reports aimed at improving the documentation of actions taken and processes used by the business units. Such documentation ensures continuity and standardization in implementing actions when there is staff turnover (e.g., retirement, job changes, extended leave) and preserving the traceability of the actions performed.

### 1.3. Data Control Mechanisms

In 35% of our reports, we also made recommendations regarding the implementation of control mechanisms for data generated and used by the business units in the performance of their activities. This data can be used to evaluate progress or performance, guide decision-making about a project or strategy, or provide accountability to elected officials or information to citizens. It is crucial that the data be complete and representative of what has been measured or achieved.

### 1.4. Legal and Regulatory Compliance

The City has policies and by-laws that provide a framework for its activities and reflect its management decisions, while ensuring compliance with the law. In 35% of our reports over the past five years, we noted shortcomings in the way business units followed the City’s policies and by-laws and complied with provincial regulations related to their various activities.

### 1.5. Summary of the Audits Conducted in 2020



#### 1.5.1. Financial Audit

Clearly the pandemic had an impact on our timelines and on our method of conducting our audits of the City and agencies of the reporting entity that we deemed it appropriate to audit.

Against this unusual backdrop, the “Emergency Assistance Program for Small and Medium-Sized Businesses” and the “Assistance Program for Businesses in Regions under Maximum Alert” were set up by the Québec government. The City entrusted six agencies in the PME MTL network with managing this program and granting \$67.1 million in financial assistance to companies as of December 31, 2020. An audit was performed in coordination with the agencies and their auditors.

In addition to this, one of the elements complicating our audit for the year 2020 was the application of the stricter requirements of the revised CSA 540 *“Auditing Accounting Estimates and Related Disclosures.”* More specifically, as part of applying the CSA 540’s new terms, the City undertook a review of the estimates of the useful life of its capital assets. This resulted in a major increase in the useful life of several categories of capital assets and, consequently, a downward adjustment of \$223 million in the depreciation expense. We had issued a recommendation in this regard in 2016. This recommendation has remained unresolved for four years.

I issued unqualified auditor’s reports jointly with the external auditor of the City’s consolidated financial statements as of December 31, 2020, as well as a spreadsheet of combined expenses. In addition, six joint auditor’s reports were produced of the financial statements of December 31, 2020, for the following agencies: the Société de transport de Montréal (two reports), the Société d’habitation et de développement de Montréal, the Société du parc Jean-Drapeau, the Agence de mobilité durable, and Transgesco.

A detailed summary of the financial audits can be found in Chapter 2.

## **1.5.2. Performance and Information Technology Audits**

The full reports of the performance and information technology audits presented below can be found in chapters 3 and 4 of this report.

### **Pre-Election Report and Budget Process**

#### **PRE-ELECTION REPORT**

This file, which was opened in January 2018 in response to a verbal request, was followed by the city council resolution of August 19, 2019, requesting that the auditor general conduct an audit of the Pre-Election Report (PER) produced by the Service des finances (SF), more than 18 months after we issued a reply on this matter. The prototype of the PER was received on June 23, 2020.

The analysis of the prototype of the report, dated June 23, 2020, led us to conclude that, while we have both the expertise and the ability to carry out this type of mandate, it is clear that the report prototype that we received at the end of June 2020 and the files that support it do not allow us to express an opinion. Indeed, the conditions that would allow us to draw conclusions based on suitable criteria supporting the objectives of a Pre-Election Report and to obtain sufficient relevant evidence necessary to support our conclusions were not present.

Following a presentation of the results of our analysis, the Audit Committee, at the city council meeting of November 2020, tabled a document recommending withdrawal of the request for the SF to produce a PER to be audited by the auditor general. Despite this, city council maintained the request for the SF to produce a 2022–2024 budget framework between now and August 31, 2021, but it will not be audited. The same presentation was made in a plenary session to city council on January 26, 2021.

The entire supplementary budget of \$900,000 allocated by city council for this audit was withdrawn. Expenditures of \$500,000 incurred for this dossier were assumed by the BVG's budget.

Since the start, in January 2018, we have pointed out the impact of this dossier, especially the scope of the work to be done over the next three and a half years. Internal resources were freed up, and experts were consulted to support us in this audit. I also tabled a follow-up report to city council in February 2020 expressing my concern about the progress of this file.

The introduction of a PER is a colossal undertaking that is not to be underestimated. In order to be able to present a PER with high-quality financial information that complies with the prescribed requirements, the processes that support the production of PER need to be adequate, effective and rigorous, and the internal experts assigned to this task must be appropriate as well.

Nevertheless, the audit of the major budgetary processes dealing with revenues and expenses continued. Implementing the improvements recommended in this report is advisable if the City wishes to have a PER that complies with the requirements and represents a budget transparency tool that enables political parties to present programs that align with the City's financial situation.

The follow-up of the PER can be found in Chapter 7.3.

## **BUDGETARY PROCESS – OPERATIONAL COMPONENT AND MANAGEMENT OF THE SBA APP**

In a municipal setting, the budget represents a vehicle for communication that allows the City to inform the population of orientations taken and strategic choices made to establish the level of taxation and the level of service of the various municipal activity sectors, and to allocate resources accordingly.

For the fiscal year 2021, the City adopted an operating budget of \$6.17 billion, of which 64.7% of activities are funded by taxation revenue of \$4 billion. For expenses equivalent to revenues, compensation alone represents \$2.5 billion, or 40.9% of the total budget. The second major component of the budget corresponds to servicing the gross debt, which is \$1.1 billion, or 17.2% of the planned expenditures in 2021.

The City has a management framework specific to the budgeting process and formal decision-making mechanisms regarding the orientations established to achieve a balanced budget. We found, however, that the draft financial framework is focused on the following year's budget. It is not followed by a balanced five-year financial framework that would expose the risks and challenges of current projects, which is essential in a situation in which the City's structural budget imbalance is increasing.

The budgetary process is not part of a comprehensive planning process. The organizational priorities communicated by the Direction générale serve as a backdrop, without the budget of the business units being necessarily established based on these, their activities or the level of service.

The current method for determining the orientations and budget envelopes of the business units relies instead on managing disparities between revenues and expenses compared with the budget adopted the previous year. While certain forecasts have been made, our audit revealed overestimates and underestimates from year to year in some categories of revenues and expenses. This leads to discrepancies carried over from year to year and compromises the accountability of the business units.

While the central transfers granted to the boroughs have been the subject of certain adjustments, they have not been reassessed in depth since the 2014 reform of their funding to determine whether they accurately reflect current needs and whether the parameters used are still appropriate. The funding model should be reviewed after five years.

As well, the published information does not allow for any assessment of the City's budgetary performance; it deals with only one year, making it impossible to know the trend of the discrepancies between the forecasts and the historic results.

The preparation of the City's operating budget, totalling \$6.17 billion, rests in large part on a multitude of Excel files and outdated applications that are no longer supported by the service providers and that, over time, have required the implementation of compensatory controls to mitigate risks.

The main budget app used by the City, SBA, was developed in the early 1990s and is technologically outdated. To avoid the loss of data integrity and the availability of the app, control mechanisms need to be improved regarding documenting roles and responsibilities, password settings, access monitoring, and management of changes and incidents.

It is imperative that the City review its budgetary process and adopt high performance budget and financial systems so that it is better equipped to face current and future issues.

The conclusions of our audit of the budgetary process and SBA app can be found in chapters 4.1. and 4.2. of the report.

## Street Lighting System Upgrade

The City undertook a massive project to replace the City's approximately 132,000 high-pressure sodium bulbs illuminating the City's streets and sidewalks with light-emitting diodes lights. The purpose of the project was to reduce energy consumption by at least 50% and maintenance costs by 55%. In addition, the City wanted to install a smart communication system for the lights so that it could monitor their condition remotely in real time. In 2015, the central city proposed to take responsibility for the light conversion for all 19 boroughs, and contracted a private firm to manage the project, purchase equipment for the smart system and outsource the work of installing lights to three subcontractors. The City, for its part, handled the purchase of LED lights. The total authorized budget for all this work was \$110 million.

To date, the street light upgrade has enabled the City to achieve energy savings that exceeded the 50% expectations. However, these savings are based on data generated by the firm managing the project then transferred to the City, without any validation by the City. We also did not obtain evidence from the City that it has the necessary information to show that it has achieved maintenance savings of approximately 55% as a result of the street light conversion. What is more, the City was paying for repair work that the boroughs should have done, and in other cases, the boroughs themselves were doing the repair work without allowing the equipment supplier to honour the clauses dealing with equipment quality in the contract for the purchase of lights and their attendant warranties and without claiming the compensation to which it is entitled under these contracts.

## Organic Waste Treatment Plants

In order to respond to the *Plan directeur de gestion des matières résiduelles de l'agglomération de Montréal 2010-2014* (PDGMR) and become self-reliant in organic waste management, the Ville de Montréal (the City) undertook studies in 2006 that led it, in January 2013, to present to the executive committee (EC) a massive project for the construction and commissioning of five Organic Waste Treatment Plants (OWTPs) including a Centre pilote de prétraitement (CPP). The cost of the project presented to the EC was approximately \$237 million, for which the City anticipated that it would obtain approximately \$130 million in grants from the federal and provincial governments. All but one of the OWTPs was to be operational by the end of 2016; one OWTP was to be operational in 2021.

In 2018, the required investment grew to \$589 million. In 2019, the City's EC authorized the granting of two contracts for the production of the West and East OWTPs at a cost of \$298.5 million. The decision involved replanning the production of two other OWTPs and the CPP at unspecified future dates. As a result of delays in the project, the City could not obtain all the grants initially anticipated and is now under the obligation to negotiate new agreements with the governments. Thus, in 2020, as a result of increased project costs and reduced grants, the projected net cost of the project for the City should be between \$162.9 million and \$196.9 million

and, as a consequence, might be nearly twice the amount that had been projected six years earlier for the five facilities, while only two will be produced by the end of 2021.

In light of this overall finding of cost overruns and non-compliance with the timeline, which could have a considerable impact on the total grants originally anticipated from the federal and provincial governments, and considering that the Cadre de gouvernance des projets et des programmes de gestion des actifs municipaux (“Governance Framework”) was not complied with completely, and that monitoring and the different accountability reporting processes are incomplete, we conclude that the OWTP construction project was not subject to a sufficiently rigorous process, given the complexity and scope of the project.

### **Follow-up of Requirements for the Management of Large-Scale Projects and Programs**

In 2010, the City created a Cadre de gouvernance des projets et des programmes de gestion d’actifs municipaux (hereinafter the “Cadre de gouvernance”) to guide the management of large-scale projects (hereinafter the “Projects”) and programs (hereinafter the “Programs”) that, annually, require tens, if not hundreds, of millions of dollars in investment to be completed.

Since implementation of the Cadre de gouvernance, the identification criteria for Projects and Programs have evolved and are disseminated on the Bureau des projets et programmes d’immobilisations (BPPI) Intranet. However, these do not match those in the Cadre de gouvernance, and nothing specifies which prevail. As well, the criteria in place do not allow for identification of some Programs until they have reached the completion phase. Since they were not identified in a timely manner, these Programs did not appear before the governance committees from the start of their life cycle. Although the project management approach appears to be structured, the BPPI does not seek to assure itself of this entirely. As well, it does not exercise any systematic control over the comprehensiveness of the documents produced by the business units before they are presented to the governance committees. Finally, reporting on the monitoring of Projects and Programs is not done on a regular basis to the governance committees, nor any progress report on Projects (content, budgets and timelines) based on the initial parameters.

### **Management of Lead Service Line Replacements**

In 2007, in order to meet the government’s drinking water quality and public health requirements regarding lead in drinking water, the Ville de Montréal (the City) filed a plan to replace all lead service lines (LSLs), which called for the elimination of all LSLs (estimated in number at 69,000) by 2026. In 2019, in response to Health Canada’s change in the standard for the allowable concentration of lead in drinking water, and at the request of the Québec government, the City tabled a revised Action Plan (AP) to eliminate all LSLs by 2030. This revised plan provides for new actions, including accelerated screening.

It is estimated that, as of December 31, 2019, approximately 21,000 of the 69,000 LSLs had been replaced. Between 2007 and January 2020, close to 39,000 buildings were tested. The 2019 AP calls for the screening of another 100,000 buildings. However, this number has increased considerably since the revised AP was approved, to reach somewhere around 140,000 buildings. In addition, there are approximately 21,000 buildings for which the public section of the LSL has been replaced and that need to undergo an analysis to determine whether there are any LSLs in the private section.

While the initial AP was approved in 2007 by the Québec government, we note that the information available on the progress of the elimination of LSLs does not provide us with an overall picture of the situation that could be used to make informed decisions and to properly inform the public. Thus, we note that the replacement of LSLs has not progressed as planned in the AP. In addition, we did not find evidence that the regulations respecting the elimination of LSLs were systematically applied as required. In order to fully implement the AP, considerable work remains to be done and, as a result, the City must review existing management practices to accelerate the pace of LSL screening and replacement activities.

### **Management of Rolling Stock Maintenance (Excluding Public Safety Vehicles)**

The delivery of a multitude of services to citizens by the business units (clients of the Service du matériel roulant et des ateliers (SMRA)) depends on the availability of a vehicle fleet in good working condition. Managing the maintenance of the City's 8,200 vehicles and equipment is spread out among 27 mechanical workshops whose operating budget is more than \$60 million annually out of a total budget of approximately \$110 million. In 2017, these activities were grouped under the SMRA. The Service de l'approvisionnement (SA) is responsible for ensuring the availability of the parts and materials required for the maintenance activities of the SMRA's workshops.

The management of the SMRA's rolling stock maintenance has several shortcomings, especially at the level of the comprehensiveness of the information on the vehicles, the consistency of preventative maintenance planning, which is behind schedule, and the documentation of interventions and associated costs. Planned interventions do not reflect all the operational requirements of the business units and are not adjusted according to the capacity of the workshops. The SMRA's operations are not aligned with those of the SA to ensure the timely availability of the products required for the interventions. The control mechanisms and management reports required to track implementation of the interventions and monitor compliance with the regulation are not available. The implementation of PMP inspections and corrective maintenance on the HVs, as well as the CCs performed by the drivers in the boroughs, contain failures to comply with the applicable regulation. The tracking of costs and the performance evaluation of the management of rolling stock maintenance are flawed due to a lack of reliable data, objectives and indicators. Annual accountability fails to mention the operational management of the workshops or the regulatory compliance of the HVs. Almost four years after the centralization of these activities, no follow-up has been done of the objectives to be achieved.

## **Information Technology Risk Management**

Information technology (IT) risk management is a continuous process that generally involves the business units (the owners of most of the information assets) and the Service des technologies de l'information (STI). An IT risk is an event, involving IT, that could have a negative impact on the City, such as the loss or theft of confidential information, the inaccessibility of major apps, non-compliance with laws and regulations, or financial loss following a cyber attack (e.g., ransomware).

The STI put in place a team responsible for supporting the City's technological risk management. This team has made significant progress in this area. Nevertheless, the STI does not have the human and technical resources needed to manage IT risks to ensure adequate delivery of its service offering. Governance of IT risk management is not sufficiently framed with complete, up-to-date and approved documentation, disseminated to the stakeholders and applied by them. Although the mechanism for detecting technological risks is documented in the IT risk management process, it is not applied.

This situation increases the likelihood that the quality of IT risk management is uneven from one business unit to the next, and from one stakeholder to the next, and that major IT risks are not adequately detected, dealt with and followed up.

## **Geomatics Systems Management**

Geomatics includes the set of tools and methods used to acquire, represent, analyze and integrate geographic data. The term "geomatics" is derived from the contraction of the words "geography" and "informatics." Geomatics is closely related to the geographic information that represents an object or phenomenon in space.

Geomatics has extremely numerous fields of application, such as surveying, topography, urban planning, snow clearing and traffic signal operations.

Overall, we concluded that the City has established several control mechanisms that ensure sound geomatics systems management.

## **Contributions Granted for Development Projects of Montréal Museum of Archaeology and History, Pointe-à-Callière**

Inextricably tied to its location, the Pointe-à-Callière Montréal Archaeological and History Museum (the Museum) owes its existence to major archaeological discoveries made in the 1980s in Old Montréal. Opened in 1992 as part of the festivities surrounding the 350th anniversary of Montréal, the Museum is the only large archaeological museum in Canada. It is also the largest and most visited history museum in Montréal.

Since 2011, the Société du musée d'archéologie et d'histoire de Montréal, Pointe-à-Callière (the Société), has obtained nearly \$77 million in grants for the Museum's development projects. Of this amount, more than \$53 million came from the City, ranking the Société as one of the City's most subsidized bodies in 2018 and 2019, among the legal persons outside of the City's reporting entity. These funds are used to complete projects aimed at enhancing the Museum. They come out of the

operating budget of the Service de la culture, which is responsible for managing the contribution agreements specific to the projects in the Société's Three-year capital works program.

The City has not always done a proper follow-up to ensure compliance with the contribution agreements, making it difficult to validate whether the funds awarded were used for their intended purpose. Our audit identified a lack of compliance with certain clauses, regarding, in particular, separate and adequate accounting for the Fort Ville-Marie and William Collector projects, the quality of the information contained in the cost reports, and application of the city council by-law on contract management. Finally, we noted that approval for granting contracts was delegated to a committee of the Société's board of directors, without any rendering of accounts to the board.

We also noted that some costs were claimed after the agreement expired, and that unused funds were transferred to fund other projects without prior formal approval. Although the Service de la culture monitors the Société regularly, accountability reporting is not done in a timely manner, leaving the Service de la culture with a fait accompli once the amounts are spent.

## 1.6. Accountability

### 1.6.1. Legal Persons Having Received a Subsidy of at Least \$100,000 from the Ville de Montréal

For the year ended December 31, 2019, the City recorded a total of \$190.6 million in subsidies to various legal persons. Of this amount, \$161.9 million (or 85%) concerned 243 legal persons that had received subsidies totalling at least \$100,000, which were subject to the requirements of Section 107.9 of the *Cities and Towns Act* (CTA) and resolution CM13 1157 adopted by city council.

Considering the current public health crisis, we stopped our follow-up belatedly this year, i.e., on February 12, 2021. As of that date, the BVG had received the 2019 audited financial statements of 242 (or 99.6%) of the 243 entities concerned by this requirement of the CTA, for a total of \$161.7 million. Only one entity, which had received \$204,300, had not met the requirements of the CTA and resolution CM13 1157, having ceased its operations during the course of 2019.

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

Chapter 6.1. deals with the work done by the BVG to ensure the agencies' compliance with the laws.

## 1.6.2. Application of the Auditor General's Recommendations

Following up on the implementation of the recommendations we make is an integral part of the work of the BVG. These recommendations are aimed at helping the municipal administration fully discharge its responsibilities and contribute to improving the business processes, while fostering a better use of resources.

During 2020, the comptroller general put in place mechanisms to follow up on the actions taken by the business units to improve the efficiency of their implementation in a timely manner. The Audit Committee held meetings with the business units to monitor the actions taken regarding the timely implementation of their APs. We also reviewed some of our practices, in particular by extending the period allowed for business units to submit action plans by three months.

### Results

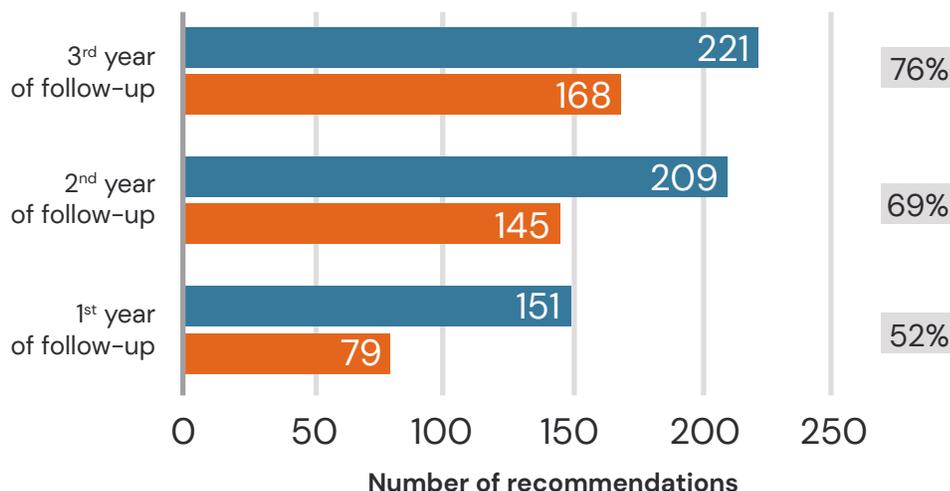
Compared with the two previous years, when I observed a low percentage<sup>1</sup> of recommendations resolved versus those unresolved in the first year following publication of the audit report based on the APs developed by the business units, this year's percentage sits at 52%. This improvement was seen not only in the financial audit but also in the performance, compliance and information technology audits. This leads me to say that the actions taken to date by the municipal administration to follow up on the implementation of the APs is beginning to bear fruit.

While 76% of the recommendations followed up in year 3 have been resolved, this should have been close to 100%, given that most of the business units' APs had maximum timelines of three years. This is why I feel that, despite the improvements observed, there is still work to be done to implement all the recommendations made to the business units.

Furthermore, this year once again, I found recommendations outstanding that the business units considered to have been resolved, several APs still awaiting action even though the planned implementation date had passed, and initial action plans expired more than five years ago, even 10 years in some cases.

<sup>1</sup> The percentage of recommendations resolved after the first year for the performance, compliance and information technology audits was 32% in the 2017 report and 34% in the 2018 report; for the financial audit, it was 25% in the 2017 report and only 8% in the 2018 report.

## Percentage of implementation of Recommendations as of February 28, 2021



- Number of recommendations to be resolved according to initial action plans provided by business units
- Number of recommendations resolved according to the Bureau du vérificateur général

Detailed results of the application of the recommendations can be found in Chapter 6.2.

### 1.7. Management Reports

Chapter 7.1. of our management report contains the situation of the BVG for the year 2020, and Chapter 7.2. contains the follow-up of the 2019–2023 strategic plan, for which we achieved 82% of our commitments despite the pandemic. Subsequently, in January 2021, we unveiled our new logo and, in March 2021, launched our new website. The BVG’s expenditures for 2020, along with the independent auditor’s report, appear in Appendix 8.2.