



***Office of the Auditor General
Halifax Regional Municipality***

***Annual Report
Period Ended March 31, 2012***

TABLE OF CONTENTS

Vision, Mission, Values 3

Introduction..... 4

Role of the Auditor General..... 5

Reporting Requirements 6

Theme of 2011/2012 Projects..... 7

Review of Concerts on the North Common.....10

Allocation of Resources.....12

Consulting and Advisory Activities.....13

T.I.P.S. Hotline - Online.....14

Conclusion.. 15

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| <i>Our Vision</i> | To be a highly relevant, valued and credible organization, known for its independence and high standard of professional excellence. |
| <i>Our Mission</i> | To make a significant contribution to the enhancement of HRM's performance, governance and accountability in a transparent and objective manner. |
| <i>Our Values</i> | <p>Performance – we continue to raise our standards for efficient and effective delivery of our services. Our work must be relevant to elected officials, HRM Management and the public.</p> <p>Credibility – we value and take responsibility for our reputation. We are accountable for our actions.</p> <p>Neutrality – we are independent, objective and impartial.</p> <p>Trust – we earn it with everything we do and say.</p> <p>Teamwork – we work together with respect and integrity to generate better solutions.</p> <p>Professionalism – we strive for the highest standards in professional conduct and development.</p> |

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 year April 1, 2011 to March 31, 2012.

This period continued to see the resources of the OAG directed towards and supporting the following objectives:

- Ongoing development of professional standards to deliver the highest quality reports possible to the residents of Halifax Regional Municipality
- Continued website development and timely publishing of our completed reports
- T.I.P.S. Online Submission Form: providing an additional confidential method of contacting the OAG with concerns around the resources of Halifax Regional Municipality
- Advisory activities engaged in by the Auditor General as well as staff members of the Office.

The role of the Auditor General, as defined in the Halifax Regional Charter, Sections 49-54, 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 the work of the Office of the Auditor General is that it must be completed in an independent, objective and non-partisan manner.

As a result of the work completed to March 31, 2012, a further 164 recommendations have been provided to Management bringing the total to 262 recommendations made since the inception of the Office in 2009 and the commencement of projects on April 1, 2010. We are again pleased to note Management's acceptance of all 164 new recommendations from the 2011/2012 completed reviews.

Role of the Auditor General

The Auditor General's first responsibility is to the public. The Auditor General provides 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 full description of the role, mandate and authority of the Municipal Auditor General is found within the [HRM Charter](#), Sections 49 to 54 which include (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 Regional Council on any “substantial departure from the work plan,” as necessary. The Office of the Auditor General has - to March 31, 2012 - released 16 reports of completed work, in addition to our “Annual Report Period Ended March 31, 2011”, all of which have been published on the OAG public webpage at www.halifax.ca/auditorgeneral.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 (on the same day) on our webpage.

Audit and Finance Standing Committee

The OAG continues to enjoy a communication protocol 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 its duties and in further defining roles and responsibilities. In addition to this regular reporting courtesy, should extraordinary matters arise, requiring immediate consideration by members of the Audit and Finance Committee, the Office of the Auditor General advises the Chair of the Audit and Finance Committee, and a special meeting may be called.

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

**Work Plan/Theme
of 2011/2012 Projects**

The table on the following pages shows specific details around the various projects undertaken by the Office of the Auditor General for the year April 1, 2011 to March 31, 2012. During fiscal year 2011/2012, the Office of the Auditor General released six (6) reports which included performance, investigation and compliance audits as well as audits based on emerging issues involving internal controls and opportunities. The first Annual Report for the T.I.P.S. - Taking Improvement and Performance Seriously - Hotline was also completed and published. In addition, there were five (5) active projects in various stages of completion at the time of this annual report.

**Table 1 Summary of Projects Completed by the Office of the Auditor General
for the year April 1, 2011 to March 31, 2012**

| Report Title | Release Date | Synopsis | Recommendations |
|---|--------------|--|-----------------|
| A Review of Concerts Held on the North Common January 2006-March 2011 | June 2011 | The project considered, to the extent possible and practical, the entire history of the involvement of Halifax Regional Municipality in the development and delivery of concerts held on the North Common since 2006, up to and including the particulars of the most recent concerts held in 2010, which resulted in the now widely known unbudgeted liability. | 52 |
| District Activity and District Capital Funds Compliance Review | August 2011 | The review performed on the District Capital and District Activity Funds evaluated processes and controls against the policies of the District Capital and District Activity Funds. | 15 |
| Wireless Communications Review | August 2011 | The focus of the project was to evaluate current policies around the deployment of wireless devices and the consumption of wireless services throughout HRM line departments and those agencies, boards and commissions using the HRM wireless contract. | 26 |

| Report Title | Release Date | Synopsis | Recommendations |
|---|---------------|---|------------------|
| Review: Request for Proposal (RFP) Process - Procurement | January 2012 | Working with HRM Finance (Procurement), the project was aimed at determining the cause, if any, of inefficiencies or uneconomical practices occurring during the Request for Proposal process and whether HRM has complied with all applicable acts, regulations and policies. | 19 |
| TIPS Hotline Annual Report for 2011 | January 2012 | During its first full year of operation, the T.I.P.S. Hotline received 71 contacts related to a variety of concerns, potentially involving HRM business units as well as a number of agencies, boards and commissions (ABCs). | Information Only |
| Review of Benefits Budgeting & Overtime Drivers in HRM | February 2012 | Compensation-related expenditures make up a large portion of the HRM operating budget and the Municipality has paid specific attention to ensuring only approved positions are funded. The findings of this report indicated, in the case of budgeting for benefits associated with position salaries, incomplete information was used in the estimates. This resulted in the consistent under-budgeting of benefit expenditures accounts reviewed within the scope of this report. | 19 |
| Review of HRM's Contribution to the Halifax Seaport Farmers' Market through the Community Facility Partnership Fund | February 2012 | The Office of the Auditor General undertook this performance review in order to understand the process used by HRM Administration in evaluating: the proposal, the intended benefits HRM expected to realize from the \$1,000,000 contribution, and, if these benefits have indeed been realized. | 33 |

| Report Title | Release Date | Synopsis | Recommendations |
|--|--------------|---|------------------|
| Annual Report for Period Ending March 31, 2011 | March 2012 | ...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 (on the same day) on the OAG public website. The Annual Report as well as all published reports can be found at www.halifax.ca/auditorgeneral . | Information Only |
| | | Total Recommendations | 164 |

***A Review of Concerts
Held on the North
Common January 2006 –
March 2011***

In the closing hours of fiscal 2010/2011, an issue emerged which would eventually involve senior levels of HRM Administration and require the resources of the entire OAG staff for an intense 8-week period of review. In early March, 2011 “the then Director of Finance reported to the Auditor General she had been advised by the then Acting Chief Administrative Officer (Acting CAO) he had taken actions which may have exceeded his authority and likely exposed the Municipality to financial risk resulting in an unbudgeted liability of \$359,550.”²

As a result of numerous interviews, extensive research, analysis and clarification, the Office of the Auditor General released its findings and recommendations. We are pleased to report all 52 recommendations were accepted by HRM Administration. It is impossible to summarize a 96-page report in this space, but the general theme of our findings is described in the following excerpt:

When projects of this type are undertaken, most would think the conclusion would be the situation occurred as the result of a series of complex, interdependent events, which were well thought out so as to circumvent control systems in place. What the OAG quickly came to understand is, by all measures, quite likely the opposite had occurred. What took place was not difficult to accomplish, was not a series of complex transactions and, for the most part, was not hidden.

What became complex however, was attempting to explain why the events took place and why rational and responsible individuals acted in what might be described as a cavalier manner. It also became obvious the DCAO (Acting CAO) could not have caused the advances and other matters to take place on his own. It is our view, others needed to be willingly involved (but not necessarily in a malicious or illegal way) for events to have unfolded as they did.

It is important to understand, the work of the OAG often involves making suggestions as to systems which do not exist or are failing. In these cases, recommendations often centre on the development or improvement of appropriate controls (systems). However, it is interesting to note this was not entirely

² <http://www.halifax.ca/auditorgeneral/documents/WebOKReviewConcertsonNorthCommonJune11.pdf>

the situation in this case. HRM has many well-defined and functional systems of controls in place which, had they been followed, would have mitigated or prevented this situation from occurring.

The OAG also concluded a number of individuals with senior roles in their organizations operated outside of their roles or the systems in which they would normally be expected to participate as one of the controls. Therefore, the focus of our recommendations became more of an attempt to move organizations and their management to an improved tone from the top and a culture of complete adherence to regulations, policies and procedures.³

The Review of Concerts Held on the North Common January 2006 – March 2011 was published on our webpage in June 2011. The full report is available at www.halifax.ca/auditorgeneral.

³ www.halifax.ca/auditorgeneral/documents/WebOKReviewConcertsonNorthCommonJune11.pdf pp. 5,6

Allocation of Resources

As of March 31, 2012 the Office of the Auditor General was staffed as follows: the Auditor General, Deputy Auditor General, Administrative Officer, two Senior Associates and one Student Associate. The staff of the OAG continues to function at a high level as a well-educated, professional service team with degrees and designations extending from Business Administration and Commerce to Science and Accounting. All project work conducted by the Office of the Auditor General is in accordance with generally accepted government auditing standards to which the OAG has aligned team values of neutrality/independence, credibility, performance and professionalism.

Hours worked by staff in the Office of the Auditor General are logged and coded to the various projects or assignments. The recorded 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.

Productivity is measured and the Auditor General is afforded the opportunity to put in place measurable key performance indicators for future work within the Office. Overall, for 2011/2012, staff chargeable time was generally allocated to the following categories:

| | |
|---------------------------|-----|
| ➤ Value for Money Reviews | 52% |
| ➤ Investigation Files | 33% |
| ➤ Control Reviews | 8% |
| ➤ Compliance Reviews | 5% |
| ➤ Consulting and Advisory | 2% |

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. Additionally, secondments from various business units within the organization may be utilized, providing the OAG needed resources with particular expertise. This also affords 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 were spent on outreach activities.

Consulting and Advisory Activities

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 needs as well as the expertise and experiences of the current Auditor General. Activities carried out by the staff of the OAG support oversight as opposed to operational involvement, advisory capacity as opposed to decision-making and independence of mandate and function 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 recent requests includes, but is not limited to, time required by the Auditor General on the CAO Review Committee, Director of Finance Search 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 a variety of issues including oversight advice and direction in the area of conflict of interest and other matters falling under Administrative Orders 40 and 41, the Illegal and Irregular Conduct and Code of Conduct policies. Additional requests for advice have focussed on clarification of the role and mandate of the Office of the Auditor General, matters relating to internal controls, interpretation of standards, et cetera.

T.I.P.S. Hotline: Taking Improvement and Performance Seriously

Continuing our commitment to support the highest level of integrity of HRM's employees and value for the taxpayers' money, the Office of the Auditor General (OAG) launched our T.I.P.S. Hotline - Online. The T.I.P.S. Hotline - Online is used by HRM staff as well as members of the public and is located on our webpage at www.halifax.ca/auditorgeneral.

The online submission feature forms the second step in our T.I.P.S. (Taking Improvement and Performance Seriously) initiative. It follows the T.I.P.S. Hotline (490-1144), launched to HRM staff in 2011. As with the telephone initiative, all submissions are held in strict confidence and are not be shared in any way.

The T.I.P.S. Hotline - Online augments other reporting services for the organization. The OAG captures and evaluates concerns or complaints of potential inefficiencies (waste) or fraud (potentially illegal/irregular behaviour) involving HRM resources.

**Auditor General's
Concluding Remarks**

I wish to again sincerely acknowledge the tremendous efforts of the staff of the Office of the Auditor General. The past year has, once again, been one of enormous growth and development.

I must say, it is with great pride I was able to deliver to Regional Council and the HRM taxpayers the completed Review of Concerts Held on the North Common report, in June, 2011. Each and every member of the OAG team contributed significantly to the research, writing and release of the report.

The staff of the OAG worked a significant number of hours at a very high level on behalf of HRM to produce this report which it was hoped all would find balanced in approach, but most importantly would contain recommendations for change which could be implemented. We are very pleased with Management's response to the report and their commitment to change, which has been demonstrated in the follow-up and implementation of the recommendations.

I would again wish to acknowledge the high level of cooperation and respect received from the entire organization under the leadership of Chief Administrative Officer Richard Butts. I would also like to acknowledge the support of all members of the Audit and Finance Committee under the past and current Chairs, Councillor Gloria McCluskey and Councillor Russell Walker, respectively. We continue to be grateful for the support and assistance from both groups in carrying out our mandate.

Larry E. Munroe, FCA
Auditor General
Halifax Regional Municipality