



**Office of the Auditor General: Follow-up to the
2013 Audit of OC Transpo Lost and Found,
Tabled at Audit Committee – May 25, 2017**

Table of Contents

Executive summary	1
Conclusion	1
Acknowledgement.....	2
Detailed report – Assessment of implementation status	3

Executive summary

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 1: Summary of status of completion of recommendations

Recommendations	Total	Complete	Partially complete	Not started	No longer applicable
Number	7	5	2	-	-
Percentage	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 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.

Detailed report – Assessment of implementation status

The detailed section of this report is available in English only and may be translated in whole or in part upon request. For more information, please contact Ines Santoro at 613-580-2424, extension 26052.

La section détaillée de ce rapport n'existe qu'en anglais et pourrait être traduite en partie ou en totalité sur demande. Renseignements : Ines Santoro, 613-580-2424, poste 26052.

The following information outlines management's assessment of the implementation status of each recommendation as of June 2016 and the Office of the Auditor General's (OAG) assessment as of December 2016.

Recommendation #1

Status	Management update	OAG assessment
	Complete	Partially complete

Audit recommendation:

That the City:

- a. Analyze and document the Lost and Found planning process to determine the Lost and Found requirements;
- b. Develop a business case with service delivery options considering the costs and benefits; and
- c. Issue a Request for Proposal (RFP) if the program continues with an external provider.

Original management response:

Management agrees with this recommendation. OC Transpo has already taken steps to improve the operation and administration of its existing Lost and Found Program.

These actions include the following:

- In 2014, Transit Services undertook a number of enhancements for the Lost and Found process through amendments to Standard Operating Procedures (SOPs). On September 1, 2014, OC Transpo's SOPs were amended to reflect that items that remain unclaimed after ninety (90) days are now retained by the Service Provider. In Q3 2014 and Q4 2014, Transit Services worked with Supply Management in the review and development of business requirements that supported the provision of Lost and Found services; and
- In anticipation of the end of the current contract for the provision of Lost and Found Services, a competitive Request for Proposal (RFP) process was initiated by OC Transpo in late 2014. The development of the RFP led to issuance in December 2014 and submissions were received at the end of January 2015. Through the development of this RFP, OC Transpo included the following requirements for the successful proponent to have in place in order to allow the City to evaluate the proposals from a cost benefit perspective:
 - An electronic management system with appropriate security measures to protect both information and the contents on the premises;

- A requirement that the program integrate with existing departmental processes and practices; and
- Compliance with all City of Ottawa General Terms and Conditions and all applicable guidelines, policies, standards and legislation.

Transit Services worked with Supply Management in February 2015 to review eligible proponents, which led to the selection of a successful proponent in Q1 2015.

Management update:

Management has completed the development and completion of a full RFP process that addresses all three components of this recommendation. As noted in previous status updates, the City has now awarded a contract to the successful proponent in compliance with procurement standards and processes.

OAG assessment:

Recommendation #1a: Complete

The lost and found requirements were adequately documented in the RFP including specific requirements and references to Transit's existing SOPs.

Recommendation #1b: Not started

The City did not develop a business case as per the recommendation. In 2001, the General Manager, Transportation, Utilities and Public Works informed Council of the decision to outsource the service based on expected saving of \$50,000 per year. Completing a business case, before issuing the RFP, was an opportunity to refresh the dated outsourcing costs and estimated savings to ensure that the decision to outsource this activity still represents the best value for the City.

Management did collect data on lost and found operating models of 22 comparable transit companies. Of the transit companies surveyed, Ottawa is the only transit provider to outsource the lost and found service.

Recommendation #1c: Complete

The City of Ottawa issued a RFP for the management of the lost and found and client services on behalf of OC Transpo. The RFP, which was posted on MERX (electronic tendering service used by the City), closed on January 29, 2015. One proposal was received, evaluated and awarded the contract.

Recommendation #2

Status	Management update	OAG assessment
	Complete	Complete

Audit recommendation:

That the City ensure that agreements authorized under Delegated Authority are reported to Commission/Committee and Council.

Original management response:

Management agrees with this recommendation. Management will report agreements authorized under Delegated Authority to Commission/Committee and Council on a go-forward basis.

Management update:

The contract for lost and found services with Heartwood House was listed in the *Delegation of Authority – Contracts awarded for the period January 1, 2015 to June 30, 2015 for Transit Services* report that was received by the Transit Commission on October 21, 2015 and by Council on October 28, 2015.

OAG assessment:

The actions as described in the management update are verified.

Recommendation #3

Status	Management update	OAG assessment
	Complete	Complete

Audit recommendation:

That the City ensure that agreements are reviewed by Legal Services to contain appropriate clauses including the required proof of review prior to execution, in compliance with Council direction.

That the City ensure that as part of the ongoing management of the contract that there is proof that appropriate documentation has been requested and reviewed to support the established clauses (e.g. Insurance, Audited Financial Statements, etc.).

Original management response:

Management agrees with this recommendation. Management will review future agreements with Legal Services to ensure they contain appropriate clauses, including the required proof of review prior to execution, in compliance with Council direction.

The RFP process contained requirements making documentation such as insurance and annual audited financial statements a clearly articulated requirement with associated management processes.

Management update:

Management ensures that Legal Services reviews and approves all contracts before they are executed.

The existing contract contains requirements making documentation such as insurance and annual audited financial statements a clearly articulated requirement with associated management processes.

Staff maintain regular contact with the contractor around required documentation as well as operations issue management as required.

The 2015 Annual Report was received on February 22, 2016 providing a monthly breakdown of items received and claimed. Staff expect to receive the contractor's audited financial statement for 2015 by the end of July 2016.

OAG assessment:

In compliance with the Purchasing By-law, a Request for Proposal was advertised on MERX in December 2014. The Lost and Found “contract”¹ was awarded by way of a purchase order. The Purchasing By-law states that a formal agreement is not required and that the issuance of the purchase order incorporating the City’s terms and conditions is sufficient when the resulting contract is not complex.

While Legal Services did not review this contract¹ for execution, the Contract Approval Request (CAR) was signed by the Manager, Purchasing, the General Manager, Transit Services and City Manager in April 2015, prior to the issuance of the purchase order.

We verified the acceptable methods of obtaining proof of insurance with Legal Services who confirmed that the “*Confirmation of Insurance*” (i.e., specific document that validates that an insurance policy is in effect) provided by Supply branch was acceptable.

At the start of our work, the City did not have acceptable proof of insurance as required by the contractual terms and conditions. We informed Supply branch which subsequently obtained the required proof of insurance from Heartwood House’s insurance provider during the course of our work. The responsibility of ensuring that the City has proof of insurance on file rests with the Supply branch as of September 2016.

¹ There is no separate formal contract or agreement. The vendor is to provide Lost and Found Management and Client Services for OC Transpo in accordance with the seven documents enumerated on the purchase order created May 1, 2015. Combined, the following seven documents form the contractual agreement the City entered in with the vendor.

- City of Ottawa, Request for Proposal No. 19514-96102-P01
- City of Ottawa, Request for Proposal No. 19514-96102-P01- Addendum No.1 dated 24 December 2014.
- City of Ottawa, Request for Proposal No. 19514-96102-P01- Addendum No.2 dated 16 January 2015.
- Heartwood House's Technical and Financial Proposal dated 29 January 2015.
- Clarification responses from Heartwood House dated 21 April 2015.
- Clarification responses from Heartwood House dated 28 April 2015.
- Heartwood House's policy and procedure manual as revised and agreed to by Heartwood House and OC Transpo on 28 April 2015.

The document that was originally provided was a “notice of insurance renewal” that did not meet the contractual terms and conditions as the City of Ottawa was not named as additional insured and the general liability insurance did not meet the City’s requirement.

Recommendation #4

Status	Management update	OAG assessment
	Complete	Complete

Audit recommendation:

That the City discontinue the practice which permits OC Transpo employees to keep unclaimed items.

Original management response:

Management agrees with this recommendation. This practice was discontinued in 2014.

Management update:

Complete.

OAG assessment:

The actions as described in the management update are verified.

The applicable Standard Operating Procedures were amended in September 2014 and no longer allow employees to retain unclaimed items.

Recommendation #5

Status	Management update	OAG assessment
	Complete	Complete

Audit recommendation:

That the City ensure that Corporate Purchase Orders are issued incorporating formal agreements in accordance with the Purchasing By-law.

Original management response:

Management agrees with this recommendation. Management will ensure that corporate purchase orders for this program are issued incorporating formal agreements in accordance with the Purchasing By-Law on a go-forward basis.

Management update:

A Purchase Order (PO) was issued on May 6, 2015 as part of the current contract in accordance with the City's Purchasing By-Law.

OAG assessment:

The actions as described in the management update are verified.

A purchase order was issued to Heartwood House in May 2015 and was reported to Transit Committee and Council as part of the Delegation of Authority January-June 2015 report.

Recommendation #6

Status	Management update	OAG assessment
	Complete	Complete

Audit recommendation:

That the City ensure that disclosures of conflicts of interest (actual or potential) are declared to management in writing as soon as they become known in order that they can be addressed by management in a timely manner ensuring that appropriate action has been taken in accordance with the *Employee Code of Conduct*.

Original management response:

Management agrees with this recommendation. Management believes that the declared conflict of interest mentioned in this audit has been appropriately managed in accordance with the Employee Code of Conduct since January 2014 when the manager took over accountability of the file and re-assigned responsibility for portions of the file to other areas. In the future, management will ensure that in instances of contract management, strict adherence to the Employee Code of Conduct directions on conflict of interest will be followed.

Management update:

Complete.

OAG assessment:

The actions as described in the management update are verified.

The conflict of interest noted in the original audit is no longer applicable.

Recommendation #7

Status	Management update	OAG assessment
	Partially complete	Partially complete

Audit recommendation:

That the City ensure appropriate controls and tracking are in place over the Lost and Found process.

Original management response:

Management agrees with this recommendation. The RFP process contained requirements to ensure appropriate controls and an electronic tracking process are utilized by the successful proponent.

Management update:

The awarding of this contract to Heartwood House reflects sustainable and responsible purchasing practices, while preserving a strong customer-service commitment to city residents and communities.

Enhancements during the contract period include:

- Reinforcement of the City's expectations around customer service, which emphasizes principles of Service Excellence; and
- A commitment to electronic tracking where/when possible.

A review will be conducted with Heartwood House by Q4 2016 to ensure that controls have been applied and tracking is occurring as appropriate.

OAG assessment:

Mandatory requirements in the RFP included appropriate use of electronic systems and methods for tracking and reconciling lost and found articles, and the use of suitable security practices to ensure the safety and confidentiality of client and program information.

At the time of our audit work, the City had conducted an initial review with Heartwood House to verify that specific controls were operating as expected. Management anticipates completing this review after Q1 2017, which would complete the implementation of this recommendation.

Table 2: Status legend

Status	Definition
Not started	No significant progress has been made. Generating informal plans is regarded as insignificant progress.
Partially complete	The City has begun implementation; however, it is not yet complete.
Complete	Action is complete, and/or structures and processes are operating as intended and implemented fully in all intended areas of the City.
No longer applicable	The recommendation is obsolete due to time lapses, new policies, etc.