



Office of the Auditor General

Audit of OC Transpo Business Planning Process for Lost and Found

Tabled at Audit Committee - March 12, 2015

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Executive Summary

Introduction

The Audit of OC Transpo's Strategic Business Planning Processes was included in the 2013 Audit Plan of the Office of the Auditor General, approved by Council on October 12, 2012.

A portion of the audit was to include a review of the specific business planning process for the lost and found service. This report specifically relates to the business planning process for OC Transpo Lost and Found which was formerly identified as objective seven on the Audit Plan. This issue was added to the audit during the planning stage as a result of fraud and waste reports received by the OAG.

Background

OC Transpo is one of the City's largest, most complex business units responsible for the current and future transit needs of residents and visitors. OC Transpo is headed by the General Manager of the Transit Services Department which is part of the City Operations Portfolio. OC Transpo's stated mandate is to deliver safe, reliable, and courteous service at a reasonable price. The OC Transpo fleet currently has over 1,000 buses and three trains that serve approximately 370,000 daily riders.

Occasionally customers leave behind personal articles on the transit system. The nature of these items can vary from non-valuable, regular or perishable to valuable. Since 2001, OC Transpo has had an agreement with Heartwood House, a non-profit charitable organization, to provide lost and found management and client services on behalf of OC Transpo. Management currently has standard operating procedures (SOP) that document the roles and responsibilities of Transit employees with respect to Lost and Found articles. The SOP include which types of items would be transferred to Heartwood House. In late 2013, the Heartwood House website indicated that they received over 30,000 items each year and returned approximately 26% to the rightful owners.

Audit Objectives and Scope

Audit Objective No. 1:

Assess the planning process for OC Transpo Lost and Found

Criteria:

- Determine if the lost and found planning process is part of OC Transpo strategic plan and its management review cycle;

- Determine if the OC Transpo Lost and Found planning process is reported on to Transit Commission, Committee and Council;
- Determine if the Lost and Found planning process complies with the City By-Laws;
- Determine efficiency and effectiveness of the OC Transpo lost and found planning process, paying special attention to the potential savings for the City, as well as to customer needs;

The audit scope focussed on the specific planning processes for lost and found.

The scope of the audit did not include a detailed review of the lost and found process; however findings identified during the course of this work have been included in the report.

Summary of Key Findings

1. Sole-source agreements have been in place with Heartwood House from 2001 to 2014¹ to provide Lost and Found management and client services on behalf of OC Transpo.
2. This pilot project was initially justified, in 2001, on the basis that there would be savings of over \$50,000 per annum from the prior in-house model. Services are currently delivered with volunteer labour and paid supervision at the non-profit organization's location. The initial cost of the agreement, including the value of the bus passes provided by the City to Heartwood House, was \$29,200 per year. Management's estimated cost of the prior in-house model was \$71,500 actually resulting in initial estimated annual savings of \$42,300. The organization also retains the proceeds from the sale of unclaimed items which was estimated at \$6,000 in 2003. In 2004, the value of the agreement increased to \$48,200. Since that time the sole-source procurement has been rationalized based on specialized expertise that Heartwood House has developed. Requests for Proposal (RFPs) have not been issued either in 2004 or 2009 when new agreements were executed. In 2009, the cost of the agreement was \$49,000 per year for five years for a total of \$245,000. As noted in item 7, the cost of the contract exceeded the Delegated Authority procurement limits which would require reporting to Committee and Council.
3. The Director, Transit Services approved the agreements and Contract Approval Request Forms to justify the sole-source rationale.
4. A particular employee who worked on the project (the "Employee") would have had input into the rationale for sole-sourcing. Input included advocating with

¹ The agreement has been extended for one additional year to May 2015 as detailed later in this report.

Management for the \$19,000 increase in the amount from \$29,200 to \$48,200 in 2004. Heartwood House had indicated they required this amount to cover the operating costs of their organization including a full-time person to oversee the management of the program. The Employee was directly or indirectly involved in negotiating the agreements and subsequently managed the agreements as the City contact.

5. The Employee referred to in the above finding had an actual or potential conflict of interest with the organization that was of a personal/familial nature. Management indicated that the Employee had disclosed this conflict to supervisors. The OAG found three instances where this actual or potential conflict was not appropriately managed:
 - i. In a 2004 email from the Employee to the non-profit organization, the Employee wrote, "I tried from my end to keep this agreement devoid of any 'handcuffs' as everything must be in good faith, but without any pain for failure. The fact of the matter is we recognize that if you do not get your additional \$14,000, this is not good news to OC Transpo, and we will have to find another means to achieve your revenue need." From the email it appeared that the Employee was concerned about the organization's revenue needs. The Employee should have been acting in the City's interest only.
 - ii. The Employee had been advised in June 2011 by supervisors to cease involvement in the procurement and management of the contract. The Employee and/or staff who reported to the Employee intermittently continued to be involved with the file. The Employee and/or staff who reported to the Employee should not have been involved in the file.
 - iii. In January 2014, the Employee was inquiring about renewal options for the Heartwood House agreement. The Employee declared in an email to Supply Management (SM) a conflict of interest of a personal/familial nature. However, the Employee and/or staff who reported to the Employee continued to be involved with the file. This was evidenced in the Employee indicating in a written communication that a Manager did not need to get involved in the discussions at the time. The City's Code of Conduct (adopted April 26, 2002 and revised September 2010) requires that, "after you have disclosed an actual or potential conflict of interest, you need to avoid any involvement in the matter." The Employee did not avoid involvement in the matter. Supply Management provided their feedback that this was not appropriate. Subsequently, a Manager took responsibility for the file and has continued to put in place compensating controls to address this matter. The Manager has re-assigned responsibility for portions of the file to other areas.

6. In our opinion, as the above findings show that this matter has not been appropriately managed in the past, this conflict would need to be managed on an ongoing basis..Management planned to initiate a review of the Lost and Found program in late 2013 in order to conduct the RFP/RFQ for the May 2014 agreement. This was not done. Management has extended the agreement one more year to allow planning an effective RFP/RFQ in early 2015 as a result of a number of factors detailed in the report.
7. The December 2001, May 2004 and May 2009 agreements were signed by the Director, Transit Services under Delegated Authority. Delegated Authority procurements are required to be reported to: Council under Section 39 of the Purchasing By-Law; and, to Finance and Economic Development Committee (FEDCO) as part of Reporting of the Exercise of Delegated Authority relating to approval of any purchase of service agreement. This was not done for the periods from December 2001 to April 2003 and June 2004 to May 2014.
8. There was evidence of legal review prior to signature of the 2001 agreement, and in 2004 OC Transpo again sought a legal review of the agreement and incorporated the majority of the suggested revisions from Legal Services into the final contract. There is no record that a legal review was sought for the 2009 agreement. This resulted in the risk that the appropriate clauses were not reflected in the agreements in order to protect the City's interests. Examples of risks are included in items 9 to 12.
9. The insurance clause in the 2009 agreement included the amount of \$1 million per occurrence. This was lower than the City's standard requirement of \$2 million per occurrence that Legal Services had provided for the 2001 agreement;
10. The compensation clause refers to the practice which permits OC Transpo employees to keep unclaimed items. During the audit, in June 2014, the OAG asked management about this practice. Management indicated that the practice allowing OC Transpo employees to retain Lost and Found items was not authorized and subsequently stopped the practice effective September 1, 2014;
11. A clause relating to the Code of Conduct was also not included as part of the legal agreement or purchase order; and,
12. There was a clause in the agreement requiring Heartwood House to provide annual audited financial statements to the City. The OAG found:
 - There was no evidence that OC Transpo management had requested annual audited financial statements;
 - There was no evidence that OC Transpo management had received annual audited financial statements; and,

- There was no evidence that OC Transpo management had analyzed and reviewed audited annual financial statements.
13. Reviewing financial statements would enable the City to monitor the ongoing liquidity of the supplier to ensure this supplier can adequately deliver the lost and found service for OC Transpo.
 14. A Corporate Purchase Order incorporating the formal agreement was not issued for the periods from December 2001 to April 2003 and June 2004 to May 2014 as required by Clause 31 of the Purchasing By-Law. Instead, a Departmental Purchase Order (DPO) was issued under the authority of the Director of Transit Services. OC Transpo was in contravention of the Purchasing By-Law as the \$49,000 per annum exceeded the \$10,000 limit for Departmental Purchase Orders. The DPO was also not sent to the organization and appeared to be setup in SAP to facilitate payment processing.
 15. Within any system there is risk of inaccurate processing, removal or replacement of items. Reports of total items received and their disposition including those sent to Heartwood were only available on separate manual lists and systems. The Employee and/or staff that report to the employee are responsible to supervise the staff of the Pass and Ticket Office and ensure there are appropriate safeguards for lost and found items. As the Employee has a conflict of interest, this is a potential control weakness.
 16. Improvements to internal controls should be considered with respect to overall tracking of items to prevent and detect loss. Management has indicated they will be building in the ability to perform spot checks and more frequent reconciliation in the 2015 RFP. Controlling and tracking the total items received would provide assurance that the disposition of items in the custody and control of OC Transpo or organizations acting on behalf of OC Transpo was done at the appropriate time in the appropriate manner for management and contract monitoring purposes. This would also be useful for planning and analytical purposes to determine if there are changes in the levels of items addressed by Transit staff and their disposition including those sent to Heartwood House which could impact the service delivery model and RFP.
 17. Management provided the OAG with the annual reports for 2012 and 2013 which had been provided to them by Heartwood House. These included a monthly summary of the items that Heartwood House had received and that had been claimed. These showed a decrease from 2012 to 2013 in items received and claimed particularly paper bus passes which are being replaced with presto cards. For 2014, Management has requested monthly reports/updates for monitoring purposes.

Recommendations and Management Responses

Recommendation 1

That the City:

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

Management Response

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

Recommendation 2

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

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.

Recommendation 3

- **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 (eg. Insurance, Audited Financial Statements, etc.).**

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.

Recommendation 4

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

Management Response

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

Recommendation 5

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

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.

Recommendation 6

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*.

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.

Recommendation 7

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

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.

Potential Savings

Potential savings or costs have not been quantified at this time as the needs and business case for the delivery options have not been determined and may differ from those provided by the current delivery model.

Conclusion

Since 2001, OC Transpo Lost and Found management and client services have been delivered under a sole-source agreement with Heartwood House, a non-profit charitable organization, with volunteer labour and paid supervision. Requests for Proposal (RFPs) have not been issued when agreements were executed with Heartwood House in 2001, 2004 or 2009. Even though this matter was identified previously and work was to have been reassigned, in 2014 the Employee declared the conflict of interest that was of a

personal/familial nature. The Employee and/or staff that reported to the Employee continued to be involved with the file until Supply Management provided their feedback that this was not appropriate.

Subsequently, a Manager took responsibility of the file and re-assigned responsibility for portions of the file to other areas. In our opinion, as this matter has not been appropriately managed in the past, this conflict would need to be managed on an ongoing basis as required by the *Employee Code of Conduct*.

The OAG found that the agreements from 2001 to date had not been reported to Committee and Council under delegated authority reporting for the periods from December 2001 to April 2003 and June 2004 to May 2014. The OAG also found that the latest agreement in 2009 had not been reviewed by Legal Services and did not contain the standard required amount of Insurance coverage.

Improvements to internal controls should be considered with respect to overall tracking of items to prevent and detect loss.

Transit Services continues to undergo a period of significant change in transitioning to light rail transit. This will have an impact on the optimum service delivery model for providing lost and found client and administrative services. Transit Services need to determine the lost and found requirements and develop their business case with service delivery options considering the costs and benefits going forward. This would be used as the basis for any future procurement competitions.

Acknowledgement

The OAG wish to acknowledge our appreciation for the cooperation and assistance afforded the audit team by management.

The following section is the detailed audit report.

1.1 Detailed Audit Report

1.1.1 Introduction

The Audit of OC Transpo's Strategic Business Planning Processes was included in the 2013 Audit Plan of the Office of the Auditor General, approved by Council on October 12, 2012.

A portion of the audit was to include a review of the specific business planning process for the lost and found service. This report specifically relates to the business planning process for OC Transpo Lost and Found which was formerly identified as objective seven on the Audit Plan. This issue was added to the audit during the planning stage as a result of fraud and waste reports received by the OAG.

1.1.2 Background

OC Transpo is one of the City's largest, most complex business units responsible for the current and future transit needs of residents and visitors. OC Transpo is headed by the General Manager of the Transit Services Department which is part of the City Operations Portfolio. OC Transpo's stated mandate is to deliver safe, reliable, and courteous service at a reasonable price. The OC Transpo fleet currently has over 1,000 buses and three trains that serve approximately 370,000 daily riders.

Occasionally customers leave behind personal articles on the transit system. The nature of these items can vary from non-valuable, regular or perishable to valuable. Since 2001, OC Transpo has had an agreement with Heartwood House, a non-profit charitable organization, to provide lost and found management and client services on behalf of OC Transpo. Management currently has standard operating procedures (SOP) that document the roles and responsibilities of Transit employees with respect to Lost and Found articles. The SOP include which types of items would be transferred to Heartwood House. In late 2013, the Heartwood House website indicated that they received over 30,000 items each year and returned approximately 26% to the rightful owners.

1.1.3 Audit Objective

Assess the planning process for OC Transpo Lost and Found

Criteria:

- Determine if the lost and found planning process is part of OC Transpo strategic plan and its management review cycle;
- Determine if the OC Transpo Lost and Found planning process is reported on to Transit Commission, Committee and Council;
- Determine if the Lost and Found planning process complies with the City By-Laws;

- Determine efficiency and effectiveness of the OC Transpo lost and found planning process, paying special attention to the potential savings for the City, as well as to customer needs;

1.1.4 Audit Scope

The audit scope focussed on the specific business planning processes for lost and found.

The scope of the audit did not include a detailed review of the lost and found process; however findings identified during the course of this work have been included in the report.

1.1.5 Approach

Information was obtained through documentation and process reviews and interviews.

1.1.6 Detailed Findings, Observations and Recommendations

1.1.6.1 Criteria:

Determine if the lost and found planning process is part of OC Transpo strategic plan and its management review cycle;

1.1.6.1.1 Review of service delivery options to be completed

In November 2001 the General Manager, Transportation, Utilities and Public Works provided a memo to the Mayor and Members of Council with copies to senior management. The memo announced that OC Transpo would be moving its Lost and Found Service from Place de Ville to Heartwood House at 153 Chapel. The Chapel location was described as accessible by four OC Transpo bus routes. Heartwood House was described as “a non-profit organization that facilitates the collaborative work of a dozen other non-profit organizations. The contracting of Lost and Found with Heartwood House enables the City, through OC Transpo, to support ongoing community development work as well as free up additional resources that are needed to meet transit service demands.”

Since 2001, OC Transpo has had an agreement with Heartwood House, to provide lost and found management and client services on behalf of OC Transpo. The original agreement was for the period from December 1, 2001 to May 1, 2004 with agreements in 2004 and 2009 that continued to 2014².

This was initiated as a pilot project justified, in 2001, on the basis that there would be savings of over \$50,000 per annum from the prior in-house model which was centrally

² The agreement has been extended for one additional year to May 2015 as detailed later in this section.

located at Place de Ville. Estimated costs of \$71,500 for the 2001 in-house model provided by Management were based on a portion of the Place de Ville rent for the Customer Service Centre plus one Full Time Equivalent (FTE). The Customer Service Centre moved to Rideau Centre and the staff member was redeployed therefore savings were not an overall budget reduction. Since 2001 the sole-source procurement has been rationalized based on specialized expertise that Heartwood House has developed.

Table 1: Cost of agreements

	2001 in-house model	2001-2004 not for profit sole-source	2004-2009 not for profit sole source	2009-2014 not for profit sole source	2015 not for profit – one-year extension	Total
Costs per annum	\$71,500	\$29,200	\$48,200	\$49,000	\$49,000	
Total cost of agreements		\$70,600	\$241,000	\$245,000	\$49,000	\$605,600

Sources: 2001 to 2015 were from the agreements and costs provided by Management

The initial agreement cost \$25,200 in payments by the City to Heartwood House plus seven annual passes at a cost of \$4,000 for a total cost of \$29,200 per annum. This actually resulted in initial estimated savings of \$42,300. The services through Heartwood House, the non-profit organization, have been delivered with volunteer labour and paid supervision at their location. Unclaimed items are either given to charity or sold and the proceeds retained by Heartwood House. Proceeds were estimated in 2003 at \$6,000 and actually reported by Heartwood House as \$7,120 for 2006. Recent annual reports provided by the organization did not include sales proceeds of unclaimed items.

In 2004, there was a substantial increase of \$19,000 in the cost of the agreement to \$48,200 to include a new Annual Pass Protection Plan suggested by Heartwood House

in order to generate additional funding to cover their operating costs. Heartwood House had indicated they required this amount to cover the costs of a full-time person to oversee the management of the Lost and Found program.

For the 2009 agreement, although the total costs are consistent with the prior period, the amount previously attributed to the Annual Pass Protection Plan has been included as part of the administration services. The cost of administrative services increased to \$38,400 from \$18,000 per annum.

Requests for Proposal (RFPs) have not been issued either in 2004 or 2009 when the new agreements were executed.

Benchmarking information on file shows that compared to other Transit organizations, Ottawa is unique in providing lost and found services through a non-profit organization.

The Non-Profit organization moved to a new location on McArthur Ave in late 2013 / early 2014 serviced by one bus. This differed from the prior location at 153 Chapel which was serviced by four OC Transpo bus routes.

Management planned to initiate a review of the Lost and Found program in late 2013 in order to conduct the RFP/RFQ for the May 2014 agreement. This was not done.

In early 2014, Management provided Supply Management with rationale for extending the agreement for one more year beyond the May 1, 2014 expiry date. The one year extension would allow planning an effective RFQ/RFP in early 2015. This was driven by a number of factors such as:

- Completion of this audit;
- Review of the service delivery model;
- Upcoming changes with the acquisition of another Belfast Road property;
- The major transformational project associated with the light rail project;
- Decisions to be made about how customer facing operations would best serve customers; and,
- Whether there was a need to have a different approach for Lost and Found.

In our opinion, the impact of these factors as well as the impact of the presto card on the Lost and Found planning process needs to be analyzed and documented to determine the requirements. These would be used to develop a business case with service delivery options that should consider the costs and benefits. Once completed, this would also permit the City to conduct a competitive process in a transparent and impartial manner.

Recommendation 1

That the City:

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

Management Response

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

1.1.6.2 Criteria:

Determine if the OC Transpo Lost and Found planning process is reported on to Transit Commission, Committee and Council;

1.1.6.2.1 Lack of Delegated Authority Reporting

In February 2013, the Municipal Capital Facility Agreement relating to the new Lost and Found location at 400-412 McArthur Ave operated by Heartwood House was reported to the Finance and Economic Development Committee (FEDCO) and Council. This request was for approval of an exemption from commercial taxation for the portion being occupied by the OC Transpo Lost and Found service and the report was carried.

Although the February 2013 report referred to the 2009 agreement between OC Transpo and Heartwood House for the administration and operation of OC Transpo Lost and Found, that agreement had not previously been reported. The agreement covered the period from May 1, 2009 to May 1, 2014 for a total annual cost of \$49,000 per annum including seven transit passes valued at \$4,000. The agreement cost the City \$245,000 for the five-year period. In addition, the organization would keep the proceeds of sales of unclaimed lost and found items. The Contract Approval Request form erroneously valued the contract at \$49,000 which was the annual value as opposed to the full five-year value of \$245,000. As the amounts exceed \$25,000 the full value of the agreement would have been required to be reported to Council under Section 39 of the Purchasing By-Law. The agreements would also have been required to be reported to FEDCO as part of Reporting of the Exercise of Delegated Authority relating to approval of any purchase of service agreement which exceeds \$50,000. Prior agreements in 2004 and 2001 had also not been fully reported. Only \$27,300 for the period from May 1, 2003 to May 31, 2004 was reported as part of the Delegated Authority reporting.

Complete and accurate reporting of agreements to Committee and Council above the stated thresholds would be important for the City in order to ensure transparency to the public.

Recommendation 2

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

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.

1.1.6.3 Criteria:

Determine if the Lost and Found planning process complies with the City By-Laws;

1.1.6.3.1 Lack of Evidence of Legal Review

Sole-source agreements were in place with Heartwood House from 2001 to 2014. The first agreement was for a period that was two years and five months. The second and third agreements were both for periods of five years. The agreement has been extended for one additional year only, to May 1, 2015. This allows for an RFQ/RFP in early 2015 as a result of the potential changes required to the program delivery as noted in section 1.6.1.1.1.

The December 2001, May 2004 and May 2009 agreements were signed by the Director, Transit Services under Delegated Authority. As noted in section 1.6.2.1, Delegated Authority reporting was not conducted in all cases.

Although there was evidence of legal review prior to signature of the 2001 agreement and again in 2004, this was not available for the 2009 agreement. This results in the risk that the appropriate clauses were not reflected in the agreements in order to protect the City's interests.

Examples of risks to the City included:

- The insurance clause in the 2009 agreement included the amount of \$1 million per occurrence. This was lower than the City's standard requirement of \$2 million per occurrence that Legal Services had provided for the 2001 agreement;
- The compensation clause refers to the practice which permits OC Transpo employees to keep unclaimed items. During the audit, in June 2014, the OAG asked management about this practice. Management indicated that the practice allowing OC Transpo employees to retain Lost and Found items was not authorized and subsequently stopped the practice effective September 1, 2014. There was an example where there was a money clip found with a "substantial" amount of cash where the system call details report shows the operator wanted his name put on a lost and found ticket in case the money was not claimed; and,
- A clause relating to the Code of Conduct was also not included as part of the legal agreement or purchase order.

There was a clause in the agreement requiring Heartwood House to provide annual audited financial statements to the City. The OAG found:

- i. There was no evidence that OC Transpo Management had requested annual audited financial statements;
- ii. There was no evidence that OC Transpo Management had received annual audited financial statements; and,

- iii. There was no evidence that OC Transpo Management had analyzed and reviewed audited annual financial statements.

This would enable the City to monitor the ongoing liquidity of the supplier to ensure this supplier could adequately deliver the lost and found service for OC Transpo.

As a result of other audits by this office, the June 27, 2012 Council Motion No 37/6 directed specific contract requirements. Requirements include that Legal Services review, initial and stamp as “Approved for Execution” prior to final execution by authorized signing officers of the City. This motion has also been incorporated in the Delegated Authority By-law 2013-71.

A review of the agreement by Legal Services provides the City with the assurance that standard clauses have been considered and that the City’s interests are appropriately protected.

Recommendation 3

- **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 at the City that appropriate documentation had been requested and reviewed to support the established clauses (eg. Insurance, Annual Audited Financial Statements, etc.).**

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.

Recommendation 4

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

Management Response

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

1.1.6.3.2 Lack of Corporate Purchase Order

A Corporate Purchase Order incorporating the formal agreement was not issued in all cases as required by Clause 31 of the Purchasing By-Law. Corporate purchase orders were only issued in two cases. One was issued in the amount of \$27,300 for the 13-month period from May 1, 2003 to May 31, 2004. A second one was issued in the amount of \$19,000 for the annual lump sum payment in 2004 for the pass protection plan. Since that time, a recurring document has been setup in the financial system in order to process automatic recurring monthly payments of \$3,750 per month.

Instead of a Corporate Purchase Order, a Departmental Purchase Order (DPO) was issued under the authority of the Director of Transit Services. As the dollar value of this agreement was greater than \$10,000 the Purchasing By-law would not permit issuance of a Departmental purchase order. By issuing a Departmental Purchase Order (DPO) under the authority of the Director of Transit Services, OC Transpo was in contravention of the Purchasing By-Law as the \$49,000 per annum exceeded the \$10,000 limit for Departmental Purchase Orders. The DPO was also not sent to the organization and appeared to be setup in SAP to facilitate payment processing.

Setting up a corporate purchase order may also have facilitated delegated authority reporting.

Recommendation 5

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

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.

1.1.6.4 Criteria:

Determine efficiency and effectiveness of the OC Transpo lost and found planning process, paying special attention to the potential savings for the City, as well as to customer needs;

1.1.6.4.1 Justification for Current Delivery Model and Conflict of Interest

The Director, Transit Services approved the agreements and Contract Approval Request Forms to justify the sole-source rationale. The particular employee who worked on the project, (“the Employee”) would have had input into the rationale for sole-sourcing. Input included advocating with Management for the increase in the amount of \$19,000 in 2004 resulting in an increase from \$29,200 to \$48,200. Heartwood House had indicated they required this amount to cover the operating costs of their

organization including a full-time person to oversee the management of the program. The Employee was directly or indirectly involved in negotiating the agreements. The Employee subsequently managed the agreements as the City contact.

The Employee had an actual or potential conflict of interest with the organization. Management indicated that the Employee had disclosed to supervisors an actual or potential conflict of interest that was personal/familial in nature.

The OAG found three instances where this actual or potential conflict was not appropriately managed:

- i. In a 2004 email from the Employee to the non-profit organization, the Employee wrote, “I tried from my end to keep this agreement devoid of any ‘handcuffs’ as everything must be in good faith, but without any pain for failure. The fact of the matter is we recognize that if you do not get your additional \$14,000, this is not good news to OC Transpo, and we will have to find another means to achieve your revenue need. Fortunately, I am confident the Happy Return Plan will get us where we want to go.” From the email it appeared that the Employee was concerned about the organization’s revenue needs. The Employee should have been acting in the City’s interests only.
- ii. The Employee had been advised in June 2011 by supervisors to cease involvement in the procurement and management of the contract. The Employee and/or staff who reported to the Employee intermittently continued to be involved with the file. The Employee and/or Employee’s staff should not have been involved in the file.
- iii. In January 2014, the Employee was inquiring about renewal options for the Heartwood House agreement, and had declared in a conflict of interest of a personal/familial nature in an email to Supply Management (SM). However, the Employee and/or staff who reported to the Employee continued to be involved with the file. This was evidenced in the Employee indicating in a written communication that the Manager did not need to get involved in the discussions at the time. The City’s Code of Conduct (revised September 2010) requires that, “after you have disclosed an actual or potential conflict of interest, you need to avoid any involvement in the matter.” The Employee did not avoid involvement in the matter. Supply Management provided their feedback that this was not appropriate. Subsequently, the Employee’s Manager took responsibility for the file and has continued to put in place compensating controls to address this matter such as re-assigning responsibility for portions of the file to other areas.

In our opinion, as the above findings show that this matter has not been appropriately managed in the past, this conflict would need to be managed on an ongoing basis.

Recommendation 6

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*.

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.

1.1.6.4.2 Customer Feedback

Management has indicated that they have not received many complaints relating to Heartwood House Lost and Found. They identified seven cases from January 1, 2012 to July 25, 2013. This included three compliments and three comments which noted that the voice mailbox was full. There was also an email from a customer that had various complaints about the location, access to items by volunteers and the service received.

There have been four Fraud and Waste Hotline cases from 2011 to 2013. Two relating to the new location at McArthur Ave and accessibility by bus and two relating to the lack of tendering the contract.

Management should consider this feedback when determining the requirements and service delivery options for issuing competitive procurements.

1.1.6.4.3 Standard Operating Procedures

Management has standard operating procedures (SOP) which they initiated in June 2012 and updated in June 2014. These document the roles and responsibilities of Transit employees with respect to Lost and Found articles and include the types of items which would be transferred to Heartwood House.

The Dispatcher/Farebox Attendant has responsibility to receive items prior to their being sent to Heartwood House. Exceptions would include: perishable items that the bus operator chooses to take with them where the bus operator has reported the item description to Transit Operations Control Centre (TOCC) and TOCC has not made arrangements with the bus operator for pick-up of the items by the time the bus has

returned to the depot at the end of the shift; some valuable or sensitive items which would be handled through the Transit Controller and recorded in the Transit Law System Call Details report; and, bicycles where Dispatch contacts Transit Facilities Management for pickup and storage prior to being sent to Ottawa Police Services. The Dispatchers are responsible to record receipt of the Lost and Found items that include Presto cards found with other items. Dispatchers would tag them with pre-numbered tags and place them in a secure bag with the manual list to be sent to Heartwood House. If the owner of the lost item is not found, Heartwood House returns the Presto card in a secure bag to the Pass and Ticket Office. A Presto card found by itself would be returned to the Pass and Ticket Office by the Dispatcher.

The OAG found that "Lost Items Logs" provided include Presto cards but do not always include the Presto card number. This would result in the risk that a card may not be recorded or could be removed or replaced with another card during processing.

Within any system there is risk of inaccurate processing, removal or replacement of items. Our requests to management for reports of total items received and their disposition including those sent to Heartwood were only available on separate manual lists and systems. The Employee and/or staff that report to the Employee are responsible to supervise the staff of the Pass and Ticket Office and ensure there are appropriate safeguards for lost and found items. As the Employee has a conflict of interest, this is a potential control weakness.

Improvements to internal controls should be considered with respect to overall tracking of items to prevent and detect loss. Management has indicated they will be building in the ability to perform spot checks and more frequent reconciliation in the 2015 RFP. Controlling and tracking the total items received would provide assurance that the disposition of items in the custody and control of OC Transpo or organizations acting on behalf of OC Transpo was done at the appropriate time in the appropriate manner for management and contract monitoring purposes. This would also be useful for planning and analytical purposes to determine if there are changes in the levels of items addressed by Transit staff and their disposition including those sent to Heartwood House which could impact the service delivery model and RFP.

Management provided the OAG with the annual reports for 2012 and 2013 which had been provided to them by Heartwood House. These included a monthly summary of the items that Heartwood House had received and that had been claimed. The Heartwood House reports showed a decrease in the items received (and claimed) from 2012 to 2013 from 34,027 (8,150) to 29,120 (8,139). There was a decrease in bus passes received (and claimed) from 2012 to 2013 from 10,330 (3,712) to 8,294 (3,271). This trend would be expected to continue as paper bus passes are replaced with presto

Audit of OC Transpo Business Planning Process for Lost and Found cards. Email correspondence showed that Management has requested monthly reports/updates from Heartwood House in 2014 for monitoring purposes.

Recommendation 7

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

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.

1.1.7 Potential Savings

Potential savings or costs have not been quantified at this time as the needs and business case for the delivery options have not been determined and may differ from those provided by the current delivery model.

1.1.8 Conclusion

Since 2001, OC Transpo Lost and Found management and client services have been delivered under a sole-source agreement with Heartwood House, a non-profit charitable organization, with volunteer labour and paid supervision. Requests for Proposal (RFPs) have not been issued when agreements were executed with Heartwood House in 2001, 2004 or 2009. Even though this matter was identified previously and work was to have been reassigned, in 2014 the Employee declared the conflict of interest based on a personal/familial relationship. The Employee and/or staff who reported to the Employee continued to be involved with the file until Supply Management provided their feedback that this was not appropriate.

Subsequently, the Employee's Manager took responsibility of the file and re-assigned responsibility for portions of the file to other areas. In our opinion, as this matter has not been appropriately managed in the past, this conflict would need to be managed on an ongoing basis as required by the *Employee Code of Conduct*.

The OAG found that the agreements from 2001 to date had not been reported to Committee and Council under delegated authority reporting for the periods from December 2001 to April 2003 and June 2004 to May 2014. The OAG also found that the latest agreement in 2009 had not been reviewed by Legal Services and found that the agreement did not contain the standard required amount of Insurance coverage.

Improvements to internal controls should be considered with respect to overall tracking of items to prevent and detect loss.

Transit Services continues to undergo a period of significant change in transitioning to light rail transit. This will have an impact on the optimum service delivery model for providing lost and found client and administrative services. Transit Services need to determine the lost and found requirements and develop their business case with service delivery options considering the costs and benefits going forward. This would be used as the basis for any future procurement competitions.

1.1.9 Acknowledgement

The OAG wish to acknowledge our appreciation for the cooperation and assistance afforded the audit team by management.