

Auditor General's 2006 Annual Report

Clear Accountability Missing in Some Important City Functions

Ottawa, May 9, 2007 – The City of Ottawa has been ineffective in establishing clear lines of accountability in certain areas of the City, says the Auditor General. In his 2006 Annual Report released today, Alain Lalonde states that, “A number of audits completed in 2006 have shown that the lines of accountability and authority at the City have not always been clearly assigned”.

The report summarizes the results of all the 2006 audits along with offering some broader views and opinions on the City's operations. The report finds that functions such as Financial Services, Employee Services and Fleet Services do not see their role as one of oversight but rather as providing advice to managers. In fact, says the report, management has expressed the view that they do not wish to take on oversight responsibilities and enforce City policies.

In the Auditor General's opinion, the internal control environment at the City has eroded and the level of discretion now permitted has caused significant inconsistencies in complying with sound accounting practices. Mr. Lalonde concludes that the City must urgently re-visit this approach and establish clear accountability for ensuring that policies and priorities are followed.

The report also addresses reasserting management duties and the long-term sustainability of the City's infrastructure.

The 2006 Annual Report is available on the Auditor General's Web site at www.ottawa.ca.

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Fraud and Waste Hotline

City's Fraud and Waste Hotline Working Well

Ottawa, May 9, 2007 – A total of 135 calls were made by employees to the City of Ottawa's Fraud and Waste Hotline during 2006. The information was presented today by the Auditor General Alain Lalonde in his second annual report. The Hotline, which was launched in November 2005, received calls alleging theft, misuse of City property and suggestions for improvement.

The Auditor General conducted several specific audits in response to these calls. Some of these audits deal with situations where specific employees of the City can be identified or where the security of employees could be jeopardized. Where this is the case, based upon the opinion of Legal Services and the wishes of the Council Audit Working Group, the full reports on these audits will not be provided to Council. All Hotline audit reports have been provided to the City Manager and a summary will be provided to the Chair of the Corporate Services and Economic Development Committee for action.

The following summarizes the results of the Hotline audits:

1. Child Care Subsidies (audit report issued to Council):
 - o The requirement to obtain caregiver receipts was not enforced in many cases, which should have resulted in suspension of the subsidy;
 - o In some cases the required 'Participation Agreement' was out of date, which also should have resulted in suspension of the subsidy; and,
 - o Better coordination between Child Care and Employment and Financial Assistance is needed to improve the transfer of client information.
2. Contracting for Wastewater Treatment in Manotick (audit report issued to Council):
 - o The contract for \$1.8 million was not awarded in compliance with the Purchasing By-law;
 - o No Council authority was obtained to award the contract;
 - o There may have been financial savings had this award gone through a competitive process; and,
 - o Reports to Council did not provide consideration of options and an analysis of alternate solutions.
3. Parking Meter Cash Handling (audit report not issued to Council):
 - o Insufficient internal controls in many processes;
 - o Improper safeguarding of funds; and,
 - o Inadequate segregation of duties.

News Release/Communiqué de presse

4. OC Transpo Revenue Collection Processes (audit report not issued to Council):
 - o Basic security features may have prevented or reduced the impact of the \$150,000 fraud that occurred in this area in 2006;
 - o Non-refundable fares in the amount of \$470,000 were refunded in 2005; and,
 - o \$1 million in receipts from vendors were not deposited in a timely manner resulting in greater risks and foregone interest revenue.

Six other audits were also conducted based upon reports to the Fraud and Waste Hotline where reports have not been provided to Council. These audits deal with issues such as:

- o Weak cash handling controls and safeguarding of funds;
- o Conflicts of interest;
- o Inappropriate staff conduct;
- o Inappropriate use of corporate resources;
- o Staffing processes not followed;
- o City/Provincial policies not followed;
- o Staff incompetence;
- o Nepotism;
- o Illegal activities referred to Ottawa Police Service; and,
- o Misuse of Corporate Internet and e-mail.

For all audits arising from the Hotline, a total of 120 recommendations have been presented to management, of which management has disagreed with 11.

Calls to the City's Fraud and Waste Hotline during 2006 also show that inappropriate use of e-mail and Internet by City staff continues to be a problem. This issue was first raised in Mr. Lalonde's 2005 audit. Of the calls made to the Hotline in 2006, 17% were related to this problem and involved 49 separate employees.

"There is a clear need for a corporate-wide approach to address inappropriate e-mail and Internet use", says Mr. Lalonde. "The Office of the Auditor General cannot continue to devote resources to investigating individual incidents."

A summary of the Fraud and Waste Hotline calls and two of the full audit reports arising from these calls are available on the Auditor General's Web site at www.ottawa.ca.

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Audit of Surface Operations

Management of Summer Maintenance Programs Inadequate

Ottawa, May 9, 2007 – The City of Ottawa needs a more proactive approach to its summer maintenance programs to improve efficiency and cost-effectiveness. This is the key finding of the Auditor General’s Audit of Surface Operations released today.

The audit examined summer activities of the Surface Operations Branch of the Public Works and Services Department and found a lack of effective planning, goal setting, policies and procedures. The audit also revealed that knowledge of rural road maintenance was lacking as a result of a loss of expertise following municipal amalgamation in 2001.

“Summer maintenance in the City of Ottawa is in a purely reactive mode with no plans or strategies in place to guide operations,” says Alain Lalonde.

Recommendations contained in the audit include better training in basic rural road maintenance practices such as grader operation, tighter financial management and internal controls and improved management reporting mechanisms to allow for greater oversight and efficiency. The audit also recommends that the budget be frozen until these issues have been adequately addressed.

The report indicates that action taken on some of the Auditor General’s recommendations has already generated over \$365,000 in annual savings for the City.

Of the 39 recommendations made in the audit, management has agreed with 34.

The chapter **Audit of Surface Operations** is available on the Auditor General’s Web site at www.ottawa.ca.

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Audit of the Ottawa Fire Services Branch

Collective Agreement Impeding Effective Management

Ottawa, May 9, 2007 – Effective management of the Ottawa Fire Services Branch is seriously impeded by the provisions of its current collective agreement, says the Auditor General of the City of Ottawa.

“There are currently significant restrictions on the ability to pursue effective management practices. In the existing environment, it is questionable if public safety is truly the top priority,” states Alain Lalonde in his second annual report released today.

Specifically, the audit includes the following findings:

- There is a need to establish a regulatory by-law for Council to clearly define the characteristics of Fire Service including response standards;
- The on-going station location study should identify opportunities for greater efficiencies that have yet to be realized as a result of municipal amalgamation;
- The current management structure, which has only a small number of non-unionized positions responsible for over 900 employees, is not workable;
- Staffing on the basis of merit rather than simply length of service is not possible;
- Management-led debriefings of fire incidents are not occurring; and,
- Fire investigations and property safety inspections should be improved by training and utilizing fire fighters in these areas.

Of the 20 recommendations contained in the audit, management has agreed with 17.

The chapter **Audit of the Ottawa Fire Services Branch** is available on the Auditor General’s Web site at www.ottawa.ca.

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Audit of the Building Services Branch

Poor Monitoring of Building Code Compliance

Ottawa, May 9, 2007 – Ottawa’s Auditor General concludes that the City of Ottawa must improve its ability to monitor compliance with the *Ontario Building Code*.

The findings are included in the Auditor General’s second annual report released today. The audit was undertaken to assess the effectiveness of the City’s Building Services Branch in carrying out its permit issuance and inspection responsibilities.

“The Branch has been in a reactionary mode attempting to address new legislative provisions and has not yet focused on monitoring compliance with this legislation,” concludes Alain Lalonde.

The audit shows that currently there is no process to reliably measure compliance. In addition, the City’s existing risk management strategy for Building Services dates back to the former City of Ottawa and needs to be updated. The Branch also has been struggling to recruit adequate resources and needs to implement a comprehensive strategy to ensure legislative requirements are met.

In total, the audit makes 10 recommendations, all of which were agreed with by management.

The chapter **Audit of the Building Services Branch** is available on the Auditor General’s Web site at www.ottawa.ca.

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Audit of Fleet Services

\$1.3 Million in Annual Savings Found

Ottawa, May 9, 2007 – The Auditor General has identified \$1.3 million in potential annual savings to the City of Ottawa’s vehicle costs. The savings were identified in the Audit of Fleet Services released today.

The audit revealed over \$900,000 in vehicle misuse and abuse as well as \$460,000 in possible fuel savings from enforcing the use of City fuelling stations.

“We also identified low usage rates for many vehicles, however, management is not acting on these opportunities to reduce fleet size and costs,” Alain Lalonde states.

The report states that no corporate standards exist for the selection of vehicles and the decision to purchase is not always based on lowest cost. The Auditor General also observed that mechanic productivity is not being measured and that improved preventative maintenance programs are required, including the use of a work order system and better monitoring of vehicle repairs.

In total, the audit makes 36 recommendations of which 28 were accepted by management.

The chapter **Audit of Fleet Services** is available on the Auditor General’s Web site at www.ottawa.ca.

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Audit of the Financial Control Environment

Deficiencies in the City's Financial Controls

Ottawa, May 9, 2007 – An audit has found a number of deficiencies in the financial controls at the City of Ottawa. Auditor General Alain Lalonde presented the results of the audit today as part of his 2006 Annual Report.

“The City has no clear and consistent control procedures and no clear ownership or accountability for overall financial control. Roles, practices and procedures are currently inconsistent and lacking,” says Mr. Lalonde.

The audit reveals that, despite a large investment in a City-wide financial system, the City is not taking full advantage of it. There is still extensive use of other systems and many of the corporate controls have not been activated. Significant deficiencies were also identified in system access, including incompatible duties and a lack of segregation of duties.

The lack of effective financial controls has resulted in:

- Over \$291,000 annually in foregone interest revenue from paying invoices too soon;
- \$1.1 million, in 2006, in uncertified sick leave over allowable limits without medical certificates;
- \$6.8 million in banked vacation leave beyond allowable entitlements; and,
- \$23.6 million in payments made prior to the authorization for the purchase.

Of the 40 recommendations contained in the audit, management has agreed with 27.

The chapter **Audit of the Financial Control Environment** is available on the Auditor General's Web site at www.ottawa.ca.

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Audit of the Information Technology Processes of the Computerized Financial System

Financial System Access Should be Tightened

Ottawa, May 9, 2007 – Proper controls over the City’s financial system are not always being followed. This is a key finding in the Auditor General’s examination of the computerized financial system controls released today as part of his second annual report.

“Some controls are lacking and are not always consistent with internal requirements or sound management practices,” states Alain Lalonde.

The audit reveals that there are gaps in the security measures within the City’s computerized financial system. System access rights in some areas are not appropriately limited and should be reviewed. For example, there are too many users with high-level access and a summer student, external consultants and system developers have highly privileged access rights. Also, in many instances, system documentation is either outdated or still in draft form.

In total, the audit makes 14 recommendations of which 13 were agreed with by management.

The chapter **Audit of the Information Technology Processes of the Computerized Financial System** is available on the Auditor General’s Web site at www.ottawa.ca.

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Audit of Public/Private Partnership (P3) Processes

Monitoring of P3 Projects Needs Improvement

Ottawa, May 9, 2007 – Auditor General Alain Lalonde has observed that overall accountability and ongoing monitoring of the City’s P3 projects requires improvement. This is the key finding in his audit of P3 Processes released today as part of the 2006 Annual Report.

“The lack of clear accountability and rigorous monitoring leaves management and Council unable to assess the efficiency and effectiveness of these projects,” says Mr. Lalonde.

The audit acknowledges that there is a broad spectrum of P3 projects, each with its own unique characteristics. Improved business cases are needed to provide better information to Council for decision-making when these projects are brought forward for approval.

The audit also recommends that the roles and responsibilities across the City for managing these projects be clarified and that collaboration among departments be improved.

In total, the audit makes 11 recommendations all of which were agreed with by management.

The chapter **Audit of Public/Private Partnership (P3) Processes** is available on the Auditor General’s Web site at www.ottawa.ca.

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Audit of Property Management

Funding for Maintenance of City Properties is Inadequate

Ottawa, May 9, 2007 – The Auditor General for the City of Ottawa has found that funding for the maintenance of City properties has been inadequate to ensure facilities remain in proper condition over the long-term.

The Audit of Property Management, released today, finds that the City has an effective property management function with thorough operating systems and procedures. The Real Property Asset Management Branch is struggling however, to maintain the condition of City properties within its current funding levels.

“The City needs to better fund long-term maintenance or face the risk of serious deterioration of its properties in the future,” concludes Alain Lalonde.

The audit identifies other opportunities for improvement including:

- Ensuring fire safety provision are examined during building assessments;
- Completing threat and risk assessments at all City facilities; and,
- Developing a long-term plan for Lansdowne Park.

In total, the audit makes 12 recommendations all of which were agreed with by management.

The chapter **Audit of Property Management** is available on the Auditor General’s Web site at www.ottawa.ca.

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Audit of the Employment and Financial Assistance Branch

Employment Program Needs Strengthening

Ottawa, May 9, 2007 – An audit of the City’s Employment and Financial Assistance (EFA) Branch has found that the program to assist clients in finding employment needs to be strengthened. Auditor General Alain Lalonde presented the results of the audit today as part of his 2006 Annual Report.

With the Province in the process of changing its approach to funding, a more effective employment program to support clients on social assistance will be necessary. The City currently spends approximately \$19 million annually on its employment program with just over 2,300 jobs found for clients.

“The Branch should be reassessing the cost-effectiveness of its current employment support model”, states the Auditor General.

Other findings contained in the EFA audit include clarifying the role of supervisors, increasing performance monitoring and oversight of staff and ensuring greater consistency across the Branch in applying its policies.

Of the 22 recommendations contained in the audit, management has agreed with 20.

The chapter **Audit of the Employment and Financial Assistance Branch** is available on the Auditor General’s Web site at www.ottawa.ca.

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Audit of the Munster Hamlet Sewer Rehabilitation Project

Delays Cause Cost Overruns of \$7.9 Million

Ottawa, May 9, 2007 – The City of Ottawa’s project to improve sewage treatment in Munster Hamlet experienced significant cost overruns. This is the key finding of the Auditor General’s audit of the project released today.

“Decisions made over the course of this project added significantly to the cost, however, we found no indication that the design or construction of the Munster Hamlet pipeline was inadequate,” states Mr. Alain Lalonde.

The audit examined the full history of the project going back to 1996. It concludes that Council decisions at various points caused lengthy delays in completing the project. These delays led to an additional \$7.9 million in costs.

The audit found that the technical and environmental analysis resulting in the pipeline decision was thorough and in accordance with the requirements of the Province. A review of all records as well as a physical examination of the pipeline showed no deficiencies in the design or construction.

The audit recommends that, in the future, better assessments of the time and cost implications of alternatives are needed to guide Council’s decision-making.

In total, the audit makes six recommendations, of which five were agreed with by management.

The chapter **Audit of the Munster Hamlet Sewer Rehabilitation Project** is available on the Auditor General’s Web site at www.ottawa.ca.

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Audit of the Wastewater and Drainage Services Division

City Not Meeting Training Requirements for Wastewater Staff

Ottawa, May 9, 2007 – The City is meeting all provincial regulations for wastewater management except for required staff training, says the Auditor General of the City of Ottawa.

“Approximately 50% of the City’s wastewater staff need additional training to meet the Province’s regulations,” states Alain Lalonde in his second annual report released today.

The audit further states that the combined sanitary and storm sewers that remain in operation in the City require upgrades. However, the audit points out that issues regarding discharges from these sewers are being managed in concert with the Province and that no violation orders have been issued to the City in this area.

The audit also finds that the City needs an overall sewer inflow/infiltration program and wet weather strategy to better manage sewer capacity in the future.

Of the 19 recommendations contained in the audit, management has agreed with 17.

The chapter **Audit of Wastewater and Drainage Services Division** is available on the Auditor General’s Web site at www.ottawa.ca.

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Follow-up of the Audit of Contracts Awarded to Members of the Board of Hydro Ottawa

Hydro Ottawa Implements All Audit Recommendations

Ottawa, May 9, 2007 – Ottawa’s Auditor General has found that Hydro Ottawa has implemented all of the recommendations made in his 2005 Audit of Contracts Awarded to Hydro Ottawa Board. The results of the follow-up audit were released today as part of the 2006 Annual Report.

“I am pleased to inform Council that Hydro Ottawa has taken action on all of the recommendations made in the original audit report”, says Alain Lalonde.

The recommendations addressed include:

- Ensuring that all related party transactions are appropriately disclosed in the Board minutes;
- Clearly defining Board members’ roles and compensation levels; and,
- Improving contracting and payment policies and practices.

Although not part of the original audit, the follow-up audit revealed that Hydro Ottawa has not taken action on the 2005 direction to provide Council with quarterly reports.

The chapter **Follow-up of the Audit of Contracts Awarded to Members of the Board of Hydro Ottawa** is available on the Auditor General’s Web site at www.ottawa.ca.

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Ottawa
Speaking Notes
Tabling of Second Annual Report
May 9, 2007

Good morning Mr. Mayor and Councillors,

I am pleased to present you with my second Annual Report as well as my audit plan for 2007 to 2009.

As you will see, my office completed 22 audits over the past year, including audits arising from the Fraud and Waste Hotline. These audits resulted in over 300 recommendations, 85% of which management has agreed with.

All of our audits were done within our budget of \$1.7 million.

I would like to briefly share some broad observations that emerge from my report.

My first issue relates to the deterioration of part of the City's infrastructure. We found this to be true for the City's buildings, roads, parks and forests.

Another emerging issue is the need for management to reassert their management duties. We found a common perception among managers and unionized supervisors that they feel their "hands are tied." This has resulted in the erosion of management's willingness to take action in many cases.

Finally, there is the need to clarify accountability and oversight across the City. A number of audits demonstrated that these responsibilities have not been clearly assigned or assumed.

I look forward to discussing these themes and any other audit issues on May 15th at the Corporate Services Committee and at Council on May 23rd.

In the meantime, I invite members of Council to contact me if they need any additional information concerning my report.

Thank you.