



Office of the Auditor General

**Follow-Up Audit: Budget Development
Process at the Ottawa Police Service**

February 2007

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BACKGROUND

In accordance with the 2005 Audit Plan, and as requested by the Ottawa Police Services Board (the Board) on February 28, 2005, the Auditor General completed an audit of the budget development processes used by the Ottawa Police Service (OPS). The objective of the audit was to assess the adequacy and effectiveness of the current procedures used by the Ottawa Police Service in preparing, reviewing, adopting and monitoring its annual budget. The scope included the processes used in preparing the 2005 budget. The audit did not question the specific funding decisions and allocations as determined by the Police Service.

On July 25, 2005, the Board received the Auditor General's final report on the Budget Development Process at the Ottawa Police Services Board. In receiving the audit report the Police Services Board approved the following recommendation:

That the Ottawa Police Services Board:

1. Receive the attached report from the City of Ottawa Auditor General regarding the Ottawa Police Services' budget development processes.
2. Receive the Management response to the Audit to be presented to the Board at the 25 July 2005 meeting.
3. Approve the recommendations contained in the report, subject to any amendments, and direct staff to implement them beginning in the 2006 budget cycle.
4. Forward the Auditor General's report, the Management comments and the Board's decisions to Ottawa City Council for information.

Based upon the timing of the release of the Auditor General's report, the Management response to the audit and the Board's direction, it was anticipated that the Audit recommendations would be implemented as part of the 2006 budget development process.

2006 FOLLOW-UP AUDIT

The Office of the Auditor General has now completed a follow-up on the 2005 audit. The objective of the follow-up audit was to assess the adequacy of the actions taken to implement the audit recommendations.

REPORT ORGANIZATION

The report is organized into three sections described below. The general observations for each of the areas reviewed are as follows:

Section 1 – General Observations: The Auditor General's overall assessment of the follow up action taken by the OPS to implement the Audit Report recommendations.

Section 2 – Summary of Audit Criteria: A summary of the audit criteria used to assess the budget development processes at the OPS.

Section 3 – Assessment of Implementation of the Audit Report Recommendations: The Auditor General’s comments on the follow up action and status of each audit report recommendation.

SECTION 1: General Observations

A total of twelve (12) recommendations were made in the original July 2005 audit report. Of these:

- Five (5) have been implemented;
- Five (5) were not implemented as part of the 2006 budget development process and;
- By the nature of the wording, two (2) could not be implemented as part of the 2006 budget development process but should be incorporated as part of the 2007 process.

Overall, while efforts have been made to several areas, it is the assessment of the Auditor General that OPS could have been more diligent in ensuring that the 2006 budget development process incorporated the 2005 recommendations more fully in order to meet the Board’s direction.

A status report titled “Update on Budget Development Process Audit” was presented to Board on 26 June 2006 indicating that the outstanding recommendations are now being considered for implementation in 2007. The minutes from the meeting show that the Board received the report with very little discussion or questioning of staff as to why the recommendations have not been implemented as planned.

SECTION 2: Summary of Audit Criteria

In the Audit of the Budget Development Process at the Ottawa Police Services Board, the Auditor General used a number of specific criteria to assess the budget development process.

The table below presents each of the audit criteria used in the 2005 audit and the results of the 2006 follow up audit for each criterion.

Table 1 – Summary of Audit Results by Criterion

| AUDIT CRITERIA | 2005 AUDIT RESULTS | 2006 FOLLOW UP AUDIT RESULTS |
|--|--------------------|------------------------------|
| 1. Have broad goals been established to guide decision making, including: | | |
| • Assessing community needs, priorities, challenges and opportunities | Achieved | Not Necessary to Follow-up |
| • Identifying stakeholder concerns, needs, and priorities | Achieved | Not Necessary to Follow-up |
| • Evaluating community condition, external factors, opportunities and challenges | Achieved | Not Necessary to Follow-up |
| • Identifying opportunities and challenges for programs/services, capital assets, and management | Achieved | Not Necessary to Follow-up |
| • Developing and disseminating broad goals and review with stakeholders | Achieved | Not Necessary to Follow-up |
| 2. Have policies and approaches been developed to achieve goals, including: | | |
| • Financial policies for: | | |
| Stabilization/reserve funds | Not Achieved | Not Yet Achieved |
| Fees and charges | Achieved | Not Necessary to Follow-up |
| Debt issuance and management | Not Achieved | Not Yet Achieved |
| Use of one-time/unpredictable revenues | Achieved | Not Necessary to Follow-up |
| Balancing the operating budget | Not Achieved | Not Yet Achieved |
| Revenue diversification | Achieved | Not Necessary to Follow-up |
| Contingency planning | Achieved | Not Necessary to Follow-up |
| Capital asset acquisition, maintenance, replacement, and retirement | Not Achieved | Not Yet Achieved |
| • Program development and evaluation | Achieved | Not Necessary to Follow-up |

| AUDIT CRITERIA | 2005 AUDIT RESULTS | 2006 FOLLOW UP AUDIT RESULTS |
|---|--------------------|------------------------------|
| • Options for meeting capital needs | Achieved | Not Necessary to Follow-up |
| • Performance measures/ benchmarks for functions, programs, and/or activities of organizational units | Achieved | Not Necessary to Follow-up |
| • Management strategies to facilitate attainment of program and financial goals | Achieved | Not Necessary to Follow-up |
| • Mechanisms to ensure budgetary compliance | Achieved | Not Necessary to Follow-up |
| 3. Has a process for preparing and adopting a budget been developed, including: | | |
| • A budget calendar/timeline | Achieved | Not Necessary to Follow-up |
| • Budget guidelines and instructions | Not Achieved | Not Achieved |
| • Mechanisms for coordinating budget preparation | Achieved | Not Necessary to Follow-up |
| • Procedures to facilitate budget review, discussion, modification, and adoption | Not Achieved | Not Achieved |
| • Opportunities for stakeholder input | Achieved | Not Necessary to Follow-up |
| • Long-range financial planning | Achieved | Not Necessary to Follow-up |
| • Revenue projections/forecasts | Achieved | Not Necessary to Follow-up |
| • Preparing expenditure projections/forecasts | Achieved | Not Necessary to Follow-up |
| 4. Do the budget documents include: | | |
| • Key policies, plans, goals, issues | Achieved | Not Necessary to Follow-up |
| • A financial overview | Achieved | Not Necessary to Follow-up |
| • A guide to operations | Achieved | Not Necessary to Follow-up |
| • A budget summary | Achieved | Not Necessary to Follow-up |
| • A clear, easy-to-use format | Achieved | Not Necessary to Follow-up |
| 5. Is performance being monitored, measured, and evaluated, including: | | |
| • Program performance | Achieved | Not Necessary to Follow-up |

| AUDIT CRITERIA | 2005 AUDIT RESULTS | 2006 FOLLOW UP AUDIT RESULTS |
|--|--------------------|------------------------------|
| <ul style="list-style-type: none"> • Stakeholder satisfaction | Achieved | Not Necessary to Follow-up |
| <ul style="list-style-type: none"> • Budgetary performance | Not Achieved | Partially Achieved |
| <ul style="list-style-type: none"> • Financial condition | Not Achieved | Partially Achieved |
| <ul style="list-style-type: none"> • External factors | Achieved | Not Necessary to Follow-up |
| <ul style="list-style-type: none"> • Capital program implementation | Achieved | Not Necessary to Follow-up |
| 6. Are adjustments being made as needed including adjustments to: | | |
| <ul style="list-style-type: none"> • Budget | Achieved | Not Necessary to Follow-up |
| <ul style="list-style-type: none"> • Policies, plans, programs, and management strategies | Achieved | Not Necessary to Follow-up |
| <ul style="list-style-type: none"> • Broad goals | Achieved | Not Necessary to Follow-up |

SECTION 3: Assessment of Implementation of the Audit Report Recommendations

The following table summarizes for each individual audit report recommendation:

- The original audit recommendations;
- The management response provided by the Board and the OPS;
- The follow up action and status provided by the OPS; and
- The Auditor General’s comments regarding the follow up actions and status.

| AUDIT RECOMMENDATIONS | OPS/BOARD RESPONSE | FOLLOW UP ACTION AND STATUS JUNE 2006 | AUDITOR GENERAL’S COMMENTS |
|---|---|--|---|
| Budget Challenges Currently Facing the OPS | | | |
| <p>1. That the OPS work with the City to clarify and resolve any outstanding financial issues associated with the creation of a separate tax-rate for the Police Service.</p> | <p>Agreed – to be implemented in 2005/2006</p> <p>Accounting work:</p> <ul style="list-style-type: none"> • Transfer debt repayment costs from City to OPS budget • 2005 budget base of \$5.3 million • Pays principle and interest costs on \$18.4 million of debt. <p>Policy work:</p> <ul style="list-style-type: none"> • Work with City staff to develop a policy on disposition of annual budget surpluses or deficits • Consolidated or stand-alone? | <p>Police and City Financial Management staff have begun, and will continue, discussions to clarify and formalize the recommended policy for future dispositions. Those recommendations will be provided to the Board for consideration in a separate report at an upcoming meeting.</p> <p>Status: Not Completed</p> | <p>The recommendation was not fully implemented for the 2006 budget process. Ongoing discussions between OPS and the City have taken place periodically during 2006. In December 2006 the OPS Long Range Financial Plan (LRFP) was presented to the Board addressing some of the issues related to this recommendation (e.g. debt management). Other key issues (e.g. disposition of deficits/surpluses) remain unresolved at this time. It is acknowledged that addressing this recommendation requires coordination with the City of Ottawa, however, the Auditor General is of the opinion that this recommendation could have been implemented in 2006, as originally intended.</p> |

| AUDIT RECOMMENDATIONS | OPS/BOARD RESPONSE | FOLLOW UP ACTION AND STATUS JUNE 2006 | AUDITOR GENERAL'S COMMENTS |
|--|---|--|--|
| Budget Guidelines and Instructions | | | |
| <p>2. That for 2006, in order to more clearly articulate to all stakeholders the implications to direct service, the OPS prepare a number of funding scenarios for Board review, including a 3%-increase scenario up to the 9%-increase scenario originally forecasted in the 2005 budget.</p> | <p>Agreed – Done</p> <ul style="list-style-type: none"> • 2006 Budget Guideline report in June provided 3 scenarios: <ul style="list-style-type: none"> – cost of “lights-on”: \$8 M – staff recommended guideline: \$11.2M – 3% motion: \$5.2M – cuts of \$60M, 70 positions | <p>The recommended scenarios and potential resultant impact on 2006 services were provided by presentation to the Board at the meeting on 25 July 2005. While the specifics of these recommendations refer to 2006 only, the spirit can be carried forward to future budget development. At the time of budget guideline, staff will prepare various funding scenarios and the resultant impact on police services for the information of the Finance and Audit Committee and the Board.</p> | <p>The Auditor General is satisfied with the follow-up actions taken to implement this recommendation.</p> |
| <p>3. That the Board formally respond to Council’s 3% motion by presenting to Council various budget scenarios (including a 3% increase scenario) along with a recommended level of funding for 2006 to Council in order for an informed debate on the potential implications for OPS services to be undertaken and to clarify Council’s expectations for OPS funding in 2006.</p> | <p>Board Role – Done</p> <ul style="list-style-type: none"> • Executive presented Board’s rationale and recommendation to CSED and Council <ul style="list-style-type: none"> – Recommended guideline: \$11.2 M – Cost of “lights-on”: \$8M – 3% motion: \$5.2M – cuts of \$6M, 70 positions • Council direction: <ul style="list-style-type: none"> – Develop the budget around a different scenario – Under \$11.2, using provincial staffing funds | <p>Status: Completed</p> | <p>The Auditor General is satisfied with the follow-up actions taken to implement this recommendation.</p> |

| AUDIT RECOMMENDATIONS | OPS/BOARD RESPONSE | FOLLOW UP ACTION AND STATUS JUNE 2006 | AUDITOR GENERAL'S COMMENTS |
|---|--|--|---|
| <p>4. That in future years, the Board and the OPS continue with a more proactive approach in determining in the spring of each year its own budget directions and guidelines for the coming year.</p> | <p>Agreed – to be implemented in 2006</p> <ul style="list-style-type: none"> • Staff will plan the 2007 Budget Timetable so that the Guideline can be considered by the Board in June • Adjustments will be made to accommodate the City's schedule | <p>Management will endeavour to plan the annual budget timetable so that the guideline report is tabled no later than June. As a result of 2007 being an election year, the budget guideline is deferred for approval in the New Year. It is anticipated that the City of Ottawa budget timetable will be presented to City Council in mid-July. The Police Services Board timetable will follow, at the Board's July meeting.</p> <p>Status: Not Completed</p> | <p>At the time of the original audit report (July 2005), the guideline for 2006 had already been defined. As such, it would not have been possible for this recommendation to be addressed at that time. The 2006 election has delayed the 2007 budget process. However, in presenting the LRF and a \$10.5 million budget increase for 2007 to the Board in December 2006, OPS indicated, "staff have not had sufficient time to develop a comprehensive 0% increase scenario and to fully quantify the potential impacts of such a plan...". The Auditor General is of the opinion that, in keeping with the audit recommendation, a more proactive approach to the 2007 budget analysis was possible and would have resulted in a more comprehensive analysis being provided to the Board.</p> |



| AUDIT RECOMMENDATIONS | OPS/BOARD RESPONSE | FOLLOW UP ACTION AND STATUS JUNE 2006 | AUDITOR GENERAL'S COMMENTS |
|---|---|---------------------------------------|---|
| <p>5. That the OPS use this guideline to trigger discussions with the City on broader budget directions as early as possible each year.</p> | <p><i>Agreed – to be implemented in 2006</i> Staff can begin working level discussion in May.</p> | | <p>At the time of the original audit report (July 2005), the guideline for 2006 had already been defined. As such, it would not have been possible for this recommendation to be addressed at that time. In addition, it is acknowledged that addressing this recommendation requires coordination with the City's budget process which is beyond the control of the OPS. However, as with the previous recommendation, the Auditor General is of the opinion that a more proactive approach to the 2007 budget process was possible.</p> |

| AUDIT RECOMMENDATIONS | OPS/BOARD RESPONSE | FOLLOW UP ACTION AND STATUS JUNE 2006 | AUDITOR GENERAL'S COMMENTS |
|--|---|--|---|
| <p>6. That the OPS pursue inclusion at Executive Management Committee meetings at the City where budget strategies and issues are to be discussed.</p> | <p><i>Agreed – to be implemented in 2006</i></p> | <p>This approach was not enacted for the 2006 Budget process. For 2007, it is recommended that Police management solicit input from City management to pursue inclusion of the Chief, or his delegate, at City of Ottawa Executive Management Committee meetings to discuss budget strategy.</p> | <p>The recommendation was not implemented for the 2006 budget process. In June of 2006, correspondence was sent from Board to the City requesting participation in the City's Executive Management Committee meetings for 2007 budget development purposes. On August 18, 2006 the City replied and a representative from OPS is now included in budget discussions at Executive Management Committee. It is acknowledged that addressing this recommendation required coordination between OPS and the City however, the Auditor General is of the opinion that this recommendation could have been implemented during the 2006 budget process as originally intended.</p> |

| AUDIT RECOMMENDATIONS | OPS/BOARD RESPONSE | FOLLOW UP ACTION AND STATUS JUNE 2006 | AUDITOR GENERAL'S COMMENTS |
|---|---|--|---|
| <p>7. That the OPS build on its current practice of providing 2-year forecasts to present multi-year budget to the Board which clearly outline the anticipated impact on the Police tax rate for each year.</p> | <p>Agreed – to be implemented in 2006</p> <ul style="list-style-type: none"> • Goal is a 3-5 year operating forecast • Provides a better view of the impact of: <ul style="list-style-type: none"> – Growth – Long range financial plan – Impact of the future capital project on operating budget | <p>For 2007, the OPS will prepare a Long Range Financial Plan that will include a forecast of 4 years of operating requirements and associated tax rate impacts. For 2007 and beyond, the Draft Operating Budget will also include a forecast of a sliding term of 4 years. This will provide an improved view of the impacts of City growth and the operating impacts of future capital requirements. This approach is in response to the Auditor-General's recommendation, and is consistent with the anticipated plan of the City of Ottawa as a whole.</p> <p>Status: Not Completed</p> | <p>The recommendation was not implemented during the 2006 budget process. In December 2006, OPS did present a four-year budget forecast to the Board as part of the LRFP. The Auditor General is of the opinion that this recommendation could have been implemented during the 2006 budget process as originally intended.</p> |
| <p>Budget Review, Discussion, Modification and Adoption</p> | | | |
| <p>8. That the Board continue to play a key role in scrutinizing draft budgets including questions to re-confirm need for, and value of, specific services and programs.</p> | <p>Board Role</p> <ul style="list-style-type: none"> • Input from the Board is valuable in the draft budget review and approval process. | <p>Input from the Board is valuable in the draft budget review and approval process. The vehicle for this input will be further facilitated by the creation of the Board Finance and Audit Committee. See Recommendation 12.</p> <p>Status: Completed and Ongoing</p> | <p>The Auditor General is satisfied with the follow-up actions taken to implement this recommendation. However, the Board needs to play a more aggressive oversight role in following up on the delayed implementation of many of the Budget Development Process Audit recommendations.</p> |

| AUDIT RECOMMENDATIONS | OPS/BOARD RESPONSE | FOLLOW UP ACTION AND STATUS JULY 2007 | AUDITOR GENERAL'S COMMENTS |
|--|---|---|--|
| <p>9. That the OPS enhance its internal budget development process in the future to instruct each operational area to discuss and present to the internal Budget Review Committee potential cost reductions.</p> | <p>Agreed – to be implemented in 2006</p> <ul style="list-style-type: none"> • Logical extension of the internal budget review process • Realistic way for the organization to achieve a portion of the efficiency target set by the Board each year. • Will be added as a requirement in the budget instructions issued to Section Heads | <p>Review for potential cost reductions is a logical extension and a recurring requirement with the Budget Review Committee in light of the Police Service Board's annual efficiency target to be included in each year's draft Operating Budget. This notification will be received by each of the Section Heads as part of the budget directions and instructions, and will be subject to internal review by the management Budget Review Committee, and reported to the Board Finance and Audit Committee.</p> <p>Status: Not Completed</p> | <p>The recommendation was not implemented during the 2006 budget development process. The Board set an efficiency target during the 2006 budget deliberations and OPS quarterly reporting included progress against this target throughout 2006. For 2007, the Board has again set an efficiency target. The intent of the audit recommendation is to establish a more proactive approach to identifying potential cost savings during the internal development of the budget. The Auditor General is of the opinion that such an approach could have been implemented during the 2006 and the 2007 budget development process as originally intended.</p> |

| AUDIT RECOMMENDATIONS | OPS/BOARD RESPONSE | FOLLOW UP ACTION AND STATUS JULY 2007 | AUDITOR GENERAL'S COMMENTS |
|--|--|---|--|
| <p>10. That the OPS consider a zero-based budget approach for selected areas on a test basis in order to re-confirm the validity of existing funding levels.</p> | <p>Agreed – to be implemented in 2006</p> <ul style="list-style-type: none"> • Zero-based budgeting is a worthwhile avenue to explore • Service delivery model has stabilized • Several years of consistent budget data available for this purpose | <p>Zero-based budgeting is a worthwhile exercise to explore. For 2007, staff are considering specific areas of the organization for such review on a pilot project basis.</p> <p>Status: Not Completed</p> | <p>The recommendation was not implemented during the 2006 budget development process. In November 2006, OPS presented a status report to the Board on the review of OPS fleet program. The report indicates that 'the Fleet program is considered a good test case for a zero based budgeting approach, and will be subject to that analysis for the 2007 Budget.' The timing of this initiative would seem to create a challenge to have it successfully completed prior to finalizing the 2007 budget. The Auditor General is of the opinion that this recommendation could have been implemented in 2006, as originally intended. Management has indicated that pursuing a zero-based approach in direct service areas may not be feasible.</p> |

| AUDIT RECOMMENDATIONS | OPS/BOARD RESPONSE | FOLLOW UP ACTION AND STATUS JULY 2007 | AUDITOR GENERAL'S COMMENTS |
|--|--|--|--|
| Budget and Financial Performance Monitoring | | | |
| <p>11. That the OPS continue its current practice of providing quarterly financial reports and ensure such reporting is maintained on a timely basis in the future.</p> | <p>Agreed – to be implemented in 2006</p> <p>Staff propose the following Board meeting schedule for tabling the quarterly reports:</p> <ul style="list-style-type: none"> • First Quarter – April • Second Quarter – July • Third Quarter – October • Fourth Quarter – February | <p>This practice is now business as usual. Mid-year quarterly financial status reports are tabled with the Board at the first meeting following the end of each quarter. The year-end report, financial statements, and associated disposition of surplus/deficit report are scheduled for presentation to the Board in the first quarter of the subsequent year.</p> <p>Status: Completed</p> | <p>The Auditor General is satisfied with the follow-up actions taken to implement this recommendation.</p> |
| <p>12. That the Board consider establishing a Budget Advisory Committee which would be in a better position to provide more frequent and substantive input to budget development and financial performance monitoring.</p> | <p>Board Role</p> <ul style="list-style-type: none"> • Board input is always valued. | <p>The Board's Finance and Audit Committee has been formed, consisting of Chair Eli El-Chantiry, Vice Chair Henry Jensen, and Member Michel Bellemare. The roles and responsibilities of the committee are outlined more fully in a mandate report prepared by the Executive Director, and will include, but are not limited to:</p> <ul style="list-style-type: none"> • Providing guidance and direction to staff on the budget development process, including annual guidelines, timetables, format for public | <p>The Auditor General is satisfied with the follow-up actions taken to implement this recommendation.</p> |



| AUDIT RECOMMENDATIONS | OPS/BOARD RESPONSE | FOLLOW UP ACTION AND STATUS JULY 2007 | AUDITOR GENERAL'S COMMENTS |
|-----------------------|--------------------|---|----------------------------|
| | | <p>consultation.</p> <ul style="list-style-type: none"> • Within the budget development process, regular meetings will be scheduled to supplement the internal Budget Review Committee process, prior to budget tabling. • Feedback on content and format of the periodic Long Range Financial Plan, and the link to the Business Plan. • To receive and comment on all manner of financial reporting outside of the budget development process, including quarterly status reports, financial administration policies, and year-end financial statement review. <p>Status: Completed</p> | |

Conclusion

The Auditor General is concerned that, while a number of the audit recommendations have been implemented, several others were not addressed as part of the 2006 budget development process as was intended. The original audit report was presented in July 2005 in order to improve the 2006 budget development process and it was anticipated that, in the face of budgetary constraints, OPS would have been more proactive in responding to the recommendations.

The Management response to the audit as well as the Board's direction to staff at the time of the original report reinforces this expectation. The 2007 process is nearing completion, however, implementation of some key recommendations is just now beginning. The status report presented by the OPS to the Board in July 2006 did not provide any rationale for the delay nor was any rationale requested by the Board.

The audit recommendations represent an opportunity for the Ottawa Police Service to strengthen its budget processes, including developing potential cost savings as part of internal budget development and pursuing a zero-based approach in some areas. In our opinion, further attention is required to more fully pursue these opportunities.