THE DISTRICT MUNICIPALITY OF MUSKOKA

To: Chair and Members
Engineering and Public Works Committee; and
Finance and Corporate Services Committee

From: Steve Melnichuk
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Date: September 21, 2026

Subject: Artificial Intelligence (AI) Governance Framework

Report: FCS-8-2026-7

Recommendation

This report is provided for information.

Origin

At the October 22, 2025, joint meeting, the Engineering and Public Works Committee and Finance and Corporate Services Committee received Report FCS-8-2025-1, Artificial Intelligence (AI) Policy. Council subsequently adopted the policy and directed staff to develop an AI Governance Framework to support its implementation. This report provides the Framework.

Background

The District has completed the Artificial Intelligence (AI) Governance Framework (attached as Appendix I), fulfilling the commitment made when Council adopted its Artificial Intelligence Policy in October 2025. The Framework provides the operational structure needed to apply the Policy consistently as AI tools are considered and used across District services.

The Framework establishes a practical, risk-based approach that supports responsible AI use without creating unnecessary steps or administrative burden. It provides a streamlined intake and assessment process appropriate to the level of risk, assigns clear responsibilities, and maintains an inventory of approved AI tools.

This enables routine, low-risk uses to proceed efficiently, while ensuring higher-risk applications receive the appropriate review before implementation.

It also strengthens safeguards for privacy, cybersecurity, records management, procurement, and public transparency. Staff remain responsible for reviewing and validating AI-assisted work, and personal, confidential, or privileged information may not be entered into public AI tools. Where AI meaningfully assists a public-facing service, communication, or decision, the Framework requires appropriate disclosure and confirmation of continued human oversight.

Analysis

The Framework applies to predictive, generative, and agentic AI, including AI capabilities embedded in enterprise software. It applies to District employees, contractors, consultants, and vendors when AI is used for District business or in connection with District data, systems, or services.

It is grounded in the District's responsible-use principles:

- Fair,
- Accountable,
- Secure,
- Transparent,
- Educated,
- Relevant, and
- Staff-Informed

These principles require human accountability, privacy and security protections, accessible and equitable use, staff training, transparency where AI meaningfully affects a public-facing service or decision, and a clear operational or public benefit.

Risk-based Governance and Oversight

Proposed AI uses will begin with staff completing an AI intake. The intake determines the appropriate governance pathway and helps identify opportunities for coordinated procurement, enterprise licensing, and consistent corporate controls.

To avoid slowing innovation, the AI intake process will enable direct advancement of low-risk requests that meet defined criteria to IT software review. Higher-risk items are brought forward for consideration by the Information Technology Project Steering Committee (ITPSC) prior to software review.

- Low-risk uses, such as internal productivity, accessibility, summarization, or approved transcription tools, may proceed through IT software review when defined criteria are met.

- Moderate-risk uses such as chatbots, analytic tools and enterprise AI capabilities that influence workflows, require an AI Impact Assessment and oversight by the Business Owner, IT Services, and the ITPSC.

- High-risk uses, such as tools affecting eligibility, service prioritization, or other decisions that could materially affect an individual, as well as agentic tools capable of taking consequential actions, require enhanced assessment and oversight. Human-in-the-loop controls, including direct human approval where appropriate, must reflect the risk and potential impact of the use, with clear accountability and escalation to the District Strategic Leadership Team (DSLT) where appropriate. For third-party AI tools, the Framework requires consideration of data residency, permitted data use and retention, access controls, incident notification, audit rights, and contractual protections proportionate to the tool's risk.

Implementation and continuous improvement

Implementation will be supported through the AI intake process, AI Impact Assessment, approved-tool inventory, staff guidance and training, and the existing IT software review process.

The Framework will be reviewed and updated as needed to reflect changes in legislation, provincial guidance, technology, organizational needs, and best practices. Operational updates may be approved through the ITPSC where they do not change the Framework's core principles, governance structure, or accountability model; substantive changes will be brought forward to DSLT and Council as appropriate.

The completed Framework provides a controlled path for responsible innovation. It will allow staff to assess and adopt suitable AI tools while maintaining proportionate oversight and clear accountability.

Financial Considerations

The Framework does not create an immediate budget impact. Initial implementation will use existing resources for IT software review, governance, staff guidance, training, vendor due diligence, and maintenance of the approved-tool inventory.

Any future costs associated with enterprise AI tools, specialized expertise, or additional capacity will be identified through the regular budget process.

Climate Change Implications

The District assesses climate implications in all staff reports using the Clean Air Partnership's 'Municipal Climate Lens Tool' to consider climate impacts or benefits associated with any project, program or initiative.

Although adoption of the AI Governance Framework does not have direct Climate Change Considerations, AI technologies do have environmental impacts associated

with data centre energy and water use, as well as the manufacture, operation and disposal of technology infrastructure.

The AI Governance Framework supports responsible use by requiring AI tools to provide a clear operational or public benefit and by considering whether existing tools can meet the need. AI solutions will also be reviewed through established IT, procurement and vendor review processes, where factors such as efficiency, cost, lifecycle and sustainability can be considered.

Communications

As identified in Report FCS-8-2025-1, the District committed to establishing a consistent approach to public transparency regarding the use of AI.

The AI Governance Framework addresses this commitment by requiring disclosure when AI meaningfully assists a public-facing service, communication or decision. Routine internal uses of AI that support staff work generally do not require public disclosure.

Where disclosure is required, a clear statement will advise the public that AI is being used and that appropriate human oversight remains in place. Disclosure may be provided through a webpage, digital service, online form, correspondence or other public-facing communication, as appropriate to the use.

Implementation of the Framework will also include staff awareness and ongoing training to support safe, consistent, and responsible use of approved AI tools. Staff will continue to share best practices and update guidance as legislation, standards and AI technologies evolve.

Strategic Plan

The District assesses the impact or influence of the information or recommendations included in staff reports toward achieving Council's Strategic Plan objectives.

This report includes information or recommendations that impact or influence the following Strategic Plan Objectives:

- Objective 6 Service alignment – Modernize municipal services and deliver them in the way that makes most sense – best value, efficiency, and outcomes for residents.
- Objective 7 Service excellence – Improve how we communicate, create better customer experiences, and encourage residents to provide input and share their ideas.

- Objective 8 Future thinking – Plan and invest so that we have the services and infrastructure our residents and communities need – now and in the future.

Respectfully submitted,

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Suzanne Olimer, B.Com, CPA, CMA, Commissioner of Finance and Corporate Services

Artificial Intelligence Governance Framework

Administrative Approval Date: 2026/09/14

Most Recent Amendment Date: 2026/09/14

Effective Date: 2026/09/14

Policy reference: ITSC-025-2025

Supersedes: N/A

1. Purpose:

The District of Muskoka's Artificial Intelligence (AI) Governance Framework ensures that all AI systems are used responsibly and in alignment with public expectations.

This Framework directly aligns with Ontario's Trustworthy Artificial Intelligence Framework (Digital Ontario, 2023), incorporates the January 2026 Principles issued by the Information and Privacy Commissioner of Ontario, and anticipates the forthcoming Public Sector AI requirements under Bill 194.

As emphasized by Ontario's Information and Privacy Commissioner, public trust is the vital condition for AI to be used productively, and this Framework exists to protect that trust while enabling responsible innovation.

2. Scope:

This Framework establishes the District's internal governance approach for the use of AI and supports the implementation of the District's Responsible Use of AI policy. The Framework will be maintained to reflect evolving legislative requirements, organizational needs, and best practices.

It applies to the use of AI across the District, including predictive and generative tools, and AI capabilities embedded within enterprise software (such as customer relationship management, asset management, human resources, and other operational systems) where those capabilities influence workflows, recommendations, or service delivery.

The requirements apply to all District employees who procure, develop, implement, or use AI systems, or who manage data or infrastructure supporting AI tools, regardless of whether AI is accessed through District-managed systems or personal accounts when used for District business.

For contractors, consultants, and vendors, these requirements apply when AI is used on behalf of the District or in connection with District data, systems, or services, and are implemented through contractual terms, procurement requirements, and system access controls, as applicable.

3. Definitions:

a) **Artificial Intelligence (AI) –** Techniques and systems that enable software to perform tasks that would normally require human intelligence, such as pattern recognition, prediction, classification, summarization, content generation, or decision support. This includes predictive, generative, agentic and AI capabilities embedded within enterprise software.

b) **AI Intake –** A standardized intake process used to confirm whether a proposed tool or application involves AI and to determine the applicable risk tier and governance pathway. Intake results determine whether a proposed use may proceed directly to IT Software Review or requires a Full AI Impact Assessment (AIA).

c) **AI Impact Assessment (AIA) –** An assessment required for moderate and high-risk AI uses to evaluate potential impacts related to privacy, equity, human rights, service delivery, workforce, data use, vendor risk, and accountability.

d) **Agentic AI –** AI systems that can take actions, initiate workflows, or make changes to systems or processes without direct human approval at each step.

e) **Business Owner –** The District employee responsible for proposing, owning, and overseeing an AI tool or application. The Business Owner is accountable for the tool's purpose, appropriate use, performance, training, and compliance with this Framework and related policies.

f) **Direct Human Approval -** A control where a person must review and approve an AI-supported action or decision before it can proceed.

g) **Enterprise AI Tool –** An AI tool or capability approved for use across multiple departments or corporate-wide, including AI embedded within enterprise systems such as customer relationship management, asset management, or human resources platforms.

h) **Generative AI –** AI systems that generate new content such as text, images, audio, video, or code in response to prompts or inputs.

i) **Human in the Loop –** A process where a person remains responsible for reviewing, approving, overriding or stopping an AI-supported action or decision at the appropriate point in the process. The level of human involvement should reflect the risk and potential impact of the AI use.

j) **Predictive AI –** AI systems that use historical data to predict likely outcomes or trends, supporting analysis and planning, but not replacing human decision-making.

k) **Risk Tier –** The classification assigned to an AI use (low, moderate, or high) based on potential impact to individuals, services, data, rights, or decision-making. Risk tier determines the level of assessment, oversight, and approval required.

4. Acronyms:

- **AI –** Artificial Intelligence
- **AIA –** AI Impact Assessment
- **CIU –** Continuous Improvement Unit
- **DSLT –** District Strategic Leadership Team
- **IPC –** Information and Privacy Commissioner of Ontario
- **IT / IT Services / ITSC –** Information Technology Services
- **MFIPPA –** Municipal Freedom of Information and Protection of Privacy Act
- **OHRC –** Ontario Human Rights Commission
- **ITPSC –** IT Project Steering Committee

5. Guiding Principles:

These principles guide day-to-day decisions, assessments, and approvals related to the use of artificial intelligence across the District. They reflect the Government of Canada's "FASTER" model and incorporate principles issued by the IPC and the OHRC, providing a practical lens for evaluating AI tools and balancing innovation with risk, service quality, workforce considerations, and public trust.

Fair: AI must respect human rights, accessibility requirements, and equity. Systems are reviewed for bias, unintended impacts, and accessibility barriers. Decisions must not disadvantage individuals or communities.

Accountable: People, not algorithms, remain responsible for outcomes. Each AI tool has a named business owner and clear oversight. All AI-generated content or recommendations must be reviewed by staff. Use of AI does not alter existing accountability or authorship standards; AI-assisted outputs are treated the same as any other work product.

Secure: AI use must protect the District's data, systems, and residents' privacy. Tools must follow cybersecurity standards and MFIPPA requirements. Personal or confidential information must not be entered into public AI models and may only be used in approved enterprise AI tools with appropriate safeguards and approvals.

Transparent: AI use must be understandable and visible to staff and the public. Departments must disclose when AI is used in a service or decision. Staff must be able to explain how an AI tool supports their work. Where AI meaningfully affects a service or outcome, the District will explain what the tool does and what humans still decide.

Educated: Staff must understand how to use AI safely and appropriately. All users must complete role-specific training. Staff review outputs for accuracy, context, accessibility, and tone.

Relevant: AI must serve a clear operational or public benefit. Tools are selected for real problems. AI must support better service, efficiency, or experience for staff or customers. AI adoption must reflect practical workflow realities and operational fit.

Staff-Informed: AI tools must be selected and implemented with input from the staff who will use them day-to-day. Tools should improve usability, eliminate redundancies, and facilitate value adoption, ensuring challenges are identified and addressed prior to full implementation.

6. Governance Structure

IT Project Steering Committee (ITPSC)

The IT Project Steering Committee (ITPSC) serves as the standing governance body for IT projects across the District, including the responsible oversight and approval of AI uses. The ITPSC is not an AI-specific structure; it provides consistent oversight for all significant IT initiatives, ensuring coordinated decision-making, risk management, and alignment with corporate priorities.

The ITPSC provides corporate oversight and direction for IT projects and digital tools across the District, including the responsible introduction and governance of AI.

The ITPSC is a cross-functional governance body composed of subject-matter expertise in IT, digital delivery, risk, and organizational leadership, enabling timely, informed, and consistent decision-making across all IT projects, including AI.

Decision Making and Meeting Cadence

The ITPSC will meet on a standing monthly basis to support timely review and decision-making across all IT projects. To avoid slowing innovation, the AI intake process will enable direct advancement of low-risk requests that meet defined criteria to software review. Higher-risk items are brought forward for committee consideration prior to software review.

Where appropriate, requests may be reviewed electronically between meetings, with outcomes documented and ratified at the next scheduled meeting.

Decisions will be guided by the criteria and requirements set out in the AI Intake process for low-risk uses, and by the completed AI Impact Assessment (AIA) for moderate- and high-risk uses.

The assessment establishes whether required conditions, safeguards, and controls are met. The ITPSC will apply the AIA criteria to determine whether proposals meet required standards and align with corporate IT and digital transformation direction. Where requirements are not met, the request will be returned to the Business Owner with clear direction on what is required to proceed.

Where a Business Owner disagrees with a decision or conditions imposed, they may request reconsideration by the ITPSC by submitting additional information, revised mitigation measures, or clarification addressing the identified gaps. Where issues remain unresolved following reconsideration, or where there is elevated risk or material organizational impact, the matter may be escalated to DSLT for direction.

ITPSC Composition

The ITPSC is composed of District staff with the authority, technical expertise, and organizational insight necessary to support timely, informed, and consistent governance decisions. Membership reflects a balance of IT, digital delivery, risk, and organizational leadership perspectives, covering all project types, including AI.

Members will apply a risk-based and pragmatic lens to requests, supporting timely decision making and avoiding unnecessary delay or deferral. Detailed membership roles, responsibilities, and selection principles will be further defined through the IT governance framework and ITPSC terms of reference.

ITPSC Chair(s):

- Director, Strategy, Innovation and Communications
- Project Manager – IT Services

Members:

- Director, Information Technology
- DSLT Member, Commissioner, Finance and Corporate Services
- Lead, Continuous Improvement Unit
- Director, Human Resources
- District Clerk

Roles and Responsibilities

Responsibility	ITPSC	Business Owner	IT	CIU
Establish service standards	✓			
Submit AI Intake Form		✓		
Complete and submit AI Impact Assessment (AIA)		✓		
Review AI Impact Assessment (AIA) including IT software review	✓		✓	
Maintain master AI Inventory			✓	
Ensure security, privacy, and technical integrity		✓	✓	
Assess vendor, platform, and integration risk			✓	
Oversee training and safe-use guidance	✓	✓	✓	✓
Accountable for tool purpose		✓		
Track tool efficiency, data extractions and measuring tool performance	✓	✓	✓	✓
Ensure public disclosure statements are provided, when/if necessary		✓		✓
Maintain on-demand learning resources			✓	✓
Host Responsible AI learning sessions	✓			
Report outcomes and performance measures	✓	✓	✓	✓
Adjust, pause, or rescind approvals if risk changes	✓		✓	
Protect public interest and individual rights	✓	✓	✓	✓

7. Risk-Based Approach

The District uses a risk-based and pragmatic process to govern the use of AI, recognizing that not all tools carry the same level of risk.

Proposed AI tools must follow the AI intake process to ensure oversight is proportionate to potential impact, to support early risk identification, confirm appropriate safeguards, and provide visibility into existing AI uses across departments. This helps avoid siloed adoption, duplicative costs, inconsistent solutions, and enables consideration of coordinated procurement or enterprise licensing where appropriate.

All proposed AI uses begin with a risk intake process that determines the applicable tier and assessment requirements, ensuring streamlined adoption of low-risk tools while maintaining strong governance and accountability for higher-risk uses.

Across all risk tiers, AI systems remain subject to human accountability, proportional oversight, and reassessment where context, data use, or impacts change, consistent with the IPC and Ontario Human Rights Commission (OHRC) Principles for the Responsible Use of Artificial Intelligence.

Risk Tiers

Risk Tier	Description	Examples	Oversight
1 (Low)	Minimal impact on people, services, or decision-making, or supports individual productivity or accessibility. Generally for internal use only.	• Spell-check and grammar tools • Text summarization • Internal accessibility tools • Translation tools for internal use • Note-taking or transcription tools integrated into approved software (Teams/Zoom) • Search tools for internal use • Formatting or document clean-up tools	Business Owner IT Services
2 (Moderate)	AI influences workflows, communications, prioritization, or service delivery but does not make or automate decisions affecting individuals.	• Chatbots • Scheduling or routing tools • Drafting tools for public communications • Call-triage or email-sorting tools • Analytics tools identifying trends • AI tools embedded in enterprise software (CRM, asset management, HR) that influence workflows • Recommendation or classification tools used to inform, but not determine, staff actions	Business Owner ITPSC IT Services

Risk Tier	Description	Examples	Oversight
3 (High)	AI directly affects service delivery, eligibility, prioritization, or decision-making with potential impact on individuals.	• Application or eligibility screening tools • Automated prioritization of enforcement, inspections, or compliance actions • Predictive analytics influencing resource allocation • Agentic tools that take actions without direct human approval • AI used in recruitment or performance management • Emergency response prioritization or triage • Identification or surveillance-related tools • Profiling, scoring, or risk-classification systems affecting individuals	Business Owner ITPSC IT Services DSLT

8. Privacy, Records and Data

AI use must comply with MFIPPA/FIPPA and internal records policies, including requirements for consent, de-identification where possible, retention of records, and limits on what information may be entered into external tools.

Employees shall not enter personal information, confidential, solicitor-client privileged, or otherwise restricted information into public AI tools or models. Where AI is required for work involving such information, only approved enterprise AI solutions may be used in accordance with an approved AIA.

Use of AI does not change existing accountability obligations. Staff remain responsible for the accuracy, appropriateness, review, and compliance of all content and decisions, whether AI-assisted or not.

Where AI tools involve third-party vendors or external platforms, data residency, storage, and access considerations must be identified and documented. AI tools that involve third-party access to District data must be supported by appropriate contractual and technical safeguards addressing permitted data use, access controls, incident notification, audit rights, and protection of personal information.

9. Public Disclosure

The District is committed to transparency about how AI is used. When AI meaningfully assists a public-facing service, public communication, or public decision, the District shall provide clear and appropriate disclosure, so residents understand how the tool is being used and the role of human oversight.

Disclosure will be proportionate to the context and may appear on digital services, forms, webpages, or other public interfaces. Public disclosure will confirm that AI is being used to support the service or process and that District staff retain responsibility for reviewing, validating, and approving all final content, decisions, or outcomes.

Public disclosure requirements will evolve as provincial guidance, legislation, and best practices develop, and will be reviewed regularly as part of this Framework.

10. Procurement and Vendor Controls

AI tools are subject to the District's existing procurement policy. All procurement of AI tools must comply with the District's Procurement Policy (FI-007-2025) and applicable requirements for vendor due diligence, contract terms, and data governance.

Vendor contracts for AI tools must address data residency, permitted data use and retention, access controls, incident and breach notification, and audit rights, as appropriate to the risk tier of the tool.

11. Framework Review and Maintenance

This Framework is an internal living governance document and will be:

- Maintained and reviewed annually by the ITPSC
- Updated as required to reflect changes to the Principles for the Responsible Use of Artificial Intelligence, Ontario's Trustworthy AI Framework, Bill 194, or other relevant legislation, regulation, or guidance
- Reported to DSLT and, where appropriate, Council as part of broader digital governance or service modernization updates

The ITPSC may approve operational updates to this Framework without Council approval, including updates to approval processes, guidance materials, group composition, assessment tools, and procedural requirements, provided such changes do not alter the Framework's core principles, governance structure, or accountability model. Substantive changes to the intent, scope, or governance authority of this Framework will be escalated to DSLT and Council, as appropriate.

12. Policies, Documents and References

District of Muskoka – Responsible Use of AI (ITSC-025-2025)
District of Muskoka – Procurement Policy (FI-007-2025)
District of Muskoka – Privacy Breach (AD-223-2022)
District of Muskoka – Acceptable Use of Technology (ITSC-024-2023)
Municipal Act, 2001
Accessibility for Ontarians with Disabilities Act, 2005 (AODA)
Integrated Accessibility Standards (O. Reg. 191/11)
Ontario Human Rights Code
Municipal Freedom of Information and Protection of Privacy Act (MFIPPA)
Bill 194 – Strengthening Cyber Security and Building Trust in the Public Sector Act, 2024
Ontario's Trustworthy Artificial Intelligence Framework (Digital Ontario, 2023)
Principles for the Responsible Use of Artificial Intelligence – Information and Privacy Commissioner of Ontario (January 2026)
Government of Canada's Directive on Automated Decision-Making