

To: Council in Committee of the Whole

From: Jag Sharma, City Manager,
Office of the City Manager

Report Number: CM-17-04

Date of Report: April 27, 2017

Date of Meeting: May 1, 2017

Subject: City of Oshawa/ Oshawa Senior Citizens Centres (O.S.C.C.)
Governance Relationship Audit

File: C-3100

1.0 Purpose

The purpose of this report is to transmit the KPMG City of Oshawa/Oshawa Senior Citizens Centres (O.S.C.C.) Governance Relationship Audit Report.

2.0 Recommendation

It is recommended to City Council:

That Report CM-17-04 dated April 27, 2017 and Attachment 1, being the KPMG City of Oshawa/Oshawa Senior Citizens Centres (O.S.C.C.) Governance Relationship Audit Report be received for information and that the recommendations and management responses in the KPMG audit report be endorsed as the general basis for improving upon the governance relationship.

3.0 Executive Summary

Not applicable.

4.0 Input From Other Sources

The health and safety audit by KPMG was conducted with the involvement of the appropriate City employees and consultation with the O.S.C.C. Board on the draft audit report.

5.0 Analysis

On December 14, 2015, Council received for information the 2016 Audit Plan. The Plan was comprised of five audits, as follows:

- Real Estate Function
- Asset Management
- Oshawa Senior Citizens Centres (O.S.C.C.) Governance
- Health and Safety
- Fleet Purchasing and Inventory Management.

All audits have been completed with the reporting of the O.S.C.C. Governance and Asset Management audits. The O.S.C.C. audit contains four recommendations related to the following aspects:

- Development of a Municipal Services Agreement (medium risk)
- Full cost of the City grant to the O.S.C.C. (medium risk)
- Volunteer staff at the O.S.C.C. (low risk)
- Use of the O.S.C.C. facilities by residents from other municipalities (low risk)

The KPMG recommendations and City management response will be the basis for implementing improvements to the City/O.S.C.C. governance relationship.

6.0 Financial Implications

There are no financial implications.

7.0 Relationship to the Oshawa Strategic Plan

This report responds to the Council-approved principle of financial stewardship, which underlies the Oshawa Strategic Plan. It also responds to the goal of Economic Prosperity – Ensure economic growth and a sound financial future – theme of Responsible Taxation, as well as the goal of Accountable Leadership – Ensure respect, responsiveness and transparency – theme of Develop and Leverage Relationships.



Helen Break, Director, Strategic Initiatives,
Office of the City Manager



Sandy Black, Executive Director
Oshawa Senior Citizens Centres



Office of the City Manager



City of Oshawa

**Internal Audit of City of Oshawa/Oshawa Senior Citizens Centres
(O.S.C.C.) Governance Relationship**



Contents

	Page
1. Executive Summary	3
2. Recommendations	7
Appendices	
A. Summary of key risks	
B. Different governing structures	
C. Staff involvement and documents reviewed	

Distribution

To (for action):

- Sandy Black – Executive Director, OSCC
- Jackie Long – Executive Director of HR

cc (for information):

- David Potts – City Solicitor
- Jag Sharma – City Manager

Co-Sponsors

- Sandy Black – Executive Director, OSCC
- Jackie Long – Executive Director of HR

This report, together with its attachments, is provided pursuant to the terms of our engagement. The use of the report is solely for internal purposes by the management of the City of Oshawa, pursuant to the terms of the engagement, it should not be copied or disclosed to any third party or otherwise quoted or referred to, in whole in part, without our written consent.



Section One

Executive Summary

Conclusion

This audit considered the governance and risks in the relationship between the City of Oshawa (“City” or “Corporation”) and the Oshawa Senior Citizens Centre (“OSCC”). Overall we graded our review **Significant Assurance with minor improvement opportunities**. We noted a strong commitment from both parties to maintain a close relationship and work co-operatively together for the benefit of seniors in the local community. There are risks to the way in which the current relationship is structured, given that the OSCC is a separate legal entity, however all its staff are employees of the City. This appears to be a unique situation in the Province.

We held meetings with staff from both the City and OSCC which highlighted the importance of a strong relationship between the two organizations. The City relies on the OSCC to provide services, activities and support to seniors across the municipality (including around 17% of members who come from other municipalities). The OSCC relies on the City for funding and other support such as IT, Finance and HR support. We commend the work of key staff at the City and the OSCC in building an open and transparent relationship. There are quarterly meetings between the City Manager and Executive Director and Chair of the OSCC to discuss strategic issues, as well as relationships built with the Executive Director of Human Resources and Executive Director, Finance Services/Treasurer.

There are some risks to both organizations with the current documents governing the relationship. While strong relationships have been built, the Letter of Understanding between the parties does not provide sufficient clarity of the role of each party, the requirements of each party and from a legal perspective how the relationship must be governed. Risks to the City include ensuring that the OSCC employees comply with Health and Safety and other policies of the City (as employees are City employees) and LHIN funding for staff being removed which would leave the City liable for severance packages or other liabilities. There are also risks to the OSCC which include the difficulty in increasing the new staff complement which requires Council approval (as they are City employees) and uncertainty of funding from the City for its operations.

We considered a range of options in relation to how the relationship may be better governed. The two extreme options being bringing the OSCC back under the responsibility of the City, through to the OSCC being an independent entity with its own staff. There are pros and cons to both options and the most practical solution could be to maintain the current relationship but clarify it with a Municipal Services Agreement (MSA); setting out



that staff are City employees, the services the City will provide to the OSCC and greater clarity respecting OSCC's grant requests for funding to OSCC.

Background

The OSCC and their community operations are not for profit, offering multi-purpose community programs for adults aged 55 and over. The OSCC is governed by a Board of Directors of 13 dedicated community-minded individuals who volunteer their time to assist OSCC in fulfilling its mission including 1 (one) City Council Board member appointed by Oshawa City Council (note, the Oshawa Council does not have the right to appoint a member). OSCC was incorporated by letters patent on December 21st, 1967 under the Corporations Act. The City was not an incorporating director or member and had no authority under the Municipal Act to undertake the incorporation. The OSCC is a separate legal entity from the City and the City, not being a member of the corporation, has no authority over the OSCC despite the fact its employees are working for the OSCC.

The OSCC is funded through donations and fundraising, a grant from the Central East Local Health Integration Network (CE-LHIN) and the balance of costs is borne by the City. Grant funding received by the OSCC from the City for 2014-2016 is as follows: 2014 – \$1,530,200; 2015 – \$1,509,200; and 2016 – \$1,543,268. In addition to the grant, the City provides the OSCC with space in its facilities, namely Northview Community Centre and Legends Centre at no charge. In turn OSCC provides designated space to the City upon request at no charge. In addition, the City also provides IT, Finance and HR support as well as maintenance of fleet vehicles (latter is charged back to OSCC). Fuel for the vehicles is obtained via the City's depot at the City's costs.

Currently, the Executive Director of OSCC and 36 staff positions are considered employees of the City of Oshawa. Unionized employees are represented by CUPE Local 251 (Inside). Exempt Group employees are part of the Exempt Group pay structure of the City with the exception of the Executive Director, whose compensation and responsibilities are also governed by a Multi-Sector Service Accountability Agreement (M-SAA) with the CE-LHIN.

Objectives

Objective	Description of work undertaken
Objective one To review the governance relationship between the	We reviewed the following: <ul style="list-style-type: none"> The existing Letter of Understanding and the reporting that has occurred over the past 12 months;



Objective	Description of work undertaken
City and the OSCC	<ul style="list-style-type: none"> • Documents currently governing the OSCC e.g. the Letters Patent and Strategic Plan; • Roles and responsibilities in the relationship between the City and OSCC; • Risks to the City and provide suggestions on how to manage them; and • Investigate existing governance and funding models in other municipalities of similar arrangements (if any) to benchmark against the relationship the City has with the OSCC. <p>The aim of this objective was to consider the relationship between the OSCC and the way in which it is structured given the OSCC has City employees but is an independent entity.</p>

Areas of good practice

- ✓ **Relationship between City and OSCC:** a strong relationship has been built between key staff which allows for collaboration in supporting seniors in the local community.
- ✓ **Alignment of OSCC Strategic Plan and City priorities:** the Strategic Plan was developed in collaboration with the City and other key partners to ensure alignment with City priorities.
- ✓ **Risk understanding:** key staff demonstrated an understanding of the risks in the current relationship and are actively looking to manage those risks appropriately.

Areas for development

- **Development of a Municipal Services Agreement:** At present the relationship between the OSCC and the Corporation is governed by a Letter of Understanding from 2004 which does not provide sufficient clarity around staffing, the services required or the funding. We recommend an MSA is developed to provide greater clarity around key areas in the relationship between the Corporation and the OSCC (Recommendation 1).
- **Full cost of grant to OSCC:** At present the grant provided to OSCC totals around \$1.8m. This only reflects some elements of the support such as staff costs. It does not include the cost of providing other support services such as HR, IT, Facilities and some fleet services. We recommend an analysis is done of in-kind support provided to OSCC to ensure Council has a full picture of the support being provided (Recommendation 2).



Recommendations raised

We have raised the following recommendations (high priority represents the most urgent and high risk category):

	High	Medium	Low	Total
Raised	0	2	2	4
Accepted	0	2	2	4

Some recommendations have been accepted in principle as they require the sign off of the OSCC Board in order to take action.

Acknowledgement

We thank the staff involved for their help in completing this review.

Contact Information

The contacts at KPMG in connection with this report are:

Tony Malfara, Partner
 Tel: (416) 777-3461
 Cell: (416) 918-5483

tmalfara@kpmg.ca

Nick Rolfe, Senior Manager
 Tel: (416) 777-3543
 Cell: (647) 242-2452

nicholasrolfe@kpmg.ca



Section Two

Recommendations

This section summarizes the recommendations that we have identified from our work. We have given each of our observations a risk rating as follows:

Priority rating for recommendations raised		
<p>High – (Priority One): Issues arising referring to important matters that are fundamental and material to the system of internal control. The matters observed might cause a system objective not to be met or leave a risk unmitigated and need to be addressed as a matter of urgency.</p>	<p>Medium – (Priority Two): Issues arising referring mainly to issues that have an important effect on the controls but do not require immediate action. A system objective may still be met in full or in part or a risk adequately mitigated, the weakness represents a deficiency in the system.</p>	<p>Low – (Priority Three): Issues arising that would, if corrected, improve internal control in general but are not vital to the overall system of internal control. These recommendations are of leading practice as opposed to weaknesses that prevent systems objectives being met.</p>

#	Risk	Recommendation	Management response, officer and deadline
1	Medium	<p>Development of a Municipal Services Agreement</p> <p>At present the relationship between the City and the OSCC is governed by a Letter of Understanding from 2004. While the document does consider some of the staffing and procedural issues governing the relationship, it does not acknowledge the key risks to both parties around employment of staff and funding.</p> <p>We recommend that a more formal Municipal Services Agreement is put in place to formalize the relationship and</p>	<p>Management will work collaboratively with the OSCC Board of Directors and the Executive Director to replace the Letter of Understanding with a new agreement clarifying all roles and responsibilities.</p> <p>Owner: David Potts Due date: Q4 2017</p>



#	Risk	Recommendation	Management response, officer and deadline
		<p>mitigate risks to both the City and OSCC. This should include specific items:</p> <ul style="list-style-type: none"> • Confirms the staff are City employees and lists the positions (in an appendix); • Confirms that staff must abide by City policies and procedures; • Clarifies the reporting relationship of the Executive Director to the City Manager and the regularity of meetings; • Sets out the services that will be provided by City staff working for the OSCC; • Clarifies the funding expectations of the City via a grant (taking into account LHIN funding and fundraising) and how the OSCC can go about seeking additional funding for more staff or to expand services; and • Provision of minutes of OSCC Board meetings to a member of CLT for information. 	
2	Medium	<p>Full cost of grant to the OSCC</p> <p>At present the City is responsible for funding the OSCC for amounts that are not met by either LHIN funding or through fundraising. The amount for the past three years has been around \$1.8m. However, this amount does not include in-kind amounts like the support provided through HR, IT, facilities and fleet.</p> <p>We recommend that analysis is performed by the City and OSCC in order to identify the full amount of support provided to the</p>	<p>Management will undertake a fulsome analysis and engage all stakeholders to determine the full cost of services provided to OSCC.</p> <p>Stephanie Sinnott – Executive Director, Finance Services</p> <p>Due date: Q2 2017</p>



#	Risk	Recommendation	Management response, officer and deadline
		OSCC in monetary terms to ensure the full amount is identified when the budget is presented each year.	
3	Low	<p>Volunteer staff at OSCC</p> <p>We understand there are a large number of volunteers at the OSCC. However, it is not clear whether, from a legal perspective, they would be deemed to be volunteers for the OSCC or the Corporation given the fact all staff are City employees.</p> <p>We recommend the status of the volunteers is clarified as to which organization they represent. If they are deemed to be the responsibility of the City then appropriate mechanisms will need to be in place to track the volunteers, ensure they receive health and safety training and comply with other City policies.</p>	<p>Currently there are 515 active volunteers at OSCC, supervised by program and administration staff. Volunteers sign AODA, Integrated Accessibility Regulations, sign off on emergency and fire plan procedures, confidentiality and volunteer rights and responsibilities, and receive respect in the workplace training. Management will seek legal advice to seek clarity regarding the relationship of OSCC volunteers to the City.</p> <p>Jacqueline Long – Executive Director, Human Resources</p> <p>Due date: Q1 2017</p>
4	Low	<p>Use of OSCC facilities by residents from other municipalities</p> <p>We understand that around 17% of members live outside of the boundary of the City.</p> <p>Given the membership fee being paid by members (\$10) is subsidized in part by the City, we recommend that discussions are held with other municipalities to confirm if they would be willing to contribute towards</p>	<p>City staff can introduce the recommendation to the OSCC Board of Directors, however, any decisions regarding user fees is solely their decision as a separate not for profit corporation. It is noted that the OSCC Board has approved an increase in Oshawa resident fees but a decision regarding</p>



#	Risk	Recommendation	Management response, officer and deadline
		the costs of providing membership for their residents.	<p>non-resident fees has still to be addressed.</p> <p>Sandra Black – Executive Director, OSCC</p> <p>Due date: Q2 2017 (to be confirmed following consultation with OSCC Board).</p>



Appendices

Appendix A: Summary of key risks

In undertaking our work we have identified, with the help of key members of staff from the City and OSCC, some key risks and possible mitigating actions in the current relationship between the City and OSCC:

Key risk	Potential action / mitigation
<p>All liabilities relating to general wage increases and termination / severance packages are borne by the City. This could be of concern if the LHIN withdraw funding they provide for some services at OSCC as those staff would still be employees of the City and so have to be funded by the City.</p>	<ul style="list-style-type: none"> • Further building of relationship with LHIN • Negotiation of longer term funding agreement with LHIN
<p>Member of staff at OSCC does not comply with City policies or laws and regulations. City would be liable for any fines or other restrictions imposed.</p>	<ul style="list-style-type: none"> • Municipal Services Agreement would ensure clarity in understanding of City policies are required to be complied with • Ensure formal reporting line and consideration of OSCC when policies are introduced or updated
<p>Hiring requests require approval of Council given the fact that it is adding headcount to City staff. Limits autonomy of OSCC.</p>	<ul style="list-style-type: none"> • Municipal Services Agreement would ensure clarity in process (Recommendation 1) • Continued communication between OSCC and City on staffing needs, ensuring the increases in headcount are built into longer term budgets where necessary
<p>John St building of the OSCC is in need of renovations and maintenance in order to bring the building up to standard and minimize health and safety concerns. City employees are employed in this building. Repairs are under the purview of the OSCC but the building has to meet requirements</p>	<ul style="list-style-type: none"> • Funding should be confirmed as soon as possible to move ahead with redevelopment • Maintenance should be assessed as a priority and funded from the OSCC's Future Expansion Fund Reserve



<p>from a health and safety perspective for the City.</p>	
<p>The City is currently subsidizing OSCC services to seniors of other municipalities (cost of OSCC membership is \$10 per year) – around 17% of the members are from outside of the municipal boundaries.</p>	<ul style="list-style-type: none"> • Increase in membership fees for out of Oshawa area members could harm numbers (Recommendation 4)
<p>Demands for services of the OSCC will increase over coming years, given the change in demographics, which could result in increases in funding required by the City.</p>	<ul style="list-style-type: none"> • Longer term financial plan required for the OSCC and factored into City's funding strategy
<p>The full cost of the grant and support from the City is not identified and recognized when budgeting each year</p>	<ul style="list-style-type: none"> • Analysis should be undertaken to identify the full cost of support (Recommendation 2)
<p>It is not clear whether the volunteers who support the OSCC are employees of the OSCC or employees of the City (given staff are all City employees)</p>	<ul style="list-style-type: none"> • Seek legal clarification of the status of the volunteers (Recommendation 4) • Identify appropriate policies and procedures they must follow (e.g. training) if they are deemed to be employees of the City



Appendix B: Different governing structures

In undertaking our work we also identified, with the help of key members of staff from the City and OSCC, different options for structuring the relationship between the OSCC and the City along with the key pros and cons of each:

Option	Pros	Cons
1. OSCC is brought under full control of the City and the OSCC ceases to exist	<ul style="list-style-type: none"> • Mitigates risks around control of staff and liability to City • City ensures alignment with their strategic priorities 	<ul style="list-style-type: none"> • OSCC loses its identity and independence, and is viewed negatively by the community which will impact membership • The status of the LHIN funding (\$1.1m) may be at risk. Further enquiry with the LHIN would be necessary.
2. OSCC is spun off as a separate entity and all staff are no longer City employees	<ul style="list-style-type: none"> • OSCC has a greater level of operational control 	<ul style="list-style-type: none"> • Unable to benefit from City economies of scale in purchasing • OSCC would need separate facilities, IT, Finance and HR support • Funding agreement may be complex
3. Current hybrid relationship is maintained but strengthened with a municipal services agreement	<ul style="list-style-type: none"> • OSCC maintains its independent status • City maintains control over staff • Clarity in terms of responsibilities • Clarity over funding source from City 	<ul style="list-style-type: none"> • Agreement may be complex to prepare and ensure agreement of all parties
4. No change to current relationship	<ul style="list-style-type: none"> • OSCC maintains its independent status • Operational flexibility for OSCC 	<ul style="list-style-type: none"> • Current risks to the City and OSCC remain but these have been deemed too significant



From our analysis the hybrid model (option 3) could be the most beneficial option for both parties. A Municipal Services Agreement would be prepared which formalizes the relationship between the City and OSCC. The Agreement provides clarity around; the services and staff required from the City by the OSCC and the funding requirements of the City.



Appendix C: Staff involvement and documents reviewed

We undertook interviews in October and November 2016 with key stakeholders to inform this work, including:

Name	Title
Jag Sharma	City Manager
Sandra Black	Executive Director, OSCC
Sylvia Rhodes	President, OSCC
Jackie Long	Executive Director of Human Resources
David Potts	City Solicitor
Stephanie Sinnott	Executive Director, Finance Services/Treasurer

We received the following documentation over the course of fieldwork:

- Letter of Understanding between the City and OSCC (2004);
- Letter Patent (1967) for OSCC;
- Strategic Plan of OSCC;
- History and background documents relating to governance of the OSCC; and
- Summary executive report and financial statements of OSCC.