



**Office of the Auditor General  
Audit of the Budget Development Process  
at the Ottawa Police Service  
July 2005**

July 25, 2005

**To:** Ottawa Police Services Board

I am pleased to submit to the members of the Ottawa Police Services Board, this report which represents the Auditor General's findings on the following: Audit of the Budget Development Process at the Ottawa Police Service.

Management comments have not been included in the report but will be provided separately by the Police Service.

Sincerely,

A handwritten signature in cursive script, appearing to read "Alain Lalonde".

Alain Lalonde, CGA CIA  
Auditor General

**Office of the Auditor General – City of Ottawa**  
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**TABLE OF CONTENTS**

1.	INTRODUCTION .....	1
1.1	Objectives and Scope .....	1
1.2	Audit Criteria .....	1
1.3	Audit Approach.....	1
2.	BACKGROUND .....	2
2.1	The Police Services Act .....	2
2.2	The 2005 Budget.....	3
3.	OBSERVATIONS AND RECOMMENDATIONS.....	3
3.1	Summary of Issues and Observations .....	3
3.1.1	Table 1: Summary of Audit Results by Criterion .....	4
3.2	Budget Challenges Currently Facing the OPS.....	5
	Recommendation .....	7
3.3	Budget Guidelines and Instructions (Audit Criterion #3).....	7
	<i>The 2006 Budget</i> .....	7
	Recommendations.....	9
	<i>The 2007 Budget and Beyond</i> .....	9
	Recommendations.....	10
3.4	Budget Review, Discussion, Modification and Adoption (Audit Criterion #3) 10	
	<i>The Role of the Board</i> .....	10
	Recommendation .....	10
	<i>The Role of OPS Staff</i> .....	11
	Recommendations.....	11
3.5	Budget and Financial Performance Monitoring (Audit Criterion #5) .....	11
	Recommendations.....	12
4.	CONCLUSION.....	12

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## **1. INTRODUCTION**

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 has completed an audit of the budget development processes used by the Ottawa Police Service (OPS).

The Office of the Auditor General would like to acknowledge the cooperation and receptiveness demonstrated by OPS staff and Board members throughout this review.

### **1.1 Objectives and Scope**

The objective of this 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.

### **1.2 Audit Criteria**

Audit criteria for this audit were developed based upon the Government Finance Officers Association's *Recommended Budget Practices – A Framework for Improved Local and State Government Budgeting*. Current practices were assessed against a number of specific criteria in the following categories:

1. Goals, Objectives and Needs Assessment;
2. Policy and Procedure Development;
3. Budget Preparation and Review Processes;
4. Budget Documentation;
5. Performance Monitoring; and
6. Budget and related Adjustments.

Audit results for each specific criterion are presented below under Section 3 - Observations and Recommendations.

### **1.3 Audit Approach**

The audit included an extensive review of budget and planning documentation from both the Police Service and the City of Ottawa, including:

- The 2003, 2004 and 2005 OPS budget,
- Minutes of all Board meetings for 2003-2005,

- The Police Services Act and related regulatory documentation,
- The 2004 Plamondon & Associates report on the City's budget process,
- OPS planning and performance measurement documentation for 2003-2005 including the results of public surveys conducted during this time, and
- OPS documentation regarding internal budget development and monitoring processes.

In addition, interviews with management and staff at various levels throughout the OPS were conducted as well as interviews with all Council-appointed members of the Board. A survey of other police services in Ontario was also undertaken to gather relevant comparison data.

## **2. BACKGROUND**

### **2.1 The Police Services Act**

The Ottawa Police Service is governed by the Police Services Board which in turn is regulated by the Ontario Police Services Act (the Act). In Ottawa, this Board is comprised of seven members, four of which are selected by Council. Three Councillors are appointed by resolution of Council; one person, who is neither a member of Council nor an employee of the municipality, is also appointed by resolution of the Council; and three persons are appointed by the Province of Ontario. The Board is supported by two staff members of the City Clerk's Branch of the City of Ottawa.

As stated in the Act, the Board's responsibilities include:

- submitting operating and capital budgets to Council that will "maintain the police force and provide it with equipment and facilities";
- appointing the members of the municipal police force;
- generally determining, after consultation with the chief of police, objectives and priorities with respect to police services in the municipality;
- establishing policies for the effective management of the police force;
- recruiting and appointing the chief of police and any deputy chief of police, and annually determining their remuneration and working conditions, taking their submissions into account;
- directing the chief of police and monitoring his or her performance and;
- establishing policies respecting the disclosure by chiefs of police of personal information about individuals.

Under the provisions of the Act, the Board may give orders and directions to the chief of police, but not to other members of the police service, and no individual member of the Board may give orders or directions to any member of the police service. The Board is authorized to pass by-laws to establish rules for the effective management of the police

service and, with some exceptions, can establish its own rules and procedures in performing its duties under the Act.

Under the Act, City Council has the authority to establish the overall budget for Police Services, however, it does not have the authority to approve or disapprove of specific items within the budget. If the Board is not satisfied that the budget established by Council is sufficient to provide an adequate level of policing to the community, the Board may request that the Ontario Civilian Commission on Policing Services (OCCOPS) determine the question.

## **2.2 The 2005 Budget**

The total net operating budget for the Ottawa Police Service in 2005 is \$164.5 million, of which approximately 85% is to cover the salaries, wages and benefits of the Service's 1,673 FTE's. Approximately \$10 million is expected to be generated in recoveries and revenues during 2005. The 2005 operating budget represents a \$15.2 million increase over the 2004 budget. The Police Service budget accounts for 8% of the total 2005 operating budget of the City.

## **3. OBSERVATIONS AND RECOMMENDATIONS**

### **3.1 Summary of Issues and Observations**

On the whole, the current processes used at the Ottawa Police Service (OPS) to develop its annual budget are effective. A large majority of the audit criteria are being met to a substantive degree, particularly with regard to assessment of needs, establishing organizational goals and objectives and budget preparation, internal review and documentation.

The 2004 report on the City's budget process prepared by Plamondon & Associates outlines a number of recommendations for improving the City's budget process. The City Manager has indicated his support of these recommendations and work has begun on implementation. A number of the recommendations in the Plamondon report are already a part of the OPS budget process, including:

- Linking the budget to strategic and operational plans;
- Providing a two-year forward looking budget via the forecasts provided in the OPS budget; and
- Issuing quarterly financial reports to the Board.

Opportunities for improvement exist in some aspects and are discussed more fully below. In summary, there are opportunities for the OPS and the Board to take a more pro-active approach to budget development in order for the annual budget to come before Council sooner and to more clearly articulate to all stakeholders the potential implications on

direct services. This will be particularly important for the 2006 budget process which must respond to Council's motion to limit the OPS budget increase to 3% for the coming year.

Other opportunities to enhance the current processes include:

- building on the current practice of providing 2-year forecasts to establish a multi-year budgeting process,
- the Board continuing to scrutinize draft budgets including questions to confirm the value of, and need for, specific programs and services, and
- developing a process for operating areas to identify potential cost savings as part of the internal budget development and challenge process.

The table below presents each of the audit criteria used to assess the budget development process at the OPS and summarizes the results of the audit for each. Detailed observations in areas where there are opportunities for improvement are discussed following the summary table.

**3.1.1**  
**Table 1: Summary of Audit Results by Criterion**

Audit Criteria	Audit Results
<b>1. Have broad goals been established to guide decision making, including:</b>	
▪ assessing community needs, priorities, challenges and opportunities;	Achieved
▪ identifying stakeholder concerns, needs, and priorities;	Achieved
▪ evaluating community condition, external factors, opportunities and challenges;	Achieved
▪ identifying opportunities and challenges for programs/services, capital assets, and management; and,	Achieved
▪ developing and disseminating broad goals and review with stakeholders?	Achieved
<b>2. Have policies and approaches been developed to achieve goals, including:</b>	
▪ financial policies for:	
o stabilization/reserve funds,	See section 3.2
o fees and charges,	Achieved
o debt issuance and management,	See section 3.2
o use of one-time/unpredictable revenues,	Achieved
o balancing the operating budget,	See section 3.2
o revenue diversification,	Achieved
o contingency planning and	Achieved
o capital asset acquisition, maintenance, replacement, and retirement;	See section 3.2
▪ program development and evaluation;	Achieved
▪ options for meeting capital needs;	Achieved
▪ performance measures/ benchmarks for functions, programs, and/or activities of organizational units;	Achieved
▪ management strategies to facilitate attainment of program and financial goals; and,	Achieved
▪ mechanisms to ensure budgetary compliance?	Achieved

*Table 1 continued*

<b>3. Has a process for preparing and adopting a budget been developed, including:</b>	
▪ a budget calendar/timeline;	Achieved
▪ budget guidelines and instructions;	See section 3.3
▪ mechanisms for coordinating budget preparation;	Achieved
▪ procedures to facilitate budget review, discussion; modification, and adoption;	See section 3.4
▪ opportunities for stakeholder input;	Achieved
▪ long-range financial planning;	Achieved
▪ revenue projections/forecasts; and,	Achieved
▪ prepare expenditure projections/forecasts?	Achieved
<b>4. Do the budget documents include:</b>	
▪ key policies, plans, goals, issues;	Achieved
▪ a financial overview;	Achieved
▪ a guide to operations;	Achieved
▪ a budget summary; and,	Achieved
▪ a clear, easy-to-use format?	Achieved
<b>5. Is performance being monitored, measured, and evaluated, including:</b>	
▪ program performance;	Achieved
▪ stakeholder satisfaction;	Achieved
▪ budgetary performance;	See section 3.5
▪ financial condition;	See section 3.5
▪ external factors; and,	Achieved
▪ capital program implementation?	Achieved
<b>6. Are adjustments made as needed including adjustments to:</b>	
▪ budget	Achieved
▪ policies, plans, programs and management strategies	Achieved
▪ broad goals?	Achieved

### 3.2 Budget Challenges Currently Facing the OPS

The OPS is facing a number of budget challenges that are somewhat unique from other City services. It is important to bear these issues in mind in order to place the budget development process within its proper context. A brief synopsis of some of these issues follows.

**Legislative and Regulatory Requirements.** The OPS is subject to very prescriptive legislated requirements. Provincial legislation and related regulations require a police service to establish the capacity to address a large number of specific issues, including:

- procedures for problem-oriented policing and crime prevention initiatives;
- a communications centre;
- criminal intelligence capacity;

- investigative supports such as forensic identification, canine tracking and surveillance;
- community patrol;
- marine patrol on any waterways within the service's jurisdiction;
- 24-hour, 7-day emergency response including a tactical unit of minimum size, a hostage rescue team and explosive disposal capability;
- a public order unit of specific size and composition; and
- procedures to undertake and manage investigations into numerous specific areas including physical and sexual abuse of children, child pornography, domestic occurrences, drug-related offences, elder abuse, fraud, hate crimes, homicides, illegal gaming, parental abuse, property crimes, etc.

The prescriptive nature of legislation governing policing in Ontario also means that each service is subject to periodic assessments by the Province of its adherence to these requirements and related adequacy standards. A Provincial adequacy standards review has recently been conducted at the OPS.

New legislative and regulatory requirements continue to emerge requiring a response by the service. More recently new requirements for the capture, management and submission of data on major crimes have been established as have expanded disclosure requirements for complaints and investigations.

**Salaries and Benefits.** The OPS budget is currently comprised of approximately 85% salaries and benefits, which is a substantially higher percentage than most other large City services. This has created unique budget challenges in that salary increases are responsible for much of the budget pressure now facing the OPS. Recent salary arbitration decisions have placed pressures on police budgets across the Province, to the point where sustainability of service at an acceptable cost is beginning to be a concern in many jurisdictions.

**Calls for Service and Service-level Expectations.** The OPS 2004-2006 Business Plan indicates that while the per capita crime rates have remained stable (6,240 incidents per 100,000 population), the volume of calls for service increased by 16.6% from 2002 to 2003. Factoring in even conservative projections for City growth over the coming years, it is reasonable to assume continuing pressure for increased service from OPS in the future. In addition, despite recent concerns over the growing cost of policing, both the community and Council have expressed desire for greater police activity in the areas of traffic enforcement, community policing, school resources and neighbourhood officers.

**The Implications of a Separate Tax-rate for OPS.** For 2005, a separate tax-rate for OPS was implemented in order to distinguish for the public the effect on property taxes specifically attributable to the cost of policing. There is widespread agreement that this approach will have positive affects in terms of transparency in the future and may increase the level of understanding of the budget pressures facing the OPS. This approach will have implications however

in that the OPS is now faced with non-operational, fiscal costs that will flow directly to the police tax rate. Some of these implications include:

- the base budget for servicing of debt directly related to police must be transferred from the City to the OPS budget (annual debt costs are estimated at roughly \$1 million annually);
- OPS must now build in the capacity to fund Pay-As-You-Go reserves within its own operating budget. The current 10-year capital forecast shows that PAYG funding of approximately \$117.5 million will be required to fund capital initiatives over this time; and
- Disposition of OPS operating deficits/surpluses must be clarified. Operating deficits in recent years have been accommodated within the City's overall budget.

### ***Recommendation***

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.*

### **3.3 Budget Guidelines and Instructions (Audit Criterion #3)**

#### ***The 2006 Budget***

OPS currently has an effective internal budget development process. Briefly, the process begins with a review of past budgets at the Staff Sergeant and Inspector level to produce a budget submission for each operational area to the Superintendent responsible. After this review has been completed, a submission is made to the internal Budget Review Committee made up of the Deputy Chiefs and the Director General. Once the review committee has examined the submissions and questioned any proposed increased, the draft budget is presented to the Chief for approval prior to its submission to the Board.

This process is generally done in concert with the City's budget process and in past years has not commenced in full until the City and Council have determined its budget direction and guidelines for the coming year. Typically this has occurred in late summer or early fall.

For 2006, OPS is facing a unique scenario in that a motion was passed by Council during its deliberations on the 2005 budget instructing the Board to limit the 2006 increase to 3%. This motion effectively established the 2006 guideline for OPS. Discussions undertaken during the audit indicate that there are serious concerns over OPS' ability to meet this guideline, however, at the time of the audit, the Board had not yet determined its response to this motion.

The 2005 OPS budget presented a forecast increase for 2006 of over 9% (or \$15.2 million) above the 2005 net requirement, \$8.5 million of which is related to salary increases. A further \$15.8 million (or an additional 9%) increase is forecasted for 2007. A 3% cap for 2006 implies an increase of just under \$5 million, meaning the 2006 forecast must be reduced by approximately \$10 million to meet this target.

The 3% motion represents the second consecutive year where Council introduced motions directly affecting the OPS budget at its final budget deliberations. In 2004, a motion was introduced to reduce the OPS budget being presented at that time by approximately \$2 million. There was some speculation that OCCOPS intervention would be required however an alternative strategy was developed as a one-time measure to meet the motion. The longer-term funding issues remained unresolved.

As evidenced by the discussions at the last two Council budget deliberations, there has been growing concern from Council over the sustainability of ever-increasing police budgets. This is coupled with a certain level of frustration over Council's inability under the Act to question budget details. Several contacts made during the audit expressed concern over the level of understanding by Council of the specific challenges facing OPS. Although comprehensive data on OPS expenditures and programs is readily available, there is a pressing need for a more informed debate at Council regarding future funding for OPS.

The objective of this audit was to review the budget development process and not to propose specific changes to the OPS budget. However, based on the examination of budget specifics conducted during the audit as well as a review of the 2003 Police Program Review (PPR) which presented a series of budget reduction scenarios, it appears clear that achieving a 3% maximum increase for 2006 will require reductions in service levels for the OPS. It is uncertain if Council or the public will be prepared to entertain such measures.

At the time of the audit, the Board had not yet responded to the 3% Council motion, although the OPS was preparing for such discussions with the Board. In our opinion, it would have been beneficial for the Board to discuss such a scenario and provide its response to Council as quickly as possible after the passing of the 3% motion. Doing so would have enabled the Board to clearly articulate the implications to direct service and helped to clarify Council's expectations for funding the OPS in 2006. Additional funding scenarios which clearly identify the impact of other levels of funding (up to and including the forecasted increase of 9%) should also be developed and presented in order to facilitate an informed discussion by Council. Reintroducing some of the analysis undertaken for the PPR exercise would likely be of assistance in this regard.

For 2006, the Board and the OPS should not wait for the broader City guideline-setting process to be completed. Rather, given the unique nature of the OPS' budget situation, it is appropriate at this point that OPS and the Board proceed with a more proactive and direct approach, formally responding to the 3% motion and identifying the service level impact of various funding scenarios.

## **Recommendations**

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.*
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.*

### ***The 2007 Budget and Beyond***

As indicated earlier, current projections for 2007 anticipate a further 9% budget increase over forecasted 2006 levels. Future years promise to present further budget challenges for OPS, the Board and Council.

As part of the audit, a survey of several other police services in Ontario was conducted in order to gain insights into current practices in the budgeting processes for police. Maintaining a proactive approach to developing guidelines and drafting budget submissions as early as possible is an objective of a number of police services. This will allow adequate opportunity for substantive input by the Board prior to Council consideration and will facilitate a final decision on the budget before the budget year actually begins. This objective has also been reinforced by the recommendations contained in the Plamondon report and is consistent with the recently announced timeline for the City's 2006.

All OPS staff contacted during audit readily acknowledged the assistance of their City counterparts in dealing with budget challenges of the past few years. Some concerns were expressed, however, regarding adequately synchronizing the OPS process with the City's so that OPS staff have access to required information in a timely manner and to allow the Board adequate time to review the OPS budget before it is incorporated into the City's process. It is important to maintain the arms-length relationship between the City administration and that of the OPS. As such, OPS inclusion on the City's Executive Management Committee (EMC) is not recommended. However, enhanced coordination would help facilitate more efficient budget development processes in the future. Including an OPS representative in EMC discussions of budget issues would be beneficial.

The Plamondon report also speaks to the need to develop a multi-year approach to municipal budgets, including the upcoming year as well as a two-year forecast. This is something the City is actively working to develop. The OPS has a well-established process of including two-year forecasts as part of its annual budget. OPS should build

upon this practice to develop more complete multi-year budgets which outline the implications the police tax rate for future years.

### ***Recommendations***

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.*
5. *That the OPS use this guideline to trigger discussions with the City on broader budget directions as early as possible each year.*
6. *That the OPS pursue inclusion at Executive Management Committee meetings at the City where budget strategies and issues are to be discussed.*
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.*

### **3.4 Budget Review, Discussion, Modification and Adoption (Audit Criterion #3)**

#### ***The Role of the Board***

Board members and OPS staff acknowledged the critical role played by the Board in providing oversight to the OPS budget. It was widely recognized that this role is particularly important since, under the Act, City Council does not have the authority to examine OPS budget details.

Discussions with Board members as well as the review of all Board minutes from 2004 and 2005 revealed that Board members have provided a fairly high level of scrutiny in the past. Questions at budget time and during the course of the year have, however, tended to focus on specific smaller dollar items such as fire alarm fees, insurance costs, training and development and compensation from other levels of government. More substantive questions have been raised on occasion regarding the justifications for the cost of particular services and programs. The Board is encouraged to continue to raise such issues in the future.

#### ***Recommendation***

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.*

### ***The Role of OPS Staff***

There is growing recognition within the OPS of the severity of the current fiscal climate, however more work is needed to ensure this recognition is filtering down to all parts of the organization. Recent cost control initiatives have had a positive impact in this regard including, the deferral or phasing-in of some initiatives, enhanced attendance management processes and recent improvements in the management of overtime and court time costs. The establishment of annual efficiency targets has also assisted in keeping the organization focussed on the need to be cost conscious.

The current process of developing, submitting and reviewing section budgets has tended to focus its attention on assessing incremental costs rather than incorporating, at the supervisory level, the development of potential cost saving opportunities. The existing process for critiquing requested increases is strong however there is a need for an enhanced process to identify and propose potential cost reductions. Recently, OPS Corporate Services conducted internal sessions with its staff to generate potential savings ideas. A similar approach in other areas of the OPS is encouraged.

Some other police services contacted during the audit have begun to use a zero-based approach to budgeting, particularly for discretionary spending areas. OPS has done an effective job of managing its discretionary expenses in recent years (including spending freezes under a Chief's order). Consideration should be given, however, to utilizing a zero-based approach in selected areas. The level of effort required, especially in direct service areas, is significant but such an approach would serve to re-confirm the validity of existing budgets and may yield opportunities for cost reductions.

### ***Recommendations***

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.*
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.*

### **3.5 Budget and Financial Performance Monitoring (Audit Criterion #5)**

OPS has established a practice of providing quarterly reporting of financial status to the Board. It has, however, struggled to provide this information in a timely manner in order to allow the Board an adequate opportunity to offer input on how to respond to emerging budget issues. The substance and quality of the reports is quite extensive and, when they have been presented to the Board, substantive discussion has been generated. OPS should maintain this practice but ensure these reports are provided on a consistent and

timely basis in order for the Board to provide meaningful input. Streamlining the information currently provided may assist in accomplishing this in the future.

Some police jurisdictions have created a Budget Advisory Committee of the Board in order to allow for more frequent and substantive input to the budget process and ongoing monitoring of financial performance. The current process of the OPS does provide significant opportunity for the Board to provide input. However, the form of these meetings may not be the most conducive to involved discussion. The creation of a Budget Advisory Committee would likely facilitate more substantive input to budget development as well as to monitoring of financial status throughout the year.

### ***Recommendations***

- 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.*
- 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.*

## **4. CONCLUSION**

Overall the current processes in place to develop the budget of OPS are strong with a large majority of the audit criteria being successfully achieved. Recommended enhancements to internal processes include building on the current practice of providing 2-year forecasts to establish a multi-year budget, developing potential cost savings as part of internal budget development and challenge process and considering a zero-based approach in some areas. A more pro-active approach to establishing budget guidelines at the Board, including identifying the service level implications of Council's 3% motion for 2006, would help to clarify Council expectations and facilitate a more productive dialogue in the future.