

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF SEPTEMBER 16, 2015

Item 3, Report No. 11, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on September 16, 2015.

3 INTERNAL AUDIT REPORT – ANONYMOUS REPORTING SYSTEM ANNUAL REPORT

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the Director of Internal Audit, dated September 8, 2015, be approved; and
- 2) That the presentation by the Audit Project Manager and C4, presentation material titled “*Anonymous Reporting System – Annual Report*”, dated September 8, 2015, be received.

Recommendation

The Director of Internal Audit recommends:

1. That the Internal Audit Report on the Anonymous Reporting System Annual Report be received.

Contribution to Sustainability

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the effective delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

Economic Impact

There are no direct economic impacts associated with this report.

Communications Plan

Not applicable.

Purpose

To present to the Finance, Administration and Audit Committee the Internal Audit Report on the Anonymous Reporting System Annual Report.

Background - Analysis and Options

On November 13, 2013 at the Finance, Administration and Audit Committee meeting Internal Audit recommended that the City of Vaughan implement an anonymous reporting system. It was further recommended that implementation initially be set up as a two year pilot and be only available for staff use.

The recommendation was passed and the Anonymous Reporting System was implemented on April 15, 2014.

The System’s service provider, NAVEX, maintains a Global Database of performance metrics based on all the clients they serve. NAVEX issues an annual report that reviews all industry benchmarks using data from all its 4,600 participating companies.

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The purpose of this report is to summarize the main themes being reported by staff and to benchmark our performance using our service provider's Global Database.

Relationship to Vaughan Vision 2020/Strategic Plan

This report supports the strategic goal of management excellence through financial stability and effective governance.

Regional Implications

Not applicable.

Conclusion

In the first year of operation, the System received 22 cases or reports from staff. Seventy-seven percent of the reports were related to Human Resources or corporate asset misuse, typically covering issues such as hiring practices and time abuse.

Not all reports could be substantiated; in some cases, information provided by the reporter was incomplete or additional information requested by Internal Audit was not forthcoming. This is not unusual given that the System is new and overall familiarity with using it will take time.

Internal Audit firmly believes the System will better support good governance and accountability once stronger familiarity and trust in the System is established.

Attachment

1. Internal Audit Report – Anonymous Reporting System Annual Report

Report prepared by:

Paul Wallis CPA, CMA CIA CISA CRMA
Director, Internal Audit

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

INTERNAL AUDIT REPORT – ANONYMOUS REPORTING SYSTEM ANNUAL REPORT

Recommendation

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Paul Wallis CPA,CMA CIA CISA CRMA
Director, Internal Audit

Respectfully submitted,

Paul Wallis CPA,CMA CIA CISA CRMA
Director, Internal Audit



INTERNAL AUDIT REPORT

Anonymous Reporting System - Annual Report

May 2015

INTERNAL AUDIT REPORT

ANONYMOUS REPORTING SYSTEM - ANNUAL REPORT

BACKGROUND AND PURPOSE

On November 13, 2013 at the Finance, Administration and Audit Committee meeting Internal Audit recommended that the City of Vaughan implement an anonymous reporting system with the following attributes:

1. That the intake of employee concerns be done by a third party independent of the City of Vaughan. This will allow for access flexibility, confidentiality and a lower implementation and operating cost.
2. That the service, initially, be offered only to Vaughan staff. Use of the anonymous reporting line can be expanded to vendors and the public later depending on initial success with staff and the value to the City.
3. Internal Audit is assigned the responsibility for co-ordinating intake from the third party supplier and directing issues to the responsible department.
4. Internal Audit, in consultation with each Commission, identify a person that is responsible for making sure that potential issues are investigated within an organizational established timeframe.
5. Internal Audit report annually, to the Finance, Administration and Audit Committee and City management, the overall performance of the anonymous reporting mechanism. This will include a summary of the issues raised, the underlying themes or trends and compliance with reporting line performance measures, sustainability and possible expansion of the reporting system.
6. Implementation is a two year pilot and continuation is based on staff use and value to the City.

The recommendation was passed and the Anonymous Reporting System was implemented on April 15, 2014.

Our service provider, NAVEX, maintains a Global Database of performance metrics based on all the clients they serve. NAVEX issues an annual report that reviews all industry benchmarks using data from all of its 4,600 participating clients.

The purpose of our report is to summarize the main themes being reported by staff and to benchmark our performance using our service provider's Global Database.

Our report covers a one year cycle from April 2014 to the end of March 2015.

SUMMARY

Use of the Anonymous Reporting System has been slow to evolve. This is not unusual given that the system is new and having trust in it will take time. However, we still believe that the system will help contribute to good governance and will serve a long term benefit to the City.

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ANONYMOUS REPORTING SYSTEM - ANNUAL REPORT

In the first year reporting cycle, the system received 22 reports from staff.

Staff reporting covered the following areas:

- Ten cases (or 45 percent) related to human resources issues such as hiring irregularities, discrimination, harassment and favouritism.
- Seven cases (or 32 percent) related to the misuse or misappropriation of corporate assets including theft and time abuse.
- Four cases (or 18 percent) related to business integrity which included conflict of interest and vendor/customer issues.
- One case (or 5 percent) related to environmental, health and safety.

Based on benchmark information, human resources related issues are the most commonly reported cases for anonymous reporting systems.

Three general themes emerged from the reports:

1. Issues around hiring practices and the way competitions are conducted.
2. Concerns around timekeeping and staff working required hours.
3. Issues around vendor relations and other conflict of interest situations.

Of the 22 cases, six (or 27 percent) could be substantiated. The overall benchmark information is a 40 percent substantiation rate. Our low substantiation rate is most likely a result of the system being new. A high substantiation rate is reflective of well-informed staff making high-quality reports coupled with a mature investigation process. Improvement should be expected as the system matures. Most action taken as a result of a substantiated report was either a policy or process review or change.

For reports that could not be substantiated, the cause was usually attributed to incomplete or insufficient information provided by the reporter. In these cases further information was requested by Internal Audit but not received. As a result, these cases were subsequently closed.

Even though the substantiation rate was low, an audit of hiring practices was scheduled and an audit of timekeeping is planned for later in the year as a result of reports from the system.

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Case closure time is the average number of days it takes to complete an investigation and close a case. For the 17 closed cases in the current reporting period, the average was 68 days.

The benchmark case closure time was 39 days. When the system was first introduced, we had set a target of 30 days. Cases were kept open longer to give reporters more opportunity to provide more information needed to proceed with a case. Generally reporters did not get back to us and the cases were closed. The range of the days for the closed cases varied from a low of 8 days to a high of 161 days.

Four measurement criteria were used to compare the City of Vaughan to the Global Database.

They include:

- Report Volume per 100 Employees
- Report Allegation Categories
- Substantiation Rates
- Case Closure Time

Further details on how the City of Vaughan's Anonymous Reporting System compared to the Global Database are in the attached Appendix.

Author and Director: Paul Wallis CPA, CMA CIA CISA CRMA

APPENDIX

City of Vaughan/Global Database Comparison

1. Report Volumes

Report volume per 100 employees is a measurement that enables the City to compare the total number of reporters to that of the global database.

Comparator [2014]	Median Yearly Report Volume
Global Database [4600 Clients]	17
City of Vaughan	22

For 2014, based on the Global Database the median number of reports per 100 employees was 1.3. Based on this statistic and the number of employees in the City of Vaughan [approximately 1300], the global median is 16.9 or 17 reports per year.

For the City of Vaughan the number of reports for the current reporting year was 22.

Given the maturity of our system, our report volume compares very favourably to the Global Database median. This is a good indicator that the system is being accepted and integrated into the City's overall governance framework.

2. Report Allegation Categories

Allegation reporting helps identify themes and trends. In addition, comparing our results to those of the Global Database helps determine if we have any different themes that might point to specific issues. The following categories are used.

- Accounting, Auditing and Financial Reporting
- Business Integrity
- Human Resources, Diversity and Workplace Respect
- Environment, Health and Safety
- Misuse, Misappropriation of Corporate Assets

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The table below illustrates the City's category results compared to those of the Global Database.

Allegation Category	City of Vaughan [Number]	City of Vaughan [Percentage]	Global Database [Percentage 2014]
Accounting, Auditing and Financial Reporting [Financial Misconduct, Expense Reporting]	0	N/A	2%
Business Integrity [Fraud, Conflict of Interest, Vendor Relations]	4	18%	17%
Human Resources, Diversity and Workplace Respect [Discrimination, Harassment and General HR Issues]	10	45%	69%
Environmental, Health and Safety	1	5%	6%
Misuse, Misappropriation of Funds [Employee Theft, Time Abuse]	7	32%	6%

Although Human Resource issues ranked first for the number of cases, it was significantly lower than the global comparisons. However, the percentage of misappropriation issues was significantly higher. This is due to the number of reports concerning potential time abuse. No direct time abuse allegations could be directly substantiated although further oversight in some areas was undertaken.

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ANONYMOUS REPORTING SYSTEM - ANNUAL REPORT

3. Substantiation Rates

Substantiation Rate is a measurement that reflects the rate of allegations made which could be determined to have at least some merit. At the City, initially all allegations are considered to have merit until they have been concluded. During the investigation process some information may be missing or some questions may not be responded to. This will shift the allegation to be unsubstantiated. In addition, if the final conclusion does not support the allegation, then the case is considered unsubstantiated.

Comparator [2014]	Substantiation Rate [Percentage]
Global Database [4600 Clients]	40%
City of Vaughan	27%

The City has a lower substantiation rate but this is not unexpected given that the system is in its first year.

A high substantiation rate is reflective of a more mature system with well-informed staff reporting high-quality cases coupled with an effective investigation process. This will evolve as education and awareness is further built among City staff.

4. Case Closure Time

Case closure time is the average number days it takes the City to complete an investigation and close a case. Staff trust is increased when cases are investigated and quickly closed. It shows that concerns are being taken seriously. If months go by without a case being resolved, many reporters will conclude the City is not interested and not taking action. This erodes the system's effectiveness.

Comparator [2014]	Case Closure Median [Days]
Global Database [4600 Clients]	39
City of Vaughan	68

INTERNAL AUDIT REPORT

ANONYMOUS REPORTING SYSTEM - ANNUAL REPORT

This is the metric that needs the most improvement. In the first year, cases were kept open longer to give reporters more time to respond to questions or supply more information. The system uses a unique identifier so that confidentiality can be maintained throughout the investigation process. If that identifier is lost or not recorded by the reporter, follow-up is impossible. This may have happened in some of the cases where further information was requested but not received.

Increased awareness and further education will be provided to help communicate the need to record and maintain identifiers.