

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 7, 2016

Item 2, Report No. 7, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 7, 2016.

2 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 May 30, 2016, be approved; and**
- 2) That the presentation by the Director of Internal Audit and Communication C4, presentation material entitled, “Anonymous Reporting System – Annual Report”, dated May 30, 2016, be received.**

Recommendation

The Director of Internal Audit recommends that:

1. The City of Vaughan continue to make the Anonymous Reporting System available to City staff, operating under the existing program attributes.
2. Management enhance the City’s corporate governance, accountability and transparency framework by developing a comprehensive ethics and compliance program designed to prevent, detect and respond to fraud and misconduct.
3. Internal Audit be tasked with doing further research into the possibility of expanding the Anonymous Reporting System to the general public and, in consultation with senior management, report back to Council on the best practices in other jurisdictions and a recommended approach.

Contribution to Sustainability

Internal Audit activities and reports contribute to the sustainability of the City by providing independent, objective advice and assurance that controls supporting the effective delivery of services and programs are effective.

Economic Impact

There are no direct economic impacts associated with this report.

Communications Plan

The Anonymous Reporting System will continue to be communicated to staff through VOL, Jostle, posters, new employee orientations and staff meetings. Education and follow-up messaging will continue to be based on how the system is to be used, contact information and follow-up protocol.

Purpose

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

The purpose of this report is to summarize the results of the two year pilot, explore current options and recommend a course of action.

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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 the system be available for staff use only.

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 the clients they serve. NAVEX issues an annual report that reviews industry benchmarks using data from its 4,900 participating companies. Comparing the City's anonymous reporting system use to the NAVEX Global Database is a good indicator to help gauge the success of the City's program and opportunities for improvement.

As the two year pilot has come to an end, a decision is required as it relates to the future of the City's Anonymous Reporting System.

Staff use of the Anonymous Reporting System during the pilot has met expectations based on the measurement criteria used to benchmark the City's use to the NAVEX Global Database. As a result, Internal Audit recommends that the Anonymous Reporting System should remain available to City staff, operating under the existing program attributes.

The number of reports filed over the two year pilot period and the type of issues being reported by staff compare very favourably to the NAVEX Global Database. These results are a good indicator that the system is being accepted and integrated into the City's overall governance, accountability and transparency framework.

Analysis of the anonymous reporting data and the results of our Anonymous Reporting System Awareness Survey that we presented to the Finance, Administration and Audit Committee in September 2015 suggest that further work is still required to continue to build trust in the system.

74% of staff who completed the survey responded favourably when asked whether they believe that having an Anonymous Reporting System is beneficial to the City.

Despite the recognition of its value, there remain a large number of employees who would be reluctant to use the Anonymous Reporting System to report suspected fraudulent or unethical activity because they feel that their anonymity may be compromised or their report will not be kept confidential.

Employees who have used the system generally prefer to remain anonymous. Our Anonymous vs Named Reporters rate of over 90% is significantly higher than the benchmark median of 60%. The preference for anonymity illustrates that without access to an Anonymous Reporting System, there is increased risk that staff may not report unethical workplace behaviour. This increases the risk that any unethical practices that may be occurring may not be detected.

Opportunities exist to further enhance the City's governance, accountability and transparency framework to address risks and employee concerns raised in the 2013 and 2015 Governance and Accountability surveys and the 2015 Anonymous Reporting System Awareness Survey. These include the development of formal policies, procedures and training programs related to fraud and loss prevention, whistleblower protection and conducting investigations. Further education and communication efforts as they relate to the administration of the system would be a positive step toward mitigating the concerns and associated risks identified in the surveys and increase employee confidence in the Anonymous Reporting System.

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Other benefits of continuing the Anonymous Reporting System and enhancing policies and procedures related to ethical workplace conduct include:

- The promotion of ethical conduct strengthens the integrity of the City.
- Deterrence of waste, fraud and unethical behaviour by increasing the perception of detection.
- Strengthened internal controls and increased operational efficiencies.
- The ability to use anonymous reporting data to identify trends and risks that may necessitate immediate action and/or adjustments to the internal audit risk based work plan.

Municipalities across Canada are starting to take a more proactive approach as it relates to the risk of unethical behaviour in the workplace. The use of anonymous reporting mechanisms is starting to gain in popularity across Canadian municipalities. Many of Canada's larger cities have a reporting mechanism available and in most cases, market them as Fraud and Waste Hotlines. Calgary, Ottawa, Winnipeg, Edmonton, Toronto, Halifax, Montreal and Windsor have well established programs. More recently, Mississauga, Oakville, Vancouver and Halton Region have incorporated anonymous reporting mechanisms into their corporate ethics programs. Except for Edmonton and Halton Region, the reporting mechanisms handle both staff and public reports.

Currently at the City of Vaughan, members of the public can report concerns to the Integrity Commissioner as it relates to the code of behaviour and ethics governing the City's elected officials.

The City's Compliments and Complaints program was launched at the beginning of January 2016 to create a single point of contact opportunity for members of the public to report compliments, service requests and complaints. For most submissions, contact information is required in order for staff to be able to follow up. Though members of the public may use the system to report unethical behavior, the system is not designed explicitly for that purpose nor is the alternate anonymous reporting opportunity being promoted. The primary objective of the complaint aspect of the Compliments and Complaints system is to provide an avenue for residents to express satisfaction or dissatisfaction related to a City of Vaughan program, service, facility, staff member, or Member of Council so that the City can take immediate steps to investigate and resolve complaints where appropriate. As of mid-April, no complaints regarding unethical behavior have been received as part of the Compliments and Complaints system.

Providing an anonymous reporting mechanism to the general public, including Vaughan residents, vendors and visitors, is an approach that may help mitigate the risk of unethical behaviour and would reiterate the City's commitment to corporate governance, accountability and transparency. The provision of a link to the Anonymous Reporting System on the Compliments and Complaints site may be a simple solution should the program be expanded.

Relationship to Term of Council Service Excellence Strategy Map (2014-2018)

This report supports the Term of Council Priority: Continue to Advance a Culture of Excellence in Governance, and the Service Excellence Initiative: Demonstrating Value for Money.

Regional Implications

Not applicable.

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Conclusion

Further work is required to determine the best approach for expanding the program to the public. This includes developing a formal communication plan and establishing a protocol for how to administer and investigate reports made by the public, including a mechanism for dealing with frivolous or vexatious complaints, prior to launch.

An anonymous reporting mechanism made available to everyone would contribute to good governance and will serve a long term benefit to the City.

Attachment

1. Internal Audit Report – Anonymous Reporting System Annual Report

Report prepared by:

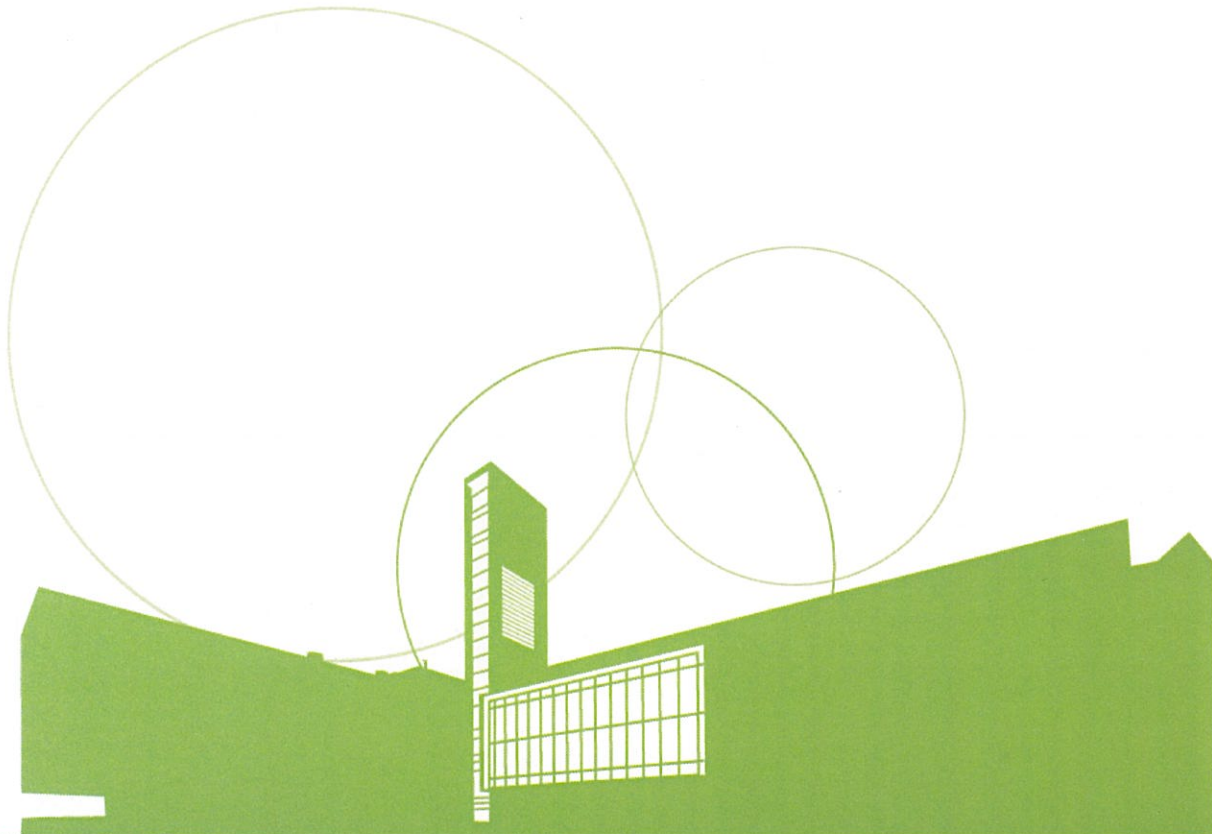
Kevin Shapiro CIA CFE CRMA
Director, Internal Audit

(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.)

C	4
COMMUNICATION	
FAA -	May 30 /16
ITEM -	2

Anonymous Reporting System – Annual Report

Monday May 30, 2016



Today's Presentation

- Conclusion
- Background
- Pilot Results
- Options
- Recommendations
- Questions

Conclusion

- Staff use of the Anonymous Reporting System during the pilot has met expectations based on the measurement criteria used to benchmark the City's use to the NAVEX Global Database.
- Opportunities exist to continue to build trust in the system and to further enhance the City's governance framework to address risks and employee concerns.

Background

- 2013 Governance & Accountability Report
- Recommendation to Implement an Anonymous Reporting System

Anonymous Reporting System

- Two Year Pilot
- For Staff Use Only
- Fully functional as of April 15, 2014
- Outsourced Intake
- Internal Audit [Co-ordination and Reporting]
- Investigating Anonymous Reports
- Annual Reporting to Council

Pilot Results – Benchmark Criteria

1. Report Volume per 100 Employees
2. Report Allegation Categories and Substantiation Rates
3. Reporter Follow-up Rate
4. Anonymous vs Named Reporters
5. Case Closure Time

Pilot Results – Trends & Themes

1. Report Volume per 100 Employees
 - Received a total of 35 reports.
 - Benchmark median is 39 reports.

# of Cases by Category Type	Category	Subcategory	# of Reports by Sub Category	By % of Category Type	Subcategory as a % of total Reports
19	Human Resources Issues	Hiring Irregularities	7	36.84%	20.00%
		Harassment / Discrimination	5	26.32%	14.29%
		Inappropriate change in job duties	4	21.05%	11.43%
		Use of inappropriate language	2	10.53%	5.71%
		Jostle	1	5.26%	2.86%
8	Misappropriation	Time Abuse	7	87.50%	20.00%
		Theft of Corporate Assets	1	12.50%	2.86%
2	Financial	Inappropriate accounting of revenue/expenses	2	100.00%	5.71%
5	Business Integrity	Inappropriate relationship with vendors	3	60.00%	8.57%
		Inappropriate disclosure of confidential documents	2	40.00%	5.71%
1	H&S	Cleanliness of Washroom	1	100.00%	2.86%
35	Total	-	35	-	100.00%

Pilot Results – Trends & Themes

2. Report Allegation Categories and Substantiation Rates

Allegation Categories

Category	Benchmark Survey		# of Received Reports by Category		Total Reports	% by category
	2014	2015	2014	2015		
Financial	2%	2%	0	2	2	5.71%
Business Integrity	17%	15%	3	2	5	14.29%
HR	69%	71%	12	8	19	54.29%
Environment, Health and Safety	6%	5%	1	0	1	2.86%
Asset Misuse / Misappropriation	6%	7%	6	1	8	22.86%
					35	100.00%

Median Substantiation Rates By Report Category

Category	Benchmark Survey (Median Rates)		# of Received Reports by Category		Total Reports	# Substantiated	% Substantiated
	2014	2015	2014	2015			
Financial	45%	50%	0	2	2	0	0.00%
Business Integrity	49%	41%	3	2	5	2	40.00%
HR	36%	39%	12	8	19	5	26.32%
Environment, Health and Safety	45%	46%	1	0	1	1	100.00%
Asset Misuse / Misappropriation	55%	57%	6	1	8	1	12.50%
Total	40%	41%	22	13	35	9	25.71%

Pilot Results – Trends & Themes

3. Reporter Follow-up Rate

- 43% of employees logged back in to their report
- Benchmark median is 30%

Pilot Results – Trends & Themes

4. Anonymous vs Named Reporters

- 90% of employees who filed a report chose to remain anonymous
- The benchmark median is 60%

Pilot Results – Trends & Themes

5. Case Closure Time

- Median case closure time of 38 days
- Benchmark median is 46 days

Options

1. System remains available to City staff operating under the existing program attributes
 - Results of the pilot demonstrate the system's value
 - Opportunities exist to further enhance the City's governance, accountability and transparency framework
 - Development of formal policies, procedures and training programs
 - Further education and communication

Options

2. Explore the feasibility of expanding the program
 - Non-anonymous reporting mechanisms already in place
 - Deters unethical behaviour and reiterates the City's commitment to Governance, Accountability & Transparency
 - Further work is required to determine the best approach if the anonymous program is to be expanded

Recommendations

1. The City of Vaughan continue to make the Anonymous Reporting System available to City staff operating under the existing program attributes.
2. Management enhance the City's corporate governance, accountability and transparency framework by developing a comprehensive ethics and compliance program designed to prevent, detect and respond to fraud and misconduct.
3. Internal Audit be tasked with doing further research into expanding the Anonymous Reporting System to the general public and, in consultation with senior management, report back to Council on the better industry practices and recommended approach.

Questions?

INTERNAL AUDIT REPORT – ANONYMOUS REPORTING SYSTEM ANNUAL REPORT

Recommendation

The Director of Internal Audit recommends that:

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Contribution to Sustainability

Internal Audit activities and reports contribute to the sustainability of the City by providing independent, objective advice and assurance that controls supporting the effective delivery of services and programs are effective.

Economic Impact

There are no direct economic impacts associated with this report.

Communications Plan

The Anonymous Reporting System will continue to be communicated to staff through VOL, Jostle, posters, new employee orientations and staff meetings. Education and follow-up messaging will continue to be based on how the system is to be used, contact information and follow-up protocol.

Purpose

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

The purpose of this report is to summarize the results of the two year pilot, explore current options and recommend a course of action.

Background - Analysis and Options

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anonymous reporting system use to the NAVEX Global Database is a good indicator to help gauge the success of the City's program and opportunities for improvement.

As the two year pilot has come to an end, a decision is required as it relates to the future of the City's Anonymous Reporting System.

Staff use of the Anonymous Reporting System during the pilot has met expectations based on the measurement criteria used to benchmark the City's use to the NAVEX Global Database. As a result, Internal Audit recommends that the Anonymous Reporting System should remain available to City staff, operating under the existing program attributes.

The number of reports filed over the two year pilot period and the type of issues being reported by staff compare very favourably to the NAVEX Global Database. These results are a good indicator that the system is being accepted and integrated into the City's overall governance, accountability and transparency framework.

Analysis of the anonymous reporting data and the results of our Anonymous Reporting System Awareness Survey that we presented to the Finance, Administration and Audit Committee in September 2015 suggest that further work is still required to continue to build trust in the system.

74% of staff who completed the survey responded favourably when asked whether they believe that having an Anonymous Reporting System is beneficial to the City.

Despite the recognition of its value, there remain a large number of employees who would be reluctant to use the Anonymous Reporting System to report suspected fraudulent or unethical activity because they feel that their anonymity may be compromised or their report will not be kept confidential.

Employees who have used the system generally prefer to remain anonymous. Our Anonymous vs Named Reporters rate of over 90% is significantly higher than the benchmark median of 60%. The preference for anonymity illustrates that without access to an Anonymous Reporting System, there is increased risk that staff may not report unethical workplace behaviour. This increases the risk that any unethical practices that may be occurring may not be detected.

Opportunities exist to further enhance the City's governance, accountability and transparency framework to address risks and employee concerns raised in the 2013 and 2015 Governance and Accountability surveys and the 2015 Anonymous Reporting System Awareness Survey. These include the development of formal policies, procedures and training programs related to fraud and loss prevention, whistleblower protection and conducting investigations. Further education and communication efforts as they relate to the administration of the system would be a positive step toward mitigating the concerns and associated risks identified in the surveys and increase employee confidence in the Anonymous Reporting System.

Other benefits of continuing the Anonymous Reporting System and enhancing policies and procedures related to ethical workplace conduct include:

- The promotion of ethical conduct strengthens the integrity of the City.
- Deterrence of waste, fraud and unethical behaviour by increasing the perception of detection.
- Strengthened internal controls and increased operational efficiencies.
- The ability to use anonymous reporting data to identify trends and risks that may necessitate immediate action and/or adjustments to the internal audit risk based work plan.

Municipalities across Canada are starting to take a more proactive approach as it relates to the risk of unethical behaviour in the workplace. The use of anonymous reporting mechanisms is starting to gain in popularity across Canadian municipalities. Many of Canada's larger cities have a reporting mechanism available and in most cases, market them as Fraud and Waste Hotlines. Calgary, Ottawa, Winnipeg, Edmonton, Toronto, Halifax, Montreal and Windsor have well established programs. More recently, Mississauga, Oakville, Vancouver and Halton Region have incorporated anonymous reporting mechanisms into their corporate ethics programs. Except for Edmonton and Halton Region, the reporting mechanisms handle both staff and public reports.

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Providing an anonymous reporting mechanism to the general public, including Vaughan residents, vendors and visitors, is an approach that may help mitigate the risk of unethical behaviour and would reiterate the City's commitment to corporate governance, accountability and transparency. The provision of a link to the Anonymous Reporting System on the Compliments and Complaints site may be a simple solution should the program be expanded.

Relationship to Term of Council Service Excellence Strategy Map (2014-2018)

This report supports the Term of Council Priority: Continue to Advance a Culture of Excellence in Governance, and the Service Excellence Initiative: Demonstrating Value for Money.

Regional Implications

Not applicable.

Conclusion

Further work is required to determine the best approach for expanding the program to the public. This includes developing a formal communication plan and establishing a protocol for how to administer and investigate reports made by the public, including a mechanism for dealing with frivolous or vexatious complaints, prior to launch.

An anonymous reporting mechanism made available to everyone would contribute to good governance and will serve a long term benefit to the City.

Attachment

1. Internal Audit Report – Anonymous Reporting System Annual Report

Report prepared by:

Kevin Shapiro CIA CFE CRMA
Director, Internal Audit

Respectfully submitted,

Kevin Shapiro CIA CFE CRMA
Director, Internal Audit



INTERNAL AUDIT REPORT

Anonymous Reporting System - Annual Report

May 2016

INTERNAL AUDIT REPORT

ANONYMOUS REPORTING SYSTEM - ANNUAL REPORT

BACKGROUND AND PURPOSE

On June 13, 2013 Internal Audit presented a report on Corporate Governance and Accountability to the Finance, Administration and Audit Committee. The report included the results of a 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 survey, 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 additional 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.

On November 4, 2013 Internal Audit presented a report on anonymous reporting options to the Finance, Administration and Audit Committee. Council subsequently approved that the City of Vaughan implement an anonymous reporting system with several attributes including that it be implemented on a two year pilot basis and continuation be based on staff use and value to the City.

The Anonymous Reporting System was implemented on April 15, 2014. Report intake is operated independently by a third party and is accessible by internet and toll free phone number. It is available 24 hours a day, 7 days a week.

An employee who chooses to file a report is asked to create a password and is provided with a unique case tracking number so that they can log back into the system to follow the progress of their report, provide further details and to answer any questions posed by the investigator, a member of the City's Internal Audit team. Depending on the nature of the issue, management may be required to assist Internal Audit with the investigation.

As the two year pilot has come to an end, a decision is required as it relates to the future of the City's Anonymous Reporting System.

The purpose of this report is to summarize the results of the two year pilot, explore current options and recommend a course of action.

INTERNAL AUDIT REPORT

ANONYMOUS REPORTING SYSTEM - ANNUAL REPORT

CONCLUSION AND SUMMARY

Staff use of the Anonymous Reporting System during the pilot has met expectations based on the measurement criteria used to benchmark the City's use to the NAVEX Global Database. The System should remain available to City staff, operating under the existing program attributes.

The number of reports filed over the two year pilot and the type of issues being reported by staff compare very favourably to the NAVEX Global Database. This is a good indicator that the system is being accepted and integrated into the City's overall governance framework.

Analysis of the anonymous reporting data and the results of our Anonymous Reporting System Awareness Survey that we presented to the Finance, Administration and Audit Committee in September 2015 suggest that further work is still required to continue to build trust in the system.

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Opportunities exist to further enhance the City's governance framework to address risks and employee concerns raised in the 2013 and 2015 Governance and Accountability surveys and the 2015 Anonymous Reporting System Awareness Survey. These include the development of formal policies, procedures and training programs related to fraud and loss prevention, whistleblower protection and conducting investigations. Further education and communication efforts as they relate to the administration of the system would be a positive step toward mitigating the concerns and associated risks identified in the surveys and increase employee confidence in the Anonymous Reporting System.

Other benefits of continuing the Anonymous Reporting System and enhancing policies and procedures related to ethical workplace conduct include:

- The promotion of ethical conduct strengthens the integrity of the City.
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INTERNAL AUDIT REPORT

ANONYMOUS REPORTING SYSTEM - ANNUAL REPORT

- Strengthened internal controls and increased operational efficiencies.
- The ability to use anonymous reporting data to identify trends and risks that may necessitate immediate action and/or adjustments to the internal audit risk based work plan.

Municipalities across Canada are starting to take a more proactive approach as it relates to the risk of unethical behaviour in the workplace. The use of anonymous reporting mechanisms is starting to gain in popularity across Canadian municipalities. Many of Canada's larger cities have a reporting mechanism available and in most cases, market them as Fraud and Waste Hotlines. Calgary, Ottawa, Winnipeg, Edmonton, Toronto, Halifax, Montreal and Windsor have well established programs. More recently, Mississauga, Oakville, Vancouver and Halton Region have incorporated anonymous reporting mechanisms into their corporate ethics programs. Except for Edmonton and Halton Region, the reporting mechanisms handle both staff and public reports.

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Further work is required to determine the best approach for expanding the program to the public. This includes developing a formal communication plan and establishing a protocol for how to administer and investigate reports made by the public, including a mechanism for dealing with frivolous or vexatious complaints, prior to launch.

An anonymous reporting mechanism made available to everyone would contribute to good governance and will serve a long term benefit to the City.

INTERNAL AUDIT REPORT

ANONYMOUS REPORTING SYSTEM - ANNUAL REPORT

RECOMMENDATION

Based on the results of the pilot, Internal Audit recommends that:

1. The City of Vaughan continue to make the Anonymous Reporting System available to City staff, operating under the existing program attributes.
2. Management enhance the City's corporate governance, accountability and transparency framework by developing a comprehensive ethics and compliance program designed to prevent, detect and respond to fraud and misconduct.
3. Internal Audit be tasked with doing further research into the possibility of expanding the Anonymous Reporting System to the general public and, in consultation with senior management, report back to Council on the best practices in other jurisdictions and a recommended approach.

Author and Director: Kevin Shapiro CIA, CFE, CRMA

INTERNAL AUDIT REPORT

ANONYMOUS REPORTING SYSTEM - ANNUAL REPORT

DETAILED REPORT

1. *Use of the Anonymous Reporting System Has Met Expectations*

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 its 4,900 participating clients. Comparing the City's anonymous reporting use to the NAVEX Global Database is a good indicator to help gauge the success of the City's program and opportunities for improvement.

Overall, staff use of the Anonymous Reporting System during the pilot has met expectations based on the measurement criteria used to benchmark the City's use to the Global Database.

The criteria include:

- Report Volume per 100 Employees
- Report Allegation Categories and Substantiation Rates
- Reporter Follow-up Rate
- Anonymous vs Named Reporters
- Case Closure Time

Report volume per 100 employees is a measurement that enables the City to estimate the number of potential reports it will receive in a given year. The Global Database median reports per 100 employees is 1.3. Based on this statistic and the number of full time employees in the City of Vaughan and Vaughan Public Libraries [approximately 1500], we should have expected 39 reports over the course of the two year pilot. We received 22 reports in the first year of the pilot and 13 in the second year, for a total of 35 reports. 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.

Allegation category reporting helps identify themes and trends. In addition, comparing our results to those of the Global Database helps determine if we have different themes that might point to specific issues. 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, all allegations are initially considered to have merit until they have been concluded. During the investigation process, some reporters may not have provided enough information or not responded to questions posed by the investigator. This may shift the allegation to the unsubstantiated category. In addition, if the final conclusion does not support the allegation, then the case is considered unsubstantiated.

INTERNAL AUDIT REPORT

ANONYMOUS REPORTING SYSTEM - ANNUAL REPORT

Based on the 35 reports received:

- Two cases (or 5.7%) related to accounting, auditing and financial reporting issues such as financial misconduct, internal controls and expense reporting. The 2015 Global Database comparison for this category is 2%. None of these reports were substantiated. The 2015 Global Database substantiation rate for this category is 50%.
- Five cases (or 14.3%) related to business integrity which included conflict of interest and vendor/customer issues. The 2015 Global Database comparison for this category is 15%. Two (or 40%) of these reports were substantiated. The 2015 Global Database substantiation rate for this category is 41%.
- Nineteen cases (or 54.2%) related to human resources issues such as hiring irregularities, discrimination, harassment and favouritism. The 2015 Global Database comparison for this category is 71%. Five (or 26%) of these reports were substantiated. The 2015 Global Database substantiation rate for this category is 39%.
- One case (or 2.9%) related to environmental, health and safety. The 2015 Global Database comparison for this category is 5%. This report was substantiated. The 2015 Global Database substantiation rate for this category is 46%.
- Eight cases (or 22.9%) related to the misuse or misappropriation of corporate assets including theft and time abuse. The 2015 Global Database comparison for this category is 7%. One (or 12.5%) of these reports were substantiated. The 2015 Global Database substantiation rate for this category is 57%.

Although cases related to human resources issues ranked first for the number of cases, they were lower than the global comparisons on a percentage basis. However, the percentage of misappropriation issues was higher. This is due to the number of reports concerning potential time abuse. The recently completed Corporate Overtime Audit outlined several recommendations to improve the control framework as it relates to timekeeping. Implementation of the management action plans will help mitigate the risk of time abuse.

Overall, nine (or 25%) of the reports received were substantiated. The 2015 Global Database overall substantiation rate comparison is 41%. The City has a lower substantiation rate than the Global Benchmark but this is not unexpected given that the system is still relatively new. 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.

It should be noted that not all substantiated reports reflect unethical conduct. It may reflect the absence of or non-enforcement of policy/procedure or improper application of a business process. In addition, an unsubstantiated report does not necessarily mean that the report was without merit. For a majority of the unsubstantiated cases, we were unable to substantiate the report due to insufficient details or evidence. An unsubstantiated report can still highlight potential weaknesses in internal control or risks that are of concern, and can

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lead to new audit projects, such as the Hiring Practices audit, which was added to address the number of reports related to hiring irregularities. This audit was completed in 2015.

Another measurement that has a direct impact on Substantiation Rates is the Reporter Follow-up Rate. This rate indicates the percentage of reporters who log back into their report to answer Internal Audit's questions related to their submission. Approximately 43% of all reporters logged back in to answer follow-up questions. This compares favorably to the 2015 Global Benchmark Rate of 30%. However, this means that 57% of reporters did not log back in to their reports to continue the dialogue regarding their submission. There is a greater risk that cases will be deemed unsubstantiated when reporters do not follow up on their reports, as specific detail that may be required to conduct a thorough investigation may inadvertently be withheld. Opportunities exist to enhance education and communication efforts as they relate to the importance of reporters following up on their submissions.

The Anonymous vs Named Reporters rate shows the percentage of all reports submitted by individuals who chose to withhold their identity. Approximately 90% of all reports we received were anonymous. The 2015 Global Benchmark Rate is 60%. 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 on. Our higher than benchmark result is consistent with the themes that were reported as part of our 2013 and 2015 reports on Corporate Governance and Accountability as it relates to the need for the City to build an environment where the prompt communication of mistakes, bad news and other related information can be given to those who need to know without fear of reprisal. The preference for anonymity illustrates that without access to an Anonymous Reporting System, there is increased risk that staff may not report important issues such as code of conduct violations, suspected fraud or misappropriation, privacy issues and inappropriate relationships between employees and contractors/vendors.

Case Closure Time is the number of calendar days it takes an organization to complete an investigation and close a case. Our median case closure time in 2015 was 38 days, which is a 6.5 day improvement over our 2014 median of 44.5 days. This also compares favourably to the 2015 Global Database median of 46 days. The ability to investigate and close cases in a timely fashion helps foster a culture where concerns are taken seriously and builds organizational trust in the system. Although there has been improvement in this area, our internal goal is to meet a case closure time of 30 days.

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2. Implementation Options

On November 4, 2013, Internal Audit presented a report on Anonymous Reporting options to the Finance, Administration and Audit Committee. Council subsequently approved that the City of Vaughan implement an anonymous reporting system with the following attributes:

- 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.
- 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.
- Internal Audit is assigned the responsibility for co-ordinating intake from the third party supplier and directing issues to the responsible department.
- 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.
- 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.
- Implementation is a two year pilot and continuation is based on staff use and value to the City.

As the two year pilot has come to an end, a decision regarding the continued operation of the Anonymous Reporting System is required.

As a result, we have explored the following options in this section:

1. The Anonymous Reporting System remains available to City staff under the existing program attributes.
2. The Anonymous Reporting System is expanded to include both City staff and the general public.

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Option 1: The Anonymous Reporting System remains available to City staff, operating under the existing program attributes.

Staff use of the Anonymous Reporting System during the pilot has met expectations based on the measurement criteria used to benchmark the City's use to the Global Database.

Analysis of the anonymous reporting data and the results of our Anonymous Reporting System Awareness Survey that we presented to the Finance, Administration and Audit Committee in September suggest that further work is still required to continue to build trust in the system.

74% of staff who completed the survey responded favourably when asked whether they believe that having an Anonymous Reporting System is beneficial to the City.

Despite the recognition of its value, there remain a large number of employees who would be reluctant to use the Anonymous Reporting System to report suspected fraudulent or unethical activity because they feel that their anonymity may be compromised or their report will not be kept confidential. This is consistent with the results of the 2015 Governance and Accountability Survey, in which fewer than 50 percent of respondents agreed with the statement that "prompt communication of mistakes, bad news and other related information is given to those who need to know without fear of reprisal"; in that same survey, only 50 percent of respondents agreed with the statement that "the City has established a level of trust sufficient to support the open flow of information and effective performance". An underlying fear of reprisal and reluctance to communicate in an open manner were initially identified in the 2013 Governance and Accountability Survey and served as the impetus for the acquisition of the Anonymous Reporting System the following year.

Although the City has an Employee Code of Conduct and User Guides and Q&A documents were created to explain the purpose, goals and objectives of the Anonymous Reporting System, opportunities exist to further enhance the City's governance, accountability and transparency framework to address risks and employee concerns raised in the Governance and Accountability surveys and the Anonymous Reporting System Awareness Survey.

The development of formal policies, procedures and training programs related to fraud and loss prevention, whistleblower protection and conducting investigations would be a positive step toward mitigating the concerns and associated risks identified in the surveys and increase employee confidence in the Anonymous Reporting System.

Other benefits of continuing the Anonymous Reporting System and enhancing policies and procedures related to ethical workplace conduct include:

- The promotion of ethical conduct strengthens the integrity of the City.
- Deterrence of waste, fraud and unethical processes by increasing the perception of detection.

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- Strengthened internal controls and increased operational efficiencies.
- The ability to use anonymous reporting data to identify trends and risks that may necessitate immediate action and/or adjustments to the internal audit risk based work plan.

Enhancing City policies, procedures and training programs related to ethical workplace conduct combined with the continued availability of the Anonymous Reporting System support the Term of Council Priority: Continue to Advance a Culture of Excellence in Governance and the Service Excellence Strategic Initiative: Staff Engagement – Governance and Accountability, and will serve a long term benefit to the City.

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Option 2: The Anonymous Reporting System is expanded to include both City staff and the general public

According to the 2016 Association of Certified Fraud Examiners (ACFE) Report to the Nations on Occupational Fraud and Abuse, the most common detection method of occupational fraud was tips (39.1% of cases), and organizations that had reporting hotlines were much more likely to detect fraud through tips than organizations without hotlines (47.3% compared to 28.2%, respectively).

The impact of fraud and unethical behaviour in any organization includes more than just financial losses. Unethical behaviour perpetrated in the workplace can damage employee morale and can negatively impact the reputation of the organization.

Municipalities across Canada are starting to take a more proactive approach as it relates to the risk of unethical behaviour in the workplace. The use of anonymous reporting mechanisms is starting to gain in popularity across Canadian municipalities. Many of Canada's larger cities have a reporting mechanism available and in most cases, market them as Fraud and Waste Hotlines. Calgary, Ottawa, Winnipeg, Edmonton, Toronto, Halifax, Montreal and Windsor have well established programs. More recently, Mississauga, Oakville, Vancouver and Halton Region have incorporated anonymous reporting mechanisms into their corporate ethics programs. Except for Edmonton and Halton Region, the reporting mechanisms handle both staff and public inquiries.

Currently at the City of Vaughan, members of the public can report concerns to the Integrity Commissioner as it relates to the code of behaviour and ethics governing the City's elected officials.

The City's Compliments and Complaints program was launched at the beginning of January 2016 to create a single point of contact opportunity for members of the public to report compliments, service requests and complaints. For most submissions, contact information is required in order for staff to be able to follow up. Though members of the public may use the system to report unethical behavior, the system is not designed explicitly for that purpose nor is the alternate anonymous reporting opportunity being promoted. The primary objective of the complaint aspect of the Compliments and Complaints system is to provide an avenue for residents to express satisfaction or dissatisfaction related to a City of Vaughan program, service, facility, staff member, or Member of Council so that the City can take immediate steps to investigate and resolve complaints where appropriate. As of mid-April, no complaints regarding unethical behavior have been received as part of the Compliments and Complaints system.

Providing an anonymous reporting mechanism to the general public, including Vaughan residents, vendors and visitors, is an approach that may help mitigate the risk of unethical behaviour and would reiterate the City's commitment to corporate governance, accountability and transparency.

However, there are some risks that should be considered and addressed prior to expanding the system at this time. These include:

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- Complaint activity may increase or decrease because of the dynamic nature of a hotline program. As a result, it is difficult to estimate the number of reports that will come in from external sources and whether the organization has the existing capacity to investigate all of these reports in a responsible manner.
- It may not be possible to quantify the impact of savings realized through expansion of the hotline.

Further work is required to determine the best approach for expanding the program to the public. This includes developing a formal communication plan and establishing a protocol for how to administer and investigate reports made by the public, including a mechanism for dealing with frivolous or vexatious complaints, prior to launch.

RECOMMENDATION

Based on the results of the pilot, Internal Audit recommends that:

1. The City of Vaughan continue to make the Anonymous Reporting System available to City staff, operating under the existing program attributes.
2. Management enhance the City's corporate governance, accountability and transparency framework by developing a comprehensive ethics and compliance program designed to prevent, detect and respond to fraud and misconduct.
3. Internal Audit be tasked with doing further research into the possibility of expanding the Anonymous Reporting System to the general public and, in consultation with senior management, report back to Council on the best practices in other jurisdictions and a recommended approach.

MANAGEMENT ACTION PLAN

Elements of the corporate governance, accountability and transparency framework are already in place such as the Employee Code of Conduct, Communication and Training, Anonymous Reporting System, Auditing and Monitoring. However, a more comprehensive review and development of an Ethics and Compliance Program will integrate the various components, identify gaps in the program and focus efforts in the areas that can further strengthen compliance and mitigate risk. (E.g. fraud prevention policy, whistleblower protection etc.)