

CITY OF VAUGHAN

**EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 19, 2013**

Item 1, Report No. 13, of the Finance and Administration Committee, which was adopted, as amended, by the Council of the City of Vaughan on November 19, 2013, as follows:

***By approving the following:***

***That the Information Technology and Legal Departments obtain assurances from the third party supplier that the City will own the data and that the City will be in compliance with Canadian privacy requirements; and***

***That Communication C6 from the Director of Internal Audit, dated November 14, 2013, be received.***

**1                    INTERNAL AUDIT REPORT – ANONYMOUS REPORTING SYSTEM**

The Finance and Administration Committee recommends:

- 1) That the recommendation contained in the following report of the Director of Internal Audit, dated November 4, 2013, be approved, subject to amending recommendation 6 to read as follows:
  6. The System is implemented as a two year pilot with consideration to include the public after one year and that continuation is based on staff use and value to the City;
- 2) That staff review the comments made by members of Committee regarding reporting enhancements and report back to Council; and
- 3) That the presentation by the Director of Internal Audit entitled “*Anonymous Reporting System*”, dated November 4, 2013, be received.

**Recommendation**

The Director of Internal Audit recommends that;

1. The City of Vaughan implements an anonymous reporting system where the intake of employee concerns is 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. The service, initially, be only offered 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 responsible 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 is responsible for reporting annually, to the Finance and Administration 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 and sustainability and possible expansion of the reporting system.
6. The System is implemented as a two year pilot and that continuation is based on staff use and value to the City.

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 19, 2013**

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#### **Contribution to Sustainability**

Internal Audit activities and subsequent 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. An anonymous reporting system supports good governance and control by providing proactive information that can help the City better manage risk and identify emerging issues.

#### **Economic Impact**

Initial direct implementation and operating costs can be absorbed within the existing Internal Audit budget. The longer range economic impact is the possibility of reducing financial losses by identifying issues and initiating corrective action earlier.

#### **Communications Plan**

A communication strategy will be provided that includes key messaging on how the system is to be used, contact information, follow-up protocol, expected turnaround time and education. The communication strategy will be developed and initiated prior to system implementation.

#### **Purpose**

To present to the Finance and Administration Committee the Internal Audit Report on the Anonymous Reporting System and to recommend an approach for anonymous reporting and outline the steps and processes needed to support successful implementation.

#### **Background - Analysis and Options**

There are a variety of underlying principles that support good governance and control within an organization. One such principle is a strong Code of Conduct/Ethics program. The Governance and Accountability review, presented to the Finance and Administration Committee in June, 2013, indicated that staff had a good awareness of the City's Code of Conduct. However, they also indicated that they were less likely to communicate bad news or code of conduct issues because the current level of organizational trust did not allow for the open flow of information. In addition, there was the fear that reporting issues could result in negative reprisals.

An Anonymous Reporting System is one option available for staff to communicate sensitive issues. Not only does this system help support a Code of Conduct/Ethics program, but it also creates a proactive approach benefiting both the City and citizens.

#### **Relationship to Vaughan Vision 2020/Strategic Plan**

This report is consistent with the priorities previously set by Council and supports the strategic goal of organizational excellence. An effective anonymous reporting system supports a strong code of conduct program which, in turn, helps drive continuous improvement and financial/organizational sustainability.

#### **Regional Implications**

Not applicable.

#### **Conclusion**

The option for staff to report potential code of conduct/ethics issues without fear of reprisal is an emerging trend in a number of organizations. Employees tend to prefer the anonymous reporting option because they can feel more comfortable and confident that the communication cannot be

**CITY OF VAUGHAN**

**EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 19, 2013**

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traced back to them. Not all reporters, however, choose to remain anonymous. Some may choose to use a reporting system because they may not feel a face to face approach works for them. In any case, an anonymous reporting system provides multiple option for staff and can help further support good governance and accountability for the City

**Attachment**

Internal Audit Report – Anonymous Reporting System

**Report prepared by:**

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

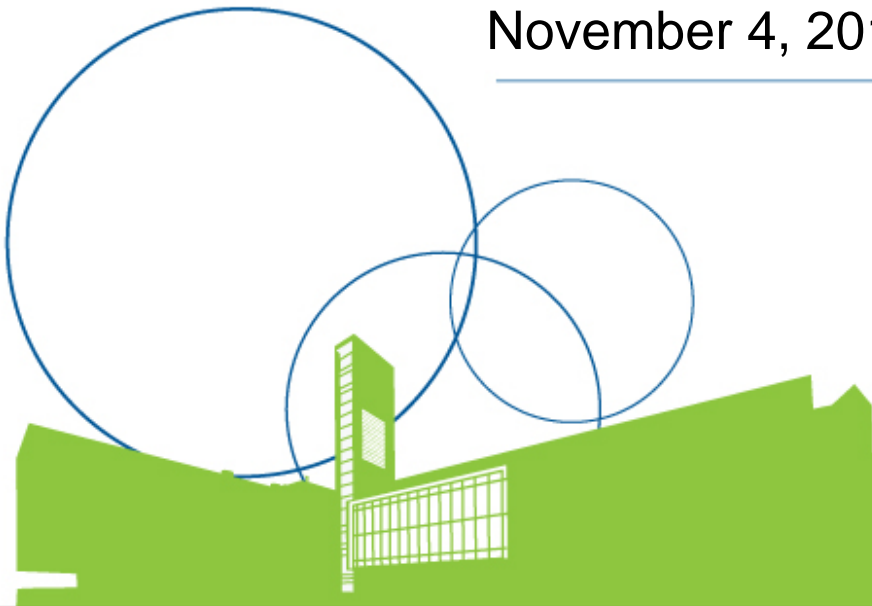
(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

# Anonymous Reporting System

Finance and Administration Committee

November 4, 2013

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# Agenda

- |  |  |
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| <ul style="list-style-type: none"><li>• Background - Governance and Accountability Survey</li><li>• Recommendation</li><li>• Why Anonymous Reporting</li><li>• Risks</li></ul> | <ul style="list-style-type: none"><li>• Jurisdictional Analysis</li><li>• Anonymous Reporting Options</li><li>• Implementation Cost Analysis</li><li>• Key Implementation Issues</li></ul> |
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# Governance and Accountability - Revisited

**Internal Audit recommended that a mechanism be identified that could (if desired) report Code of Conduct/Ethics violations or any other action that could be perceived as doing the City harm.**

- Staffing and Operating in-house system (independent function)
- Expanding role of existing department
- “Ethics Officer” Model
- Co-Sourcing Model



# Recommendation

## City of Vaughan Implement an Anonymous Reporting System

- Outsourced Intake
- Vaughan Staff Only – Option Later to Expand
- Internal Audit [Co-ordination and Reporting]
- Responsible Staff for Investigating Potential Issues
- Two Year Pilot



# Why?? – Vaughan Perspective

- Governance and Accountability Review/Survey
  - Limited Avenues to Report Potential Issues
  - Fear of Reprisal
  - Absence of Trust
- Provides an Option – Doesn't have to be Anonymous
- Further Supports Good Governance by Existing Strengthen Ethics/Code of Conduct Framework





# Why?? – Global Perspective

- More Effective at Detection (Proactive)
- Scalable
- Cost Effective – Can Pay for Itself Almost Immediately
- Efficient
- Empowers Workforce to Address Risk



# Why?? - Statistics

- Code of Conduct/Ethics Violations – Witnessed by 56% of Employees Surveyed Across All Industries
- With a Comprehensive Ethics Program – Including Anonymous Reporting Option - 71% Report Misconduct
- Without a Program – 39% Report Rate

Source: Ethics Resource Centre and Best Practices in Ethics Hotlines – The Network



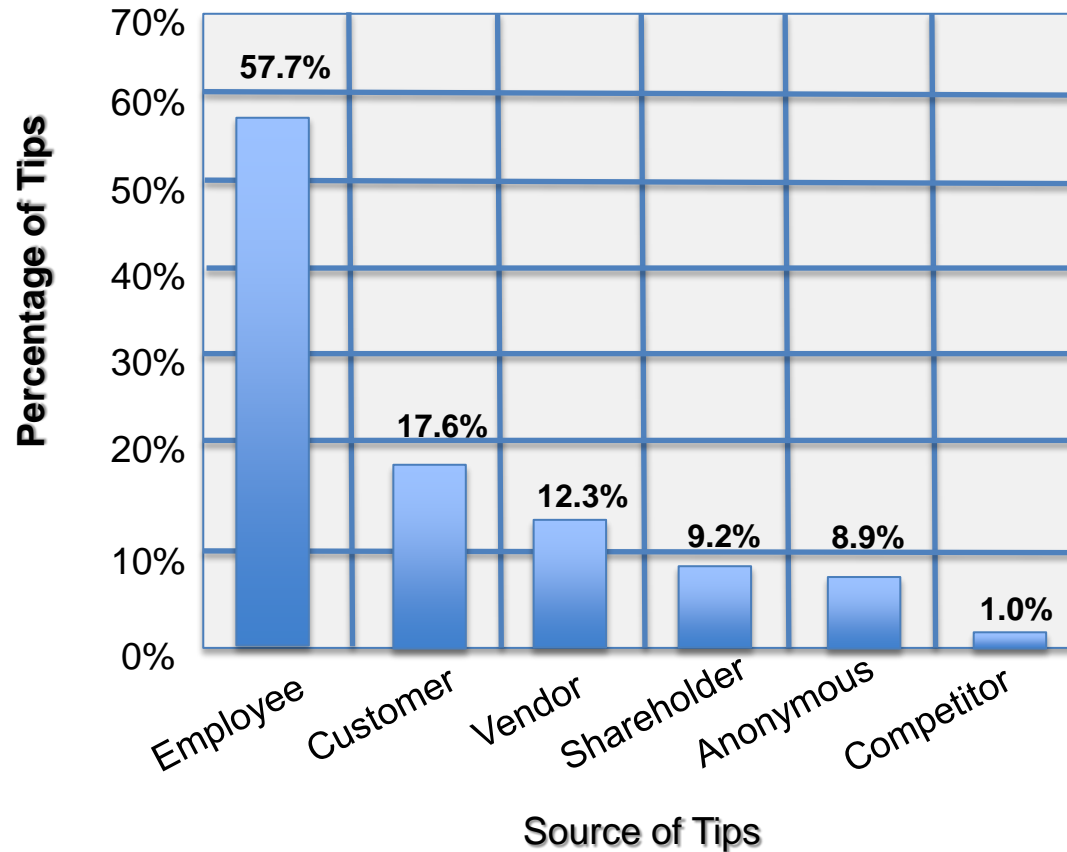
# Reporting Preferences

- Anonymous Availability does not Mean Anonymous Preference
  - If Available – 80% Willing to Report – 39% **More** Likely if they could Remain Anonymous
- Employees Willing to Report have the Following Preference
  - Anonymous “Hotline” [Telephony] – 57%
  - Anonymous Letter – 20%
  - Anonymous Website – 16%

Source - Ernst and Young



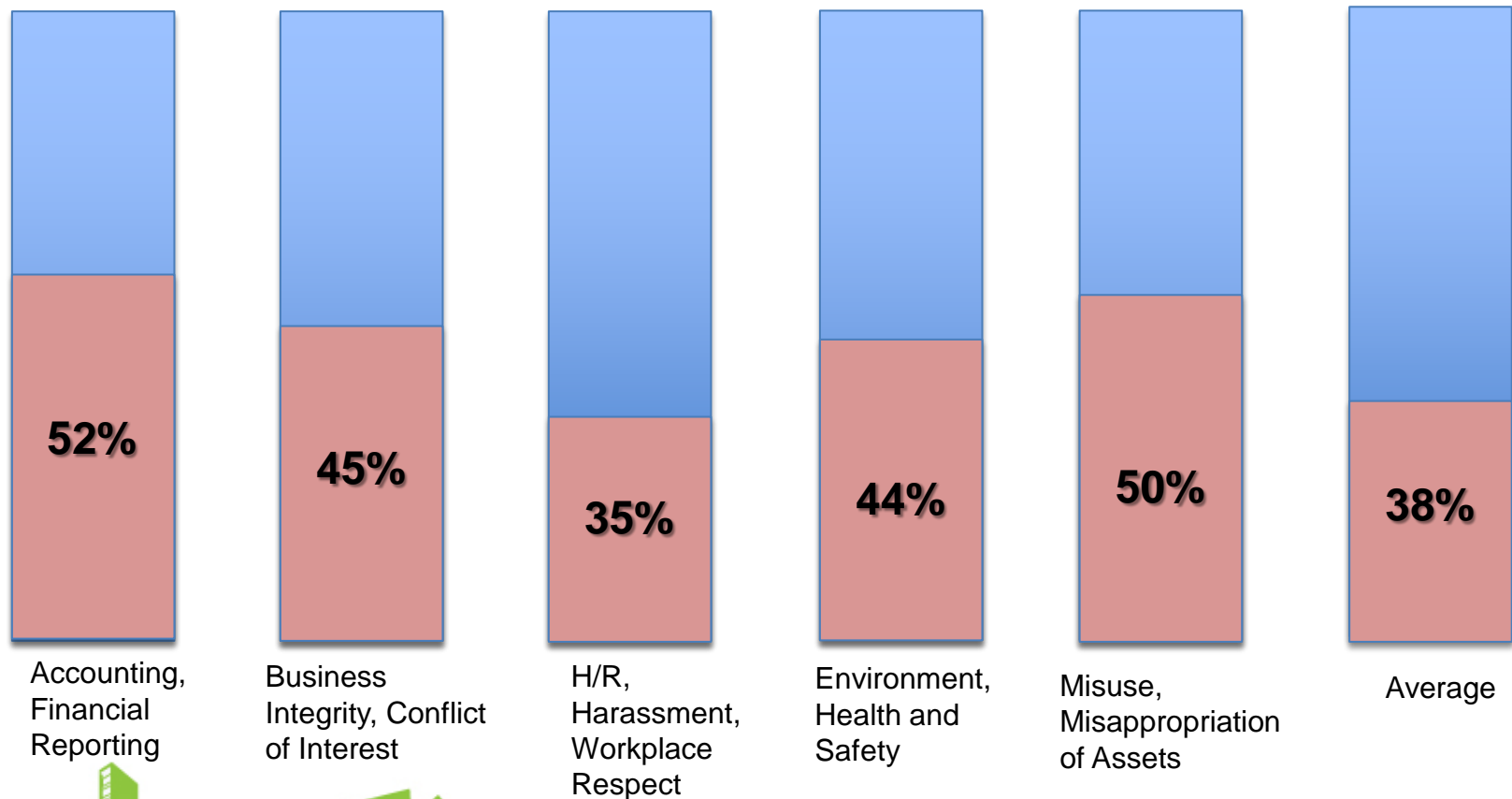
# Ethics Tips by Source



Source: Association of Certified Fraud Examiners, Report to Nations

# Value – Substantiation Rates

[Rate of Allegation Having Some Merit – Higher is Better]



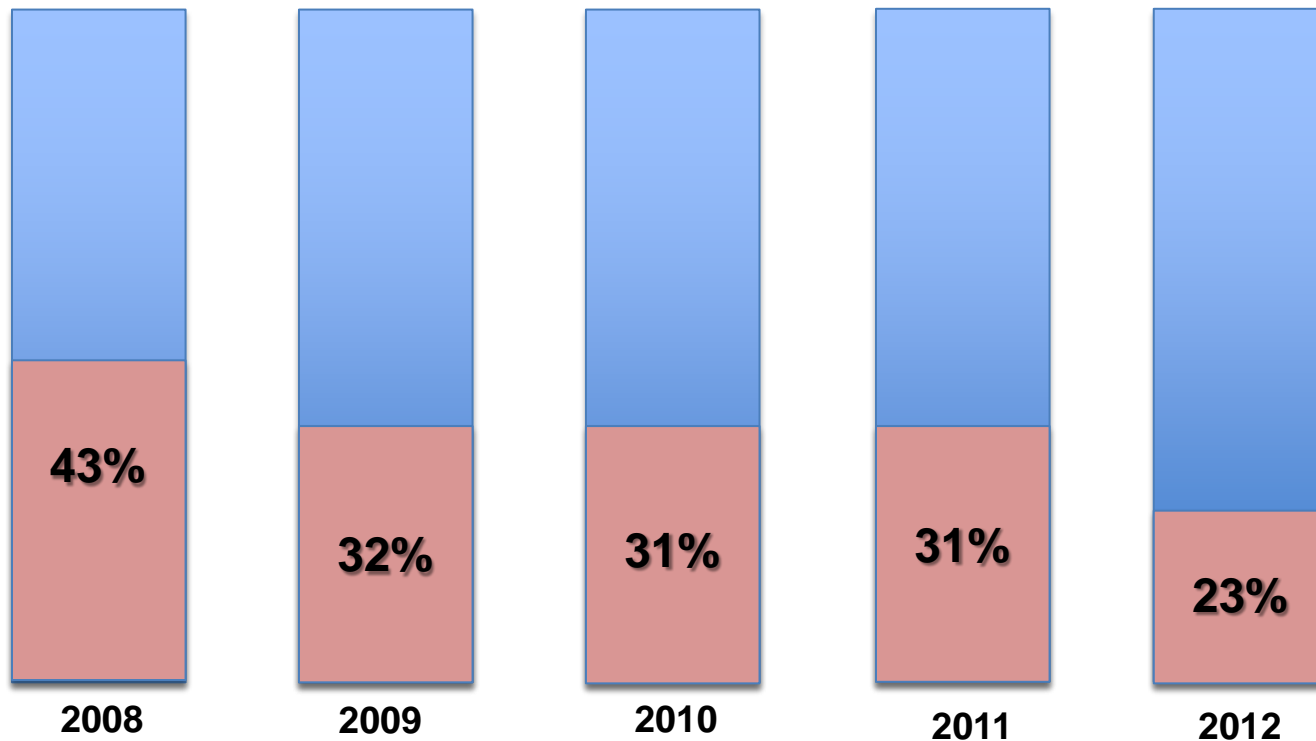
# Risks

- Too Expensive - No Value
- “Snitch Line: Label – Erode Trust
- Frivolous/False Allegations – “Wild Goose Chase”
- Inability to Follow-up – Can’t Report Back to Unknown People
- Operation in a Collective Bargaining Unit Environment
- Privacy (MFIPPA) Issues



# Anonymous Follow-Up Rates

[Median Company Rate – All Industries]



Source: The 2013 Ethics and Compliance Hotline Benchmark Report – Navex Global



# Jurisdictional Analysis\*

- Anonymous Reporting Lines are Quite Varied
- Ethics Versus Fraud and Waste Mechanisms
- Co-Sourced Versus In-House
- Varied Degree of Success





# Issues Raised

City		2010	2011	2012
Toronto		573	822	774
Calgary		100	68	94
Halifax		Introduced 2011	71 (Staff Line Only)	N/A (Expanded to Public)
Edmonton (Staff Line Only)		45	50	38



# Issues Raised - Edmonton

Report Category	2008	2009	2010	2011	2012
Financial Reporting and Accounting	0	1	1	1	0
Health and Safety, Environment	2	0	1	5	1
Unethical Conduct and Conflict of Interest <b>3</b>	10	9	13	18	10
Manipulation or Falsification of Data	0	2	0	1	2
Harm to People or Property	3	5	5	3	1
Theft, Embezzlement, Fraud <b>1</b>	5	12	7	10	12
Violation of Laws, Regulations, Policies, Procedures <b>2</b>	11	9	7	4	11
Miscellaneous	2	6	11	8	1
<b>Total</b>	<b>33</b>	<b>44</b>	<b>45</b>	<b>50</b>	<b>38</b>



# Implementation Options

1. In-House Implementation – Central Process, Dedicated Resources
2. Outsourcing Intake – Follow-up Directed to Individual Departments – In-House Co-ordination



# Why?? – Option 2

- Most Cost Effective Solution\*
- Least Staffing Impact
- 24/7/365 Access
- Easily Scalable
- Enhance Reporting and Trend Analysis



# Implementation Costs

- Set-up Costs [Out-Sourced] \$3,000
- Subscription Fees [Out-Sourced] \$4,500
- Planning [In-House] \$7,500
- Program Communication [In-House] \$5,000
- Program Operation [Internal Audit] \$20,000 - \$25,000\*

\* Replace One to Two Audit Projects

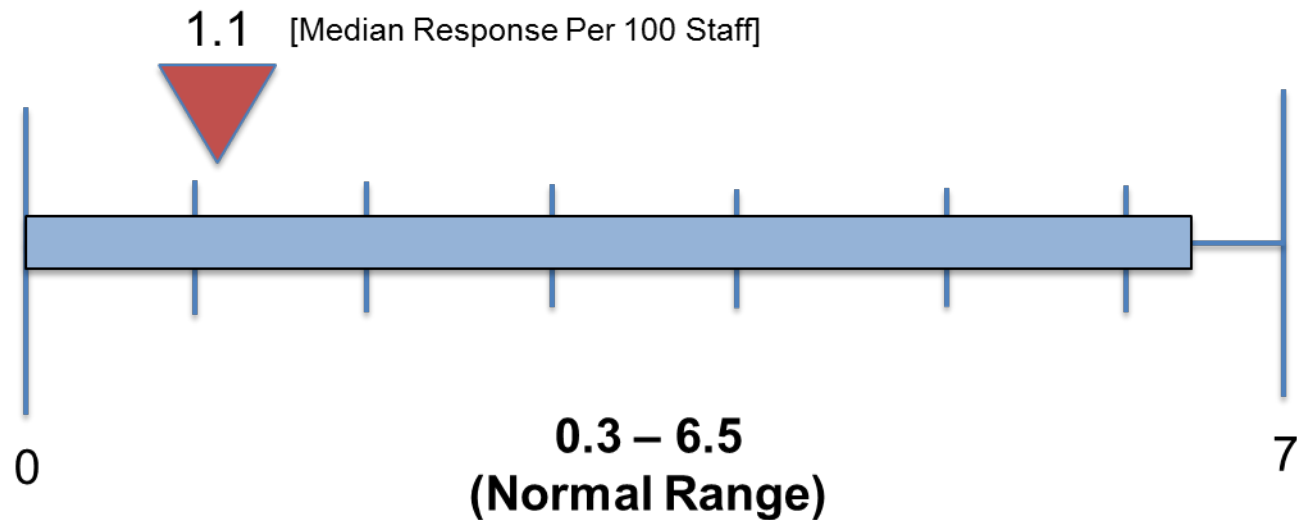


# Proactive Benefits Dealing With Questions Early

- Ethics/Code of Conduct Training?
- Policy Review/Updates?
- Effectiveness of Staff Communications?
- Staff Focus Points - Areas to Dig Deeper?
- Emerging Risk Areas?
- Organizational Cultural Issues?



# Expected Issues Volumes

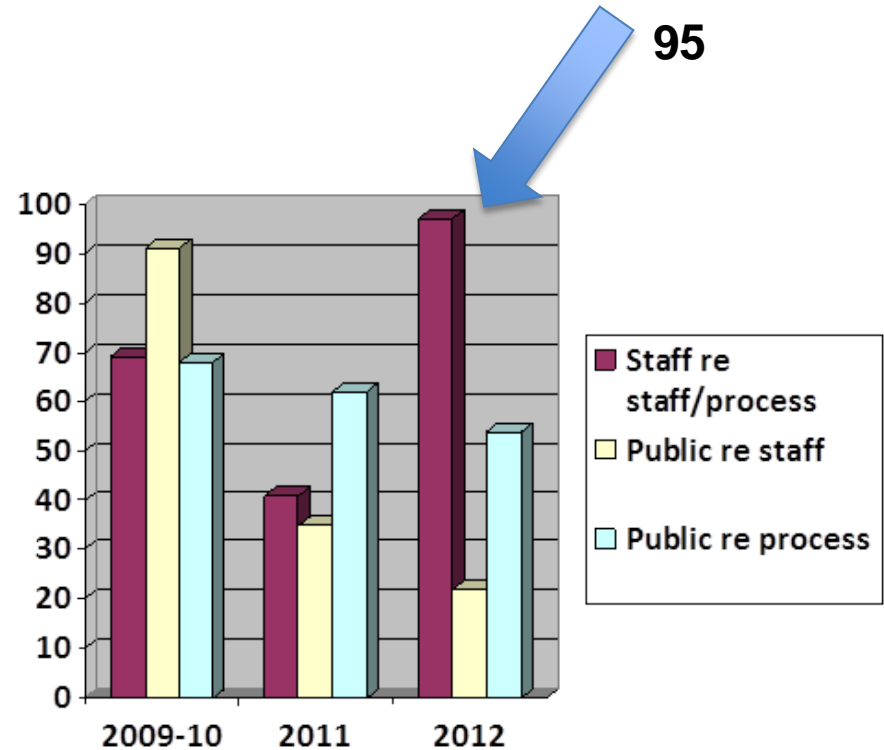
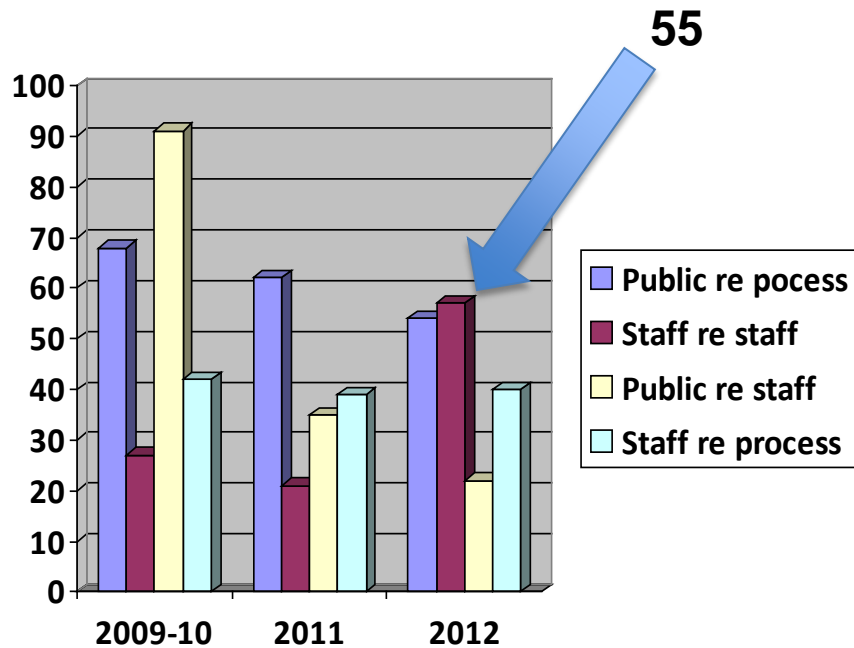


Vaughan 1198

Median 13 Range 4 - 78



# Issues Reported – Integrity Commissioner





# Key Implementation Issues

- Ownership
- Selection of Third Party Service Provider
- Key Contact People
- Education and Communication
- Escalation Criteria
- Reporting Requirements



# Questions?



## **FINANCE AND ADMINISTRATION COMMITTEE – NOVEMBER 4, 2013**

### **INTERNAL AUDIT REPORT – ANONYMOUS REPORTING SYSTEM**

#### **Recommendations**

The Director of Internal Audit recommends that;

1. The City of Vaughan implements an anonymous reporting system where the intake of employee concerns is 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. The service, initially, be only offered 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 responsible 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 is responsible for reporting annually, to the Finance and Administration 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 and sustainability and possible expansion of the reporting system.
6. The System is implemented as a two year pilot and that continuation is based on staff use and value to the City.

#### **Contribution to Sustainability**

Internal Audit activities and subsequent 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. An anonymous reporting system supports good governance and control by providing proactive information that can help the City better manage risk and identify emerging issues.

#### **Economic Impact**

Initial direct implementation and operating costs can be absorbed within the existing Internal Audit budget. The longer range economic impact is the possibility of reducing financial losses by identifying issues and initiating corrective action earlier.

#### **Communications Plan**

A communication strategy will be provided that includes key messaging on how the system is to be used, contact information, follow-up protocol, expected turnaround time and education. The communication strategy will be developed and initiated prior to system implementation.

## **Purpose**

To present to the Finance and Administration Committee the Internal Audit Report on the Anonymous Reporting System and to recommend an approach for anonymous reporting and outline the steps and processes needed to support successful implementation.

## **Background - Analysis and Options**

There are a variety of underlying principles that support good governance and control within an organization. One such principle is a strong Code of Conduct/Ethics program. The Governance and Accountability review, presented to the Finance and Administration Committee in June, 2013, indicated that staff had a good awareness of the City's Code of Conduct. However, they also indicated that they were less likely to communicate bad news or code of conduct issues because the current level of organizational trust did not allow for the open flow of information. In addition, there was the fear that reporting issues could result in negative reprisals.

An Anonymous Reporting System is one option available for staff to communicate sensitive issues. Not only does this system help support a Code of Conduct/Ethics program, but it also creates a proactive approach benefiting both the City and citizens.

## **Relationship to Vaughan Vision 2020/Strategic Plan**

This report is consistent with the priorities previously set by Council and supports the strategic goal of organizational excellence. An effective anonymous reporting system supports a strong code of conduct program which, in turn, helps drive continuous improvement and financial/organizational sustainability.

## **Regional Implications**

Not applicable.

## **Conclusion**

The option for staff to report potential code of conduct/ethics issues without fear of reprisal is an emerging trend in a number of organizations. Employees tend to prefer the anonymous reporting option because they can feel more comfortable and confident that the communication cannot be traced back to them. Not all reporters, however, choose to remain anonymous. Some may choose to use a reporting system because they may not feel a face to face approach works for them. In any case, an anonymous reporting system provides multiple option for staff and can help further support good governance and accountability for the City

## **Attachment**

Internal Audit Report – Anonymous Reporting System

## **Report prepared by:**

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

Respectfully submitted,

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



# INTERNAL AUDIT REPORT

## Anonymous Reporting System

November 2013

## **INTERNAL AUDIT REPORT**

### **Anonymous Reporting System**

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#### **PURPOSE**

On June 13, 2013, Internal Audit presented a report on Corporate Governance and Accountability to the Finance and Administration Committee. The report included the results of a staff survey where all Vaughan staff were given an opportunity to provide input on their perceptions of the City's internal corporate governance and accountability processes. As a result of the review, Internal Audit recommended that a mechanism be identified that could allow staff to anonymously (if desired) report code of conduct/ethics violations or any other action that could be perceived as doing the City harm.

The report also indicated that further work was required to further build staff trust and open up communication so that bad news and potential misconduct could be shared without fear of reprisal. Exploring various reporting approaches and options can help reduce the fear of reprisal resulting in building further trust.

The options identified in the report included:

- Staffing and operating an in-house anonymous reporting system.
- Expanding the role of an existing department to implement and operate a reporting mechanism.
- Assigning an "ethics officer" within the organization that could act as a front end intake resource and coordinate follow-up action with responsible departments and commissions.
- Outsourcing the reporting mechanism and operating a 24 hour 365 day service that would help evaluate and categorize issues for easy follow-up by applicable City management.

As all of these options have their advantages and disadvantages, Internal Audit further recommended that they be tasked with doing further research into anonymous reporting mechanisms and, in consultation with senior management, report back to Council on the better industry practices and a recommended approach.

The purpose of this report is to recommend an approach for anonymous reporting and outline the suggested steps and processes needed to support successful implementation.

#### **RECOMMENDATIONS**

Internal Audit recommends that the City of Vaughan implement an anonymous reporting system with the following attributes:

## **INTERNAL AUDIT REPORT**

### **Anonymous Reporting System**

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1. The intake of employee concerns is done by a third party independent of the City of Vaughan. The will allow for access flexibility, confidentiality and a lower implementation and operating cost.
2. The service, initially, is 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 has responsibility for reporting annually, to the Finance and Administration 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 and sustainability and possible expansion of the reporting system.
6. The System is implemented as a two year pilot and that continuation is based on staff use and value to the City.

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

## INTERNAL AUDIT REPORT

### Anonymous Reporting System

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#### **BACKGROUND**

There is a strong relationship between employees reporting misconduct in the workplace and an organization's code of conduct and ethics programs. Defining behavioral expectations through a well-documented and communicated code of conduct contributes significantly to the reporting and reduction of conduct violations.

The City of Vaughan has a Code of Conduct Policy and employees are required to read and formally acknowledge their understanding of the expectations.

The Governance and Accountability Review indicated that employees have a good understanding of the Code of Conduct and had received proper training on the City's standards of ethical workplace conduct. Employees, however, indicated that they were not necessarily comfortable reporting potential conduct violations. Staff were concerned they could not raise concerns to management without fear of reprisal.

A well-defined comprehensive conduct and ethics program includes the following six components.

1. Written standards of ethical workplace conduct.
2. Means for an employee to anonymously report violations of ethics/code of conduct standards.
3. Orientation or training on workplace conduct.
4. A specific office, telephone line, e-mail address or web site where employees can get advice about ethics/code of conduct related issues.
5. Evaluation of ethical/code of conduct as part of performance appraisals.
6. Discipline for employees who commit code of conduct/ethical violations.

The City's current Code of Conduct indicates that:

*"Employees who have reasonable grounds to believe a violation of the Code of Conduct has occurred should report such activity or behavior, in writing, to their Director, Commissioner, the Human Resource Department or the City Manager"*

While some individuals may feel comfortable using this approach, others may not and thus the importance of having multiple reporting options available is important. The hesitation some employees feel about revealing their identity may be due to fears about potential retaliation for reporting a peer or manager.



## **INTERNAL AUDIT REPORT**

### **Anonymous Reporting System**

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An anonymous reporting mechanism is one option that could uncover additional sensitive situations from employees and prevent greater or unknown harm to the City. When a concern is reported internally, the organization can investigate and take corrective action, creating a more proactive approach benefiting both the City and citizens.

### **THE VALUE OF ANONYMOUS REPORTING**

An effective way to learn about code of conduct/ethics violations is to provide employees with a variety of methods for reporting any possible concerns. These intake methods include traditional telephone calls, web forms, e-mails and face-to-face meetings.

Employees tend to prefer an anonymous telephone (hotline) call because they have more confidence that they can continue to remain anonymous. They often fear that electronic communication can be traced back to them and this fear can cause them not to report their concern.

Not all telephone callers choose to be anonymous. Some callers willingly give their names, and others report they have previously informed management of the situation. These callers use the reporting mechanism as an additional mechanism for reporting issues they feel have not been handled adequately through face-to-face reporting.

Factors influencing anonymity include the level of trust participants have that their information will remain confidential, the significance of the issue being reported and the confidence that the report will be acted upon.

A survey done by the Ethics Resource Centre found that a comprehensive ethics program, which included the ability to anonymously report potential misconduct, significantly enhanced the reporting of potential misconduct. The survey indicated that:

- Code of Conduct/Ethical misconduct is generally high with 56% of employees surveyed indicating they have witnessed some sort of misconduct.
- In organizations that had a comprehensive program, including anonymous reporting, 71% reported misconduct they observed versus only 39% reporting misconduct where the organization did not have a program.

In addition, another global consulting firm did a survey of employees to get a better understanding of their reporting preferences.

Of those surveyed, 80 percent said they would be willing to report a potential illegal or unethical activity, and 39 percent would be more likely to make a report if they could remain anonymous.

## **INTERNAL AUDIT REPORT**

### **Anonymous Reporting System**

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The employees who were willing to report code of conduct/ethical concerns indicated the following preferences.

- 57% chose an anonymous mechanism (hotline) as their preferred method for reporting concerns.
- 20% said they would prefer to write an anonymous letter.
- 16% said they would use an anonymous Website.

Based on these surveys, a comprehensive code of code/ethics program can help prevent the risk of misconduct and, if observed, reduce the risk of it being unreported. Although an anonymous reporting mechanism is not the only answer to reducing this risk, it certainly is a significant contributor.

Based on research done by the Open Compliance and Ethics Group, the following summarizes the benefits of anonymous reporting or hotlines.

- They are effective at detecting more than any other means of detection.
- Depending on the scope of implementation, people beyond employees will use them to report potential misconduct first.
- They are cost effective – lower levels of loss and a single prevention or recovery of assets can pay for the cost of a reporting mechanism.
- They are efficient by reducing the period between wrongful conduct and its detection.
- They empower the workforce to address risk.

### **THE RISKS OF USING ANONYMOUS REPORTING**

Although anonymous reporting mechanisms are gaining popularity in a variety of industry sectors, there are risks in implementing them that could have the effect of negating any expected benefits.

Some common concerns are as follows:

- The process can be very expensive and the resulting value may not be fully realized.

## **INTERNAL AUDIT REPORT**

### **Anonymous Reporting System**

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- The reporting mechanism, being anonymous, gets labeled as a “snitch line”. This can have the effect of eroding trust in the organization as staff gets suspicious on who is reporting on whom.
- Anonymous reporting mechanisms may turn into “venting lines” where staff just uses the mechanism to be spiteful resulting in false or frivolous allegations. This can result in overburdening the investigation process resulting in the ineffective use of investigation resources.
- A common criticism is “How can we report back to anonymous sources”? Although this was a risk in the earlier days, systems have been developed to use “codes” to enable follow-up with anonymous sources.
- The influx of issues at the system’s start up can be overwhelming and put undue strain on available resources. This could result in the delay of investigating issues and erode confidence in the system.
- Expectations are not properly communicated resulting in staff dissatisfaction with the system.
- Operating an anonymous reporting system in a collective bargaining environment could have an impact on future staff relations.
- There is a risk that complainant’s information could be made available through the Municipal Freedom of Information and Personal Privacy Act (MFIPPA). Although there are no known challenges in Ontario so far, it is a risk that should be fully investigated.

Although these are the more substantial risks, they can be mitigated by having a better understanding of the City’s culture and starting with an implementation that is small in scope and expense. The process can then be expanded depending on acceptance and need.

### **JURISDICTIONAL ANALYSIS**

The use of anonymous reporting mechanisms is sporadic across Canadian municipalities. Most of Canada’s larger cities have a mechanism and they are, in most cases, identified as Fraud and Waste Hotlines. Calgary, Ottawa, Winnipeg and Edmonton operate co-sourced reporting mechanisms while Toronto, Halifax and Windsor operate their reporting mechanisms entirely in-house using either existing or additional staff. Except for Edmonton, the reporting mechanisms handle both staff and public inquiries.

## INTERNAL AUDIT REPORT

### Anonymous Reporting System

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For these cities the reporting mechanism is managed by the audit function (Auditor General or Internal Audit).

The City of Montreal has program that is specifically identified as an Ethics Hotline. The Ethics Hotline is managed by the general controller's office through the independent firm which guarantees the confidentiality of the process and anonymity.

Costs of operating a reporting mechanism vary greatly. In-house reporting programs, depending on case volume, can be more expensive. The City of Toronto's program had of cost of \$550K in 2010 consisting of five full-time staff. Other cities have costs that are significantly lower largely reflecting a city's size and case volume.

Outsourcing aspects of the reporting mechanism tend to lower costs as fewer in-house staff are needed. In addition, greater flexibility can be realized as outsourced service requirements can be modified to fit changing needs while minimizing the impacts on full time staff.

A summary of the surveyed jurisdictions having a form of anonymous reporting are highlighted below.

<u>City/Region</u>	<u>Population</u>	<u>Delivery Method</u>	<u>Staff/Public Availability</u>	<u>Staff Assigned</u>	<u>Estimated Cost</u>
<b>Toronto</b>	2,615,060 (2011)	100% Internal Staff	Staff and Public	5 Full Time ½ Administrative	< \$550,000 (2010)
<b>Calgary</b>	1,096,800 (2011)	Intake is Outsourced	Staff and Public	2 Full Time	\$50,000 (External Provider) + Internal Audit Staff Costs (2010)
<b>Edmonton</b>	812,000 (2011)	Intake is Outsourced	Only City Staff	¾ of a Person	\$21,000 (External Provider) + Internal Audit Staff Costs (2010)
<b>Ottawa</b>	893,391 (2011)  1,236,324 (Metro)	Intake is Outsourced	Staff and Public	1 Full Time	\$30,000 (External Provider) + Internal Audit Staff Costs (2010)

## INTERNAL AUDIT REPORT

### Anonymous Reporting System

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<u>City/Region</u>	<u>Population</u>	<u>Delivery Method</u>	<u>Staff/Public Availability</u>	<u>Staff Assigned</u>	<u>Estimated Cost</u>
<b>Halifax</b>	413,700 (2011) (Metro)	100% Internal Staff	1 <sup>st</sup> Year Staff Only  Now Includes Public	No Dedicated Staff (Low Volume)	Not Tracked – Part of Auditor General Department
<b>Windsor</b>	319,246 (2011) (Metro)	100% Internal Staff	Staff and Public	1 Full Time	Not Specifically Allocated
<b>Winnipeg</b>	730,018 (2011) (Metro)	Intake is Outsourced	1 <sup>st</sup> Year Staff Only  Now Includes Public	½ of a Person	\$48,000 (External Provider) + 75,000 in total with Internal Audit Staff Costs (2011)

In addition to the jurisdictions surveyed that had reporting mechanisms, a quick survey was done on local municipalities in Ontario. These included:

The City of Guelph	The Town of Aurora
The City of Hamilton	The Town of Newmarket
The Region of Peel	The Town of Richmond Hill
The Region of Halton	The Town of Oakville
The Region of York	The City of Brampton
The City of Mississauga	The City of Kitchener

The Town of Oakville is planning to implement a reporting mechanism in 2014. They are using a combined outsourcing, in-house model. The cities of Kitchener, Mississauga and Brampton are in various stages of planning. Brampton is planning on implementing within the next year. The City of Kitchener has a draft policy but no plan for implementation at this time and the City of Mississauga is working on a policy and examining reporting options.

The other cities surveyed do not have a reporting mechanism, nor are there current plans to implement one soon.

## INTERNAL AUDIT REPORT

### Anonymous Reporting System

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#### IMPLEMENTATION OPTIONS

As indicated in the Corporate Governance and Accountability Report, there are a variety of available options for implementing an anonymous reporting mechanism. Based on jurisdictional analysis the number of options can be grouped into two broad categories:

1. In-house implementation consisting of either a dedicated “Ethics Officer” managing and coordinating the process or expanding the role of an existing department to implement and operate a reporting mechanism.
2. Outsourcing the intake to a third party with investigation and follow-up being directed to applicable City management by an in-house coordinator.

Both of these options would require management time to investigate and respond to reported issues or concerns. This, however, is still required under the existing City Code of Conduct. An anonymous reporting line provides the added assurance of confidentiality and the opportunity to track issues and create theme reporting on potential systemic causes.

Even though implementation and operating costs are a major factor in considering options, the availability and integrity of the service is of greater importance. A poorly planned and implemented mechanism can do harm to the organization by creating the opposite outcome of what was intended.

The table below lists some of the advantages and disadvantages along with estimated implementation and operating costs.

<u>Option</u>	<u>Staff</u>	<u>Estimated Cost</u>	<u>Availability</u>	<u>Advantages</u>	<u>Disadvantages</u>
1. In-house implementation by expanding the role of an existing department to operate a reporting mechanism.	¾ to 1	\$75 to 100K	During Working Hours Only	Information is contained within the City	May not be perceived as confidential  High Cost  Limited availability for staff – working hours only

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<u>Option</u>	<u>Staff</u>	<u>Estimated Cost</u>	<u>Availability</u>	<u>Advantages</u>	<u>Disadvantages</u>
2. In-house implementation by appointing a dedicated Ethics Officer	1	\$100K plus	During Working Hours Only - Although some expansion could be considered	Information is contained within the City.  Clear identifiable person	High Cost  Limited availability for staff  Additional Staff
<u>or</u>  In-house implementation by appointing Integrity Commissioner as part time Ethics Officer	½ to ¾	\$50 to 75K	Same as above	Same as above + Using existing resource with Administration Support	Limited availability for staff  Role may not be suitable for Integrity Commissioner
3. Outsource intake with internal staff coordination	¼ to ½	\$5K for startup  \$5 to 10K per year for operation  \$15 to 25K for internal coordination and follow-up	24/7/365 availability	Low Cost and more flexibility  Full availability for staff  Enhanced Management Reporting  Enhance Confidentiality	Data resident on Web Server outside of City's Control  Lower trust because of responses being handled by third party

The most effective reporting mechanisms are available at all times for staff to access. Although this can be achieved in-house with a web site, an outsourced intake solution can also offer telephone access and, if required, contact with a live person. These enhanced services are not readily available in-house and can compromise the effectiveness of the reporting mechanism.

In addition, four of the seven surveyed jurisdictions had an outsourced intake function. The Town of Oakville, which plans implementation in 2014, also intends to use an outsourced intake function.

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Of the available implementation options, the outsourced intake with internal staff coordination would be the best approach for the City of Vaughan for the following reasons:

- It is the most cost effective solution.
- It has the least staffing impact. The internal coordination role could be done by Internal Audit. While this would divert resources from some audit projects (one or at the most two annually) the benefits from having information to deal with potential issues would have a greater benefit to the City.
- Staff would have multiple ways to report issues at all times (24/7/365). This includes web access, telephone access and the option to talk to a live client service person.
- The outsourced intake option is scalable. The City could decide to expand the service to the public or suppliers. The annual fee would increase but there would be no need to expand internal staff. Conversely, since the outsource fee is in the form of an annual subscription service, the City could decide to discontinue the service if volumes were low or if the value was not being realized. This would have no impact on internal staff.
- Monitoring trends and provided management reports is done by the third party provider. Reporting can be tailored based on the City's needs with marginal increase in annual subscription fees.

Overall, with the opportunity to leverage good data analysis, the City can get proactive information that will help answer the following questions.

- Do we need more Ethics/Code of Conduct training?
- Do we need to review or up-date our policies?
- Are our communications with staff reaching the intended audiences and having the desired effect?
- Should we dig deeper into data of concern with staff surveys or focus groups?
- Do enough employees know about our reporting channels?
- Are our investigations thorough and effective
- Does our culture support staff that raise concerns?



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#### **IMPLEMENTATION COST ANALYSIS**

Internal Audit did a preliminary analysis of the costs involved in setting up and operating an anonymous reporting mechanism.

The assumption was to start small with minimal cost to get an idea of potential value. Based on discussion with some service providers the following estimate was determined.

##### Intake Service Provider

Set-up Costs (One Time)	\$3,000
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These are the costs to set up the Web Site, Database and the Telephony.

Annual Subscription Fee	\$4,500
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These are the Anonymous Reporting Service and the Advance Analytical Subscription fees.

##### In-house Support

Planning the Anonymous Reporting Service (One-Time - Legal and Internal Audit)	\$7,500
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Communicating the Program (Education, Documentation, Launching) (Internal Audit and Management)	\$5,000
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Running the Program (Internal Coordination) (Internal Audit – ¼ Staff)	\$20,000 - \$25,000
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Implementation is estimated to be approximately \$16,000. Internal audit could absorb most of the cost.

Ongoing operation is estimated to be around \$25,000 - \$30,000 with most of the cost being absorbed by Internal Audit. In all, the effect on the audit program would be, given current resources, cancellation of one or two audit engagements. The above estimates represent the lower end of the spectrum. Depending on volume the operating costs could be higher.

In addition, anonymous reporting can generate issues that could be considered false or frivolous. Although not directly related to issue volume, more investigation time is usually involved before final resolution can be determined. However, operators of anonymous reporting systems generally feel the increased cost can be justified because, in their experience, names are typically withheld out of fear of retaliation or a desire not to be involved as opposed to vindictiveness or malice.

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#### KEY IMPLEMENTATION ISSUES

The following represent key decision or implementation issues that need to be resolved during the planning phase and prior to full implementation.

- Who will “own” the hotline? In jurisdictions surveyed, Internal Audit or, where applicable, the Auditor General was deemed the “owner”.
- Selecting a third party service provider. There are further issues involved here such as;
  - Reviewing the Service Contract for term obligations, responsibilities, liabilities and other issues.
  - Determining the location of the data. As a hosted solution, the location of staff data could be subject to local “disclosure” laws.
- Establishing a communication strategy that includes key messaging on the nature of the anonymous reporting mechanism, how it is to be used, contact information, follow-up protocol and expected turnaround time. This communication strategy will also require a clear definition of the reporting system expectations. In addition, an education program will need to be developed so that the best use of the reporting system is maximized.
- Determining Freedom of Information (FOI) requirements, if any. Preliminary research indicates that anonymous reporting information cannot be accessed under FOI but further investigation will be required to identify specific rules.
- Identifying key contact people in the City Departments for investigating potential misconduct. This would depend on the report categories established in the system and the relationship to potential recipients. An example contact list is in **Appendix A**.
- Escalation Criteria – Some reporting will require fast turnaround because of the potential seriousness of the issues. It will be important to define turnaround time for the most critical issues that could represent the highest risk to the City. **An example is in Appendix B.**
- The type and frequency of summary reporting to management and Council on trends and potential systemic issues.

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#### APPENDIX “A”

#### Report Categories and Potential Recipients

<u>Report/Issue Category</u>	<u>Potential Recipient</u>
<b>Accounting and Financial</b>  [Financial Misconduct, Internal Controls, Expense Reporting]	Internal Audit
<b>Business Integrity</b>  [Bribery, Fraud, Conflict of Interest, Vendor Issues, Document Falsification ]	Internal Audit, Legal, Purchasing, Operations/ Program Delivery
<b>Human Resources and Employee Issues</b>  [Discrimination, Harassment, Compensation, Substance Abuse, Employee Relations, Workplace Violence, Intimidation]	Human Resources and Legal
<b>Environment, Health and Safety</b>  [Environmental Compliance, Employee Safety, Unsafe Working Conditions, Sanitation]	Human Resources (Health and Safety) Legal, Environmental Sustainability
<b>Misuse, Misappropriation of Assets, Information Misuse and Access</b>  [Computer Usage, Employee Theft, Software Piracy, Privacy, Data Access, Document Destruction, Overtime/Time Abuse ]	Internal Audit, Information Security, Operations/ Program Delivery, Legal

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#### APPENDIX “B”

#### Escalation Criteria/Priority Reporting

<u>Priority</u>	<u>Criteria</u>	<u>Anticipated Percentage of Total Annual of Reported Issues or Incidents</u> <sup>1</sup>
<b>Highest Priority – Rapid Escalation</b>	Usually applied to incidents or issues which are serious or urgent allegations of misconduct that must be addressed within 24 hours.	2%
<b>Medium Priority – Higher than Standard Follow-Up Period</b>	Usually applied to incidents or issues which are determined to be serious but do not pose an imminent danger to persons or property.	17%
<b>Normal Priority – Within Standard Follow-Up Period</b>	Usually indicates concerns that are not immediate but can be handled with the normal standard follow-up period. <sup>2</sup>	81%

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<sup>1</sup> Based on findings by Navex Global - The 2013 Ethics and Compliance Hotline Benchmark Report

<sup>2</sup> Usually represents a period of 32 days - Based on findings by Navex Global -The 2013 Ethics and Compliance Hotline Benchmark Report