



Office of the Auditor General

Halifax Regional Municipality

Annual Report

Period Ended March 31, 2011

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Our Vision

A highly relevant, valued and credible organization, known for its independence and high standard of professional excellence.

Our Mission

To make a significant contribution to the enhancement of HRM's performance, governance and accountability in a transparent and objective manner.

Our Values

Performance Driven – efficient and effective delivery of our services. Relevant to elected officials, Management and the public.

Credibility – value and own our reputation. We are accountable for our actions.

Political neutrality – independence, objectivity and impartiality.

Trust – we earn it with everything we do and say.

Teamwork – with respect and integrity, we work together to generate better solutions.

Professionalism – we strive for the highest standard in professional conduct and development.

Introduction

On behalf of the Office of the Auditor General (OAG) – Halifax Regional Municipality, I am pleased to provide our report of work completed by the Office for the period from the establishment of the OAG September 28, 2009 to March 31, 2011.

The normal practice will be to report on a yearly basis the activities and progress of the Office. This first report will include a longer than normal period of time as explained below. For the immediate future, reports will be prepared for the years ending March 31 as this follows the budget cycle of the Office of the Auditor General.

As was initially contemplated, the period from September 28, 2009 to March 31, 2010 was spent essentially in administrative matters and the development of the first work plan.

The period from April 1, 2010 to March 31, 2011 was spent on a number of additional start-up matters including:

- Integration of the first three professional staff into the office
- Ongoing development of the many professional standards needed to deliver the highest quality reports possible to the residents of Halifax Regional Municipality
- Further development of a professional working relationship with Management
- Further development of a professional working relationship with the Audit and Finance Committee of Regional Council
- Further development of a professional working relationship with elected officials, particularly the Mayor and Chair of the Audit and Finance Committee.

As contemplated in the HRM Charter, the role of the Auditor General includes a responsibility to assist Regional Council in holding itself and the Municipality's administrators accountable for the quality of stewardship over public funds and for the achievement of value for money.

The cornerstone of this work is that it must be completed in an independent, non-partisan manner.

To this end, during the period ending March 31, 2011, a number of projects commenced (and in many cases were completed) which were either planned, were outstanding from previous work undertaken by HRM or resulted from emerging issues which were identified.

As a result of the work completed to March 31, 2011, 98 recommendations have been provided to Management and we are very pleased to note the acceptance of all the recommendations.

Background and Role of the Auditor General

In 2008, the Nova Scotia Legislature amended the HRM Municipal Charter to add the requirement for Halifax Regional Council to appoint an Auditor General. HRM appointed its first Auditor General in September 2009.

Once the legislation was proclaimed in January 2009, Regional Council authorized the Audit Committee to recruit a suitable candidate for the Auditor General's position and report back to Council with a recommendation on an appointment. A recommendation was made to Regional Council on August 11, 2009. As a result, Larry E. Munroe, FCA was appointed as the inaugural Auditor General for Halifax Regional Municipality, taking office in September 2009.

The appointment of each Municipal Auditor General is for a seven-year term. During this time, the Auditor General will have the authority to examine accounts, procedures and programs of the Municipality, as well as any Municipal Board or Commission, or any person or agency receiving a grant from the Municipality. The role, description and authority of the Auditor General are found within the [HRM Charter](#), Sections 49 to 54.

The Auditor General's first responsibility is to the public. The Auditor General will provide assistance to Halifax Regional Council in holding itself and the Administration accountable for the sound administration of HRM's financial accounts and transactions and achieving value for money in the operation of the Municipality.

The mandate of the Municipal Auditor General can be found in the HRM Charter, Section 50 and includes (amongst other responsibilities) the following:

- The Auditor General shall examine, in the manner and to the extent the Auditor General considers necessary, the accounts, procedures and programs of the Municipality and any municipal body of the Municipality, as that term is defined in Section 461 of the *Municipal Government Act* or person or body corporate receiving a grant from the Municipality.

Reporting Requirements

Under Section 50(5)(6) and(7) of the Halifax Regional Municipality Charter, the Auditor General is required to report annually to Regional Council in a public meeting and “make recommendations, as appropriate, for improvements in the efficiency of the Municipality.” The Auditor General is also required to file an annual work plan of the projects planned, updating Council on any “substantial departure from the work plan,” as necessary. In addition to the May 2010 release of the Auditor General’s Annual Work Plan – 2010/2011 and the Semi-annual Report - Fall 2010, the Office of the Auditor General has (to March 31, 2011) released nine (9) reports of completed work, which have been published on the HRM website.¹

It should be noted, as outlined earlier in this section, the HRM Charter calls for the Auditor General to report annually in a public forum. The current Auditor General has chosen to fulfill this requirement by providing reports on an ongoing basis as they are completed. These reports are first made public at Audit and Finance Committee meetings and then published (often same day) on the OAG public website.

Audit and Finance Standing Committee:

As noted in the Auditor General’s document Semi-annual Report - Fall 2010, a communication protocol has been established between the Office of the Auditor General and the Audit and Finance Committee of Regional Council; regular updates are provided to the Committee on findings and recommendations as audit work is completed. The extension of this courtesy assists the Audit and Finance Committee in carrying out their duties and in further defining roles and responsibilities. In addition to this regular reporting courtesy, there may be occasions when extraordinary matters arise, requiring immediate consideration by members of the Audit and Finance Committee. In these cases, the Office of the Auditor General advises the Chair of the Audit and Finance Committee, and a special meeting may be called. During fiscal 2010/2011, two such meetings were held to discuss:

1. issues of overtime usage across the organization, and
2. possible inappropriate use of HRM funds to support concerts held on the North Common.

¹ <http://www.halifax.ca/auditorgeneral/reports.html>

Annual Work Plan

The Work Plan for 2010/2011 was developed and subsequently released in May 2010. The annual work plan is developed based on a risk-based assessment process coupled with staff experience, available skill sets and overall resources. In brief, based on a set of six “risk criteria”,² the risk assessment process analyzes the entire audit universe comprised of all services and programs offered by the Halifax Regional Municipality and its Agencies, Boards and Commissions as well as a multitude of possible projects identified by the Office of the Auditor General or brought to the attention of the Auditor General from a variety of sources. The likelihood of a significant risk or opportunity is considered based on prior work findings, current understanding of the activity and the opportunity for improvement in efficiencies, effectiveness and economies/finances.

Also, on a yearly basis, an attempt is made to identify a theme to guide the development of the draft plan and make the final determination of work to be undertaken. Given the economic and budgetary concerns which Halifax Regional Municipality is facing, priority was given within the inaugural Work Plan to Performance or Value for Money projects.

When the Work Plan 2010/2011 was first developed, the current Auditor General was aware the plan was ambitious and would not or could not be completed during the first year. A number of emerging issues including the start of the Review of Concerts on the North Common also by necessity became part of the 2010/2011 Work Plan. Therefore, with the projects contemplated in the 2010/2011 plan still very relevant and many having commenced as planned, the 2011/2012 plan became very much an extension of the 2010/2011 plan.

The process used to develop the work plan is reviewed on an annual basis to re-validate the risk analysis and/or assumptions used in the prior year’s plan. Audit findings arising from the completed work are considered in the development of the next year’s work plan. Once a hierarchy of projects has been established, resources are assigned and work commences.

A common theme arising from the 98 audit findings identified from the 2010/2011 work completed by the Office of the Auditor General centres around certain aspects of the current corporate culture.

² <http://www.halifax.ca/auditorgeneral/documents/DEVELOPMENTANDMANAGEMENTOFYEARLYWORKPLAN.pdf>

The top five issues identified through the 2010/2011 work of the OAG, in order of frequency, have direct impact on the performance outcomes desired by the HRM. It is to these broad areas the OAG began to focus resources to assist in the advancement of the efficient and effective use of HRM resources. They are as follows:

1. Utilization of electronic enterprise systems, specifically SAP but also includes a lack of tight integration between systems and business processes.
2. Record keeping and document management processes to efficiently and effectively support decision making.
3. Deployment of resources which may not result in the right people with the right qualifications doing the right things.
4. Clarity across business units about individual positional and general business unit roles and responsibilities in the delivery of corporate and/or business specific functions. (This can have an effect on accountability for actions or inaction and/or a lack of urgency.)
5. Expected outcomes from many programs and services.

Resource Allocation

As of March 31, 2011 the Office of the Auditor General was staffed as follows: the Auditor General, the Deputy Auditor General, the Administrative Officer, one Senior Associate, one Student Associate and one secondment. The OAG staff is a highly functioning, well educated, professional service team with degrees and designations extending from Business Administration and Commerce to Science and Accounting.

Hours worked by staff in the Office of the Auditor General are logged and coded to the various projects or assignments. The resulting time is used as a benchmark for assigning resources to future projects and to develop internal benchmarks around the efficiencies and effectiveness of the processes and standards currently in place. It allows the Auditor General to measure productivity and to put in place measurable key performance indicators for future work within the Office. Overall, for 2010/2011 staff chargeable time was generally allocated to the following categories:

- Value for Money Reviews: 36%
- Investigation Files: 17%
- Control Reviews: 5%
- Compliance Reviews: 19%
- Consulting and Advisory: 23%

Start-up and Standards Activities:

As noted previously, April 1, 2010 to March 31, 2011, was the first full year after the establishment of the Office of the Auditor General. Administrative activities associated with the start-up of the office and in support of various projects were significant but as expected. This included the setting of initial professional standards, communication protocols, physical set up of offices, staffing and the implementation of the Inaugural Work Plan.

Cooperative Student Training, Secondments and Outreach Programs:

The Office of the Auditor General supports employees in continuous learning and mentoring, and seeks out cooperative education opportunities in conjunction with local universities such as cooperative student study engagements. Included in the administrative category is time allocated in support of these activities. Additionally, secondments from various business units within the organization are utilized, providing the OAG needed resources with particular expertise. This also allows a knowledge transfer to take place between the OAG and the staff/business unit(s) involved.

The current Auditor General also supports the contribution of OAG staff towards speaking engagements and leadership roles in a number of professional and other organizations. Together, approximately 200 hours was spent on outreach activities.

Consulting and Advisory Role

While the mandate of the Auditor General is defined by legislation within the Halifax Regional Municipality Charter, the practical role of the AG and operation of the Office has been developed and clarified within the context of organizational need as well as the expertise and experiences of the current Auditor General. Activities carried out speak to oversight as opposed to operational involvement, advisory as opposed to decision-making and independence as opposed to being entrenched within the organization.

Resources from the Office of the Auditor General, particularly the Auditor General personally, are frequently called upon to assist the organization by providing an independent opinion or outlook in certain circumstances. The list of requests includes but is not limited to time required by the Auditor General on the CAO Review Committee, attendance at Regional Council, Audit and Finance Committee meetings, the Investment Committee and numerous meetings with Administration, councillors and business units directors.

Additionally, the staff resources of the Office of the Auditor General have been requested to provide advice and consultation to business units on varying issues. Requests have been received to provide oversight advice and direction in the area of conflict of interest and other areas falling under Administrative Orders 40 and 41, the Illegal and Irregular Conduct and Code of Conduct policies.

The Year in Review

The following are specific details around the various work projects undertaken by the Office of the Auditor General. During fiscal year 2010/2011, the Office of the Auditor General released nine reports³ which included performance and compliance audits as well as a number of audits based on emerging issues which came to light during the course of the year. In addition, there were seven active projects in various stages of completion.

Table 1: Summary of Projects Completed by the Office of Auditor General to March 31, 2011

| Report Title | Date | Synopsis | Recommendations |
|---|--------------|--|-----------------|
| Unsolicited E-mails | April 2010 | An internal complaint came to the former Business Process & Quality Assurance division regarding receipt of unsolicited e-mail. An HRM employee believed their HRM GroupWise e-mail address was provided to the sender without their knowledge and/or permission. An examination was undertaken to determine if inappropriate use of HRM resources (in contravention of Administrative Order 40) took place. | 1 |
| Theft of Coin, Tickets: Metro Transit | July 2010 | An anonymous tip regarding the possible theft of Metro Transit coin and used transit tickets led to a full investigation and referral to Police Services. | 4 |
| Theft of Coin: Parking Meters | July 2010 | Finance staff involved in day-to-day coin collection and maintenance of parking meters observed a decrease in the volume of coin in a particular collection area. The Office of the Auditor General, in cooperation with Finance, undertook an examination to gather information which was subsequently forwarded to Halifax Regional Police. | 2 |
| Purchase and Installation of Bus Wash: Metro Transit | October 2010 | A concern was raised suggesting the process to qualify a certain vendor's product was flawed, and HRM acquired additional product without following the established tendering process. | 8 |

³ Copies of the released reports can be found at www.halifax.ca/auditorgeneral/reports.html

| | | | |
|--|---------------|--|-----------|
| Transit Cash Collection and Processing: Fare Box Processing and Maintenance | October 2010 | The process surrounding the handling of fare boxes and their contents was examined after a complaint was received regarding a potential theft. The control environment and business processes were examined. | 29 |
| Automatic Forwarding of Email: Data Sovereignty | October 2010 | Analysis was completed on the risk(s) associated with the practice of GroupWise users re-routing email to various external service provider sites. The OAG looked at the frequency and location(s) the email(s) were sent, to determine the potential risk of non-compliance to a number of legislative and regulatory controls. | 1 |
| Corporate Overtime: Risk & Opportunity Phase I | November 2010 | A review was completed on the development and management of the overtime budget across HRM. | 14 |
| Compliance Review: Recreation Area Rates | January 2011 | The objectives of the review were to provide assurance current recreation area rate processes were being applied consistently and within policies, and that HRM Administration carried out its roles and responsibilities in the best interests of HRM. | 10 |
| Corporate Grants, Donations and Contributions | January 2011 | The project focus was aimed at increasing the transparency and efficiency of HRM's economic and community support measures by identifying the various access points for community organizations, businesses and individuals, to obtain monetary and non-monetary assistance from HRM. | 29 |
| Total Recommendations | | | 98 |

Actual and Potential Savings from Completed Work

As stated in the HRM Charter, Section 50(2), the mandate of the Auditor General includes determining:

- whether the rules and procedures applied are sufficient to ensure an effective control of sums received and expended, adequate safeguarding and control of public property and appropriate records management;
- if money authorized to be spent has been expended with due regard to economy and efficiency;
- if money has been spent with proper authorization and according to an appropriation;
- if applicable procedures and policies encourage efficient use of resources and discourage waste and inefficiency; and
- whether programs, operations and activities have been effective.

With this focus and using the chosen theme of Performance or Value for Money, the following table illustrates the potential savings either of a direct or indirect nature, or resulting from the lowering/removal of certain identified business risks from the operations of the Halifax Regional Municipality, arising from the completed work of the Office of the Auditor General to March 31, 2011.

| OAG Report | Financial Implications Identified | Risks Identified/Averted |
|---|------------------------------------|--|
| Unsolicited Emails | No direct savings | Practice detracts from the efficient and effective operations of HRM overall. Prevention, however, is not 100% possible. |
| Theft of Coin, Tickets: Metro Transit | Annual loss estimated at \$171,770 | Recommendations focused on detecting and preventing any additional future losses. |
| Theft of Coin: Parking Meters | Actual loss calculated \$3,928 | Recommendations focused on detecting and preventing any additional future losses. |
| Purchase and Installation of Bus Wash: Metro Transit | No direct savings | Recommendations focused on detecting and preventing non-compliance with policy, and avoidance of costs resulting from business risk. |

| | | |
|--|--|---|
| Transit Cash Collection & Processing: Fare Box Processing & Maintenance | No direct savings | Recommendations focused on detecting and preventing any future losses. |
| Automatic Forwarding of Email: Data Sovereignty | No direct savings | Recommendations focused on detecting and preventing possible legal liability and/or loss of public confidence. |
| Corporate Overtime: Risk and Opportunity Phase I | Reduce overtime by 10%, although budget adjustment made was approximately 20% or a likely savings of \$2,336,160 | Additional recommendations focused on improved management and use of overtime and staff resources. |
| Compliance Review: Recreation Area Rates | No direct savings | Recommendations focused on detecting and preventing non-compliance with policy, updating the policy and/or loss of public confidence. |
| Corporate Grants, Donations and Contributions | 15% reduction in grants resulting in a potential savings of \$662,457 | Additional recommendations focused on improved and new policies and management of programs, detection and prevention controls. |

TIPS Hotline – Taking Improvement & Performance Seriously

Prior to the formal establishment of the TIPS Hotline, launched in January 2011 to HRM staff, the Office of the Auditor General had begun to receive concerns and complaints from members of the public, as well as employees, of potential inefficiencies (waste) or fraud (potentially illegal/irregular behaviour) involving HRM resources. Each concern or complaint received by the OAG is evaluated by trained staff to determine the appropriate action to be taken. In some cases, the concern or complaint may be examined by the OAG or referred in a confidential manner to HRM Administration to carry out an examination into the concern. In all cases, the Office of the Auditor General maintains oversight for the disposition of the concern or complaint and reports to the public on the number, nature and outcome of the issues.

The annual report of the TIPS Hotline will be prepared on a calendar year basis and was presented separate and apart from this annual report; however, for the sake of completeness, it has been included with this report. [Click here](#) to read the TIPS Annual Report 2011.

Auditor General's Concluding Remarks

In looking back over the past year, a number of areas stand out. I am extremely pleased with the manner in which HRM, the business community and the general public have responded to the Office of the Auditor General. HRM Administration has adapted well to the Office of the Auditor General and provided timely and respectful responses to requests for information and assistance.

I wish to sincerely acknowledge the tremendous efforts of the staff of the OAG. The year for which this report is written was one of immense change and organization. The willingness to learn and the commitment to excellence exhibited by each and every member of the OAG staff cannot be emphasized enough.

I would also like to acknowledge the high level of cooperation and courtesy we received from the entire organization during the course of our work. We were always provided with access to requested information and every effort was always made to accommodate our deadlines. We are grateful for this support and encouragement of our mandate.

Larry E. Munroe, FCA
Auditor General
Halifax Regional Municipality