



**Office of the Auditor General: Report on Audit  
Follow-ups, Tabled at Audit Committee – May 25,  
2017**



Office of the Auditor General

May 25, 2017

Mayor, Members of Audit Committee and Council,

I am pleased to present this report on follow-ups of audits carried out by the Office of the Auditor General of the City of Ottawa.

The report includes an overview and an executive summary for each of the follow-ups conducted.

Respectfully,

A handwritten signature in black ink that reads 'Ken Hughes'.

Ken Hughes

Auditor General



Staff of the Office of the Auditor General

Suzanne Bertrand

Sonia Brennan

Ken Hughes

Vivien Kaye

Joe Kyte

Ed Miner

Janet Onyango

Louise Proulx

Ines Santoro

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## Progress toward improvement

The Office of the Auditor General (OAG) conducts audit follow-ups two to three years after an audit is complete to afford management time to implement the recommendations. A follow-up may be conducted sooner if corrective action is complete. The OAG adheres to the best practices and professional standards of the international audit community by including the practice of audit follow-ups. The Audit Process includes the Planning Phase, the Fieldwork Phase, the Reporting Phase, and finally, the Follow-up Phase. In the follow-up, the OAG evaluates the adequacy, effectiveness and timeliness of actions taken by management on reported observations and recommendations. This evaluation ensures that the required measures, promised by management and approved by Council, have been implemented. Accordingly, the follow-ups in this report were conducted according to the OAG's 2015 Work Plan.

The audit follow-ups contained in this report include:

- Audit of Ethics
- Audit of OC Transpo Lost and Found
- Review of the City's Acquisition of Land for Soccer Fields

As can be seen in the next section, it is clear from the results of these follow-ups that management is committed to the audit process. The OAG wishes to draw attention to the Follow-up to the Audit of Ethics where the implementation of several recommendations have been significantly delayed or did not fully address the issues or intent of the audit recommendations. Management has indicated their commitment to fully implement these recommendations in the future. In addition, the Follow-up to the Audit of OC Transpo Lost and Found addressed the majority of recommendations made by the OAG with management's assurance that outstanding actions will be completed in the future.

## Summary and assessment of overall progress made to date on audit recommendations

Audits are designed to improve management practices, enhance operational efficiency, identify possible economies and address a number of specific issues. The Follow-up Phase is designed to identify management's progress on the implementation of recommendations from the audit reports. This report is not intended to provide an assessment of each individual recommendation. Rather, it presents our overall evaluation of progress made to date across all completed audits. Should Council wish

to have a more detailed discussion of specific follow-ups, OAG staff are available to do so.

The table below summarizes our assessment of the status of completion of each recommendation for the above-noted audit follow-ups.

Table 1: Summary of status of completion of recommendations

| Follow-up      | Total | Complete | Partially complete | Not started | No longer applicable |
|----------------|-------|----------|--------------------|-------------|----------------------|
| Ethics         | 8     | 2        | 6                  | -           | -                    |
| Lost and Found | 7     | 5        | 2                  | -           | -                    |
| Soccer Fields  | 3     | 3        | -                  | -           | -                    |
| Total          | 18    | 10       | 8                  | -           | -                    |
| Percentage     | 100%  | 56%      | 44%                | -           | -                    |

We have categorized each of the audit follow-ups based upon the following criteria:

- **Solid progress** = 50% or more of the recommendations evaluated as 'complete'.
- **Little or no progress** = 50% or more of the recommendations evaluated 'not started'.
- **Gradual progress** = all others.

**Solid Progress:**

- Review of the City's Acquisition of Land for Soccer Fields
- Audit of OC Transpo Lost and Found

**Gradual progress:**

- Audit of Ethics

With these audit follow-ups now complete, no further work to review the implementation of these recommendations is intended by the OAG, with the exception of the Audit of Ethics which will be followed up again in 2019. However, as a result of the annual work plan and/or Council requests, new audits in any of these areas may occur in the future.

## Executive summaries – Audit follow-ups

The following section contains the executive summary of each of the audit follow-ups.

## Follow-up to the Audit of Ethics

The Follow-up to the 2013 Audit of Ethics was included in the Auditor General's 2015 Audit Work Plan.

The key findings of the original 2013 audit included:

- Overall, the results of the all-staff survey conducted were positive and suggested that, in general, the ethical climate at the City is quite strong. The survey also identified some opportunities for improvement as follows:
  - Regular discussion of ethics issues not widespread throughout City (34%);
  - Uncertainty of where to go for assistance when managing an ethical dilemma (26%);
  - Concerns over preferential treatment of some employees (22%);
  - Some employees fear reprisal for reporting a violation (21%); and
  - Unfavourable perceptions towards senior management's behaviour (18%).
- The City's Code of Conduct and Fraud and Waste Hotline were found to be important components in maintaining a strong ethical culture at the City.
- There was no mandatory requirement for all employees to regularly take training with a focus on ethics in a public sector environment, or the Code of Conduct. Moreover, long-time employees are not required to take regular "refresher" training related to the Code of Conduct.
- For policies referenced in the Code of Conduct, 6 out of 17 were overdue for review. The requirement for policy review was 'at least every three years'.
- The majority of ethics-related communications were conducted ad hoc or on demand. Furthermore, there was no overarching communications strategy that set out the frequency of communications and messaging to employees.
- 51% of employees sampled had not completed an Individual Contribution Agreement<sup>1</sup> (ICA), and 33% of those had not used the most up-to-date form. As such, only a fraction of full-time employees were being assessed annually on their adherence to the Code of Conduct, and some direct supervisors and managers

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<sup>1</sup> City of Ottawa's performance evaluation form is called the Individual Contribution Agreement (ICA). The Performance Development Program (PDP) for City employees has been designed to give employees effective feedback through the ICA on their job performance and provide them with support for developing their skills. The PDP process is to be utilized on an annual basis for all employees.



were not consistently using the performance evaluation process as a means of reminding employees of the importance of adhering to the Code of Conduct.

- It was generally understood that the City Clerk and Solicitor as well as the Litigation and Labour Relations branch had taken the lead on the Code of Conduct and initiatives related to ethics. However, the City’s overall responsibilities for ethics management had not been formally defined or documented. This may lead to confusion in managing responsibilities and expectations associated with ethics management. The responsibility for the ethics function should be formalized.

Table 2: Summary of status of completion of recommendations

| <b>Recommendations</b> | <b>Total</b> | <b>Complete</b> | <b>Partially complete</b> | <b>Not started</b> | <b>No longer applicable</b> |
|------------------------|--------------|-----------------|---------------------------|--------------------|-----------------------------|
| <b>Number</b>          | 8            | 2               | 6                         | -                  | -                           |
| <b>Percentage</b>      | 100%         | 25%             | 75%                       | -                  | -                           |

## Conclusion

Although management has made progress in implementing audit recommendations, six out of eight recommendations are not complete.

The extent of the improvement for some recommendations did not fully address the issues or intent of the audit recommendations. For example, the primary means of ongoing communication and training for ethics and the Code of Conduct is electronic; however, over 40% of all employees do not have electronic access. Furthermore, it was indicated that employees’ annual performance reviews (ICAs) are another important means to ensure ongoing communication and training for ethics and the Code of Conduct despite low rates of completion at approximately 25%, with the exception of MPE and CIPP employees. The strategy and design for effective communication and training needs has not taken these constraints into account in order to outline clear actions that would be successful. Furthermore, the completed activities necessary to support a strong ethical culture and environment have not been supported by a dedicated resource or through the use of budgeted funds that were available in 2016.

Management staff have indicated the additional steps they would be undertaking to fully implement these recommendations in future. Due to the extent of incomplete actions, the Office of the Auditor General will follow up again in early 2019 to ensure that all recommendations have been completed.

## **Acknowledgement**

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.

## Follow-up to the Audit of OC Transpo Lost and Found

The Follow-up to the 2013 Audit of OC Transpo Lost and Found was included in the Auditor General's 2015 Audit Work Plan.

The original 2013 Audit of OC Transpo Lost and Found was undertaken as a result of a Fraud and Waste report and included the following key findings:

- The City's Request for Proposal (RFP) process was not followed for the Lost and Found contract. Since 2001, the management and client services for the Lost and Found had been delivered under three sole-source agreements with Heartwood House;
- Transit Commission and City Council were not informed of the sole-sourced contracts issued under the authority delegated to management as required by the City's Purchasing By-law;
- Bus operators were allowed to keep items not claimed at the Lost and Found; and
- There was a conflict of interest between the Transit employee that negotiated and managed the contract for the Lost and Found service and Heartwood House. In 2014, management recognized the issue and re-assigned responsibility for portions of the file to others.

Table 3: Summary of status of completion of recommendations

| <b>Recommendations</b> | <b>Total</b> | <b>Complete</b> | <b>Partially complete</b> | <b>Not started</b> | <b>No longer applicable</b> |
|------------------------|--------------|-----------------|---------------------------|--------------------|-----------------------------|
| <b>Number</b>          | 7            | 5               | 2                         | -                  | -                           |
| <b>Percentage</b>      | 100%         | 71%             | 29%                       | -                  | -                           |

### Conclusion

Management has made progress in implementing the audit recommendations, five of the seven recommendations are complete.

The original audit recommended and management agreed to develop a business case that would analyze various service delivery options and the associated costs and benefits. This did not occur as the audit report was tabled after the Request for Proposal was issued; and in May 2015, the City entered into a five-year contract with three optional one-year extensions. We recommend that management complete a business case, prior to issuing a contract extension, in order to refresh the dated

outsourcing costs and estimated savings to ensure that the decision to continue outsourcing this activity still represents the best value for the City. The current contract ends in April 2020.

The 2013 audit found that the activities for managing and tracking lost and found items could to be strengthened. To address this, management included mandatory requirements such as using electronic systems and methods for tracking and reconciling lost and found items and the use of suitable security practices to ensure the safety and confidentiality of client and program information. Management had also committed to reviewing these changes with Heartwood House. At the time of our audit work, the City had completed an initial review to verify that specific improvements were operating as expected. We encourage management to complete their planned on-site review with Heartwood House as soon as possible to ensure that all measures have been applied and the tracking of lost items is occurring appropriately.

The 2013 audit also recommended that documents, such as proof of insurance, are requested and reviewed as required by the contractual terms and conditions. The responsibility of ensuring that the City has proof of insurance on file rests with the Supply branch as of September 2016. At the start of our work, the City did not have acceptable proof of insurance. We informed Supply branch, which subsequently obtained the required documentation.

## **Acknowledgement**

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.

## Follow-up to the Review of the City’s Acquisition of Land for Soccer Fields

The Follow-up to the 2013 Review of the City’s Acquisition of Land for Soccer Fields was included in the Auditor General’s 2015 Audit Work Plan.

The key findings of the original 2013 review included:

- The City’s May 2010 appraisal for a property acquisition of 32 acres of land for use as soccer fields relied on the seller’s May 2008 appraisal for the estimated \$762,000 cost for improvements. This resulted in the City not receiving the benefit of two separate independent appraisals which did not meet the intention of the Real Property Acquisition Policy (formerly called the Acquisition Policy) and the October 2009 report to Council.
- Inaccurate and incomplete information was provided to Council on this land transaction in the July 2010 report regarding:
  - Not disclosing the reliance of the City’s appraisal on the seller’s appraisal for the improvements of \$762,000;
  - Indicating that there was no donation receipt issued for income tax purposes when in fact tax donation receipts were to be issued to the sellers for a total of \$250,000 for a cash donation provided to the City upon completion of the transaction; and
  - Not disclosing that the sellers were also on the Board of Directors of the Ottawa South United Soccer Association (OSUSA) with whom the City was negotiating the sports field agreement for the site.

Table 4: Summary of status of completion of recommendations

| <b>Recommendations</b> | <b>Total</b> | <b>Complete</b> | <b>Partially complete</b> | <b>Not started</b> | <b>No longer applicable</b> |
|------------------------|--------------|-----------------|---------------------------|--------------------|-----------------------------|
| <b>Number</b>          | 3            | 3               | -                         | -                  | -                           |
| <b>Percentage</b>      | 100%         | 100%            | -                         | -                  | -                           |

## **Conclusion**

Management has been proactive in addressing the recommendations. All the recommendations have been completed.

## **Acknowledgement**

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.