



## Auditor General Committee REPORT

Report Date: June 29, 2023  
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Meeting Date: July 6, 2023  
[Submit comments to Council](#)

TO: Auditor General Committee  
FROM: Auditor General  
SUBJECT: 2023 Mid-Year Report

### RECOMMENDATION

THAT the Auditor General Committee receive the Auditor General's 2023 Mid-Year report and recommend the same to Council.

### COUNCIL AUTHORITY/PREVIOUS DECISIONS

- Per the [Auditor General By-law 3.14](#), the Office of the Auditor General will report directly to Council on any investigations or inquiries conducted by the Auditor General.
- On [November 4, 2020](#), pursuant to [Section 161](#) of the *Vancouver Charter*, Council established an Auditor General Committee to provide oversight to the Office of the Auditor General on behalf of Council.
- Pursuant to the [Procedure By-law 5.9](#), each standing committee is to report to Council on all matters resolved.

### BACKGROUND

Section 3.11 of the Auditor General By-law requires the Auditor General to report annually to Council on activities and achievements. The 2022 Annual Report was provided to Council in February 2023. This 2023 Mid-Year Report is supplemental to the accountability requirements of the Auditor General By-law.

### CONCLUSION

This Report transmits the Auditor General's 2023 Mid-Year report to the Auditor General Committee for its meeting on July 6, 2023.

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# Office of the Auditor General City of Vancouver

## 2023 Mid-Year Report

June 2023



29 June 2023

To the Mayor and Council of the City of Vancouver,

I am pleased to present a mid-year check-in for the Office of the Auditor General (OAG). This report is not required under the Auditor General By-law, however, with the OAG now half-way through its first full year of operations, this seemed an opportune time to provide an update on the progress my office has made and the benefits achieved.

I have been greatly appreciative of the support provided to the OAG by successive Councils, and for their faith that I would establish a high performing group that contributes to improving the economy, efficiency and effectiveness of the City's operations. I believe this report demonstrates that this faith was well placed.

I also express my appreciation to the City's management and their teams, who have provided excellent cooperation during all of our audits. I understand that my office is a new function in Vancouver, and that its introduction was associated with a degree of stress and uncertainty for some. My audit teams have focussed on developing positive, professional relationships with City staff, and I am very pleased that we have found ways to work well in fulfilling our respective roles and responsibilities.

I am proud of the OAG team that has come together, the quality of the work we have done on our first audit projects and of the value that we have already provided for the City. I look forward to the further contributions we will make in the years ahead.

Mike Macdonell, MBA, CFE, FCPA, FCA  
Auditor General  
Vancouver, BC

## About the Office of the Auditor General

The Auditor General By-law No. 12816 (AG By-law) was enacted by City Council on November 4<sup>th</sup>, 2020.



Photo: Kent Kallberg

Pursuant to the AG By-law, Mike Macdonell was selected by the Auditor General Recruitment Committee and was appointed by Council as the City of Vancouver's inaugural Auditor General for a seven-year term commencing September 7<sup>th</sup>, 2021.

Section 3 of the AG By-law describes the Auditor General's mandate and responsibilities as follows:

- to assist Council in holding itself and City administrators accountable for the quality of stewardship over public funds and for achievement of value for money in City operations;
- to carry out financial (excluding attest), compliance and performance audits of all programs, activities and functions of all City departments, the offices of the Mayor and members of Council, Boards and City-Controlled

Corporations (responsibility for auditing the annual financial statements of the City is described in the *Vancouver Charter* and is excluded from the responsibilities of the Auditor General);

- to undertake financial (excluding attest), compliance and performance audits and provide recommendations to a Board, but only upon request of that Board;
- to consider undertaking such other duties respecting audit matters as are recommended by Council from time to time; and,
- to immediately report to Council any attempts at interference with the work of the Office of the Auditor General.

The AG By-law stipulates that the Auditor General is accountable only to Council and, although an employee of the City, does not report to and is not accountable to City staff. Functionally, the Auditor General reports to the Auditor General Committee (AGC), a sub-committee of Council comprised of five Councillors plus one alternate and three lay representatives.

## **Halfway into the First Full Year of Operations**

The first six months have been busy, with the achievement of a significant milestone: the release of our first audit report. A total of three audit reports were released, as well as the 2023 Audit Plan, the OAG's first Annual Report (for 2022) and the 2023 Operational Plan.

### Audit of Building Permit Fees – January 2023

In January, our audit of Building Permit Fees was released. This was our first audit, which was conducted at the request of the Development, Buildings and Licensing department. It is our hope that the value demonstrated by this audit will encourage other City departments to come forward with topic suggestions.

The audit determined that the City had developed and implemented straightforward processes to consistently and accurately assess fees for building permits and that fees were charged in accordance with the City's Schedule of Fees.

However, we also found that processes were sometimes applied inconsistently, resulting in the under-collection of permit revenue. Additionally, the method used to estimate housing construction cost, the basis for calculating fees, was not authorized by the Vancouver Building By-law.

The report made five recommendations to improve the administration of building permit fees; all of the recommendations were accepted by the City.

### Audit of Office Furniture Purchases – February 2023

In February we released our second audit report, an examination of the City's achievement of value for money in the purchase of office furnishings. The topic was chosen due to a high degree of public interest that was shown regarding the purchase of office chairs at the outset of the pandemic.

Overall, the audit found that the City had made office furniture purchases with due regard for best value during the audit period, although opportunities for improvement were identified regarding the procurement process and selection of suppliers and the City's policies in relation to trade agreement obligations.

The report provided five recommendations to enhance the City's ability to achieve best value in the purchase of office furnishings and mitigate risks; all of the recommendations were accepted by the City.

### Audit of the Permitting Program Cost Recovery Model – May 2023

During the course of our audit of building permit fees, we identified issues with the cost recovery model the City used to set fees for all development and building-related permits that warranted a separate audit.

While the underlying processes generally complied with statutory and legal requirements, we found that deficiencies in the model resulted in fees that were

less than required to achieve the program's full cost recovery objective. In addition to the under collection of fees, we found unplanned cross-subsidization between permit fee categories.

The report provided eight recommendations to ensure the permitting program is sustainable and to improve public transparency; all of the recommendations were accepted by the City.

### Whistleblowing

At the request of the AGC, last year the Auditor General conducted a study of whistleblower practices in comparable local governments (those with an Auditor General or equivalent). The results of this study were reported to the AGC at its meeting on April 22<sup>nd</sup>, 2022, highlighting three significant issues with Vancouver's approach to whistleblowing. The report recommended that Council expand the definition of whistleblower to include complainants external to the City, and that Council consider whether revisions to the City's Whistleblower Policy were warranted in light of the appointment of an independent Auditor General and Integrity Commissioner.

The AGC endorsed the first recommendation, but enhanced the second recommendation to direct City staff to revise the Whistleblower Policy so that the Auditor General is delegated responsibility for:

- The intake, assessment and investigation of complaints;
- Making recommendations for corrective action; and
- Publicly reporting results.

Complaints involving elected officials are to be referred to the Integrity Commissioner.

As of June 29<sup>th</sup>, 2023, the work on a revised Whistleblower Policy, including underlying procedures and protocols and amendments, continues with the Auditor General and the Chief Human Resources Officer leading the redraft in consultation with the City's Legal department. It is expected that amendments to the Whistleblower Policy will be brought to Council for approval later in 2023, following discussions with the City's unions, along with consequential amendments to the Auditor General By-law to align it with the revised policy. It is anticipated that responsibility for the City's whistleblower function will transition to the OAG effective January 1<sup>st</sup>, 2024.

In anticipation of updates to the policy and with the support of other municipal audit offices, the OAG has begun developing processes and procedures to implement Council's direction. Approval for two new positions was received from the AGC and Council as part of the OAG's 2023 budget request, however, hiring of investigation staff will not commence until an amended Whistleblower Policy has been approved.

## 2023 OAG Performance Framework

**Mandate** – To assist Council in holding itself and City administrators accountable for the quality of stewardship over public funds and for achievement of value for money in City operations.

**Mission** – To provide assurance that City of Vancouver services are delivered with due care for economy, efficiency and effectiveness.

**Goals** – Consistent with the practices of leading legislative audit offices in Canada, the operations of the OAG are focussed on achieving key strategic goals. The four goals identified below reflect priorities in measuring the office’s ongoing performance and impact.

**Goal 1** – To establish an independent whistleblower function within the OAG.

**Goal 2** – To produce objective, high quality audits in accordance with Canadian Audit Standards.

**Goal 3** – To provide City departments with objective, helpful recommendations.

**Goal 4** – To produce a positive return on investment for Vancouver taxpayers.

## Key Performance Indicators

Planned to actual performance guide

Fully Met/On Track	Partially Met	Not Met	Not Yet Assessed
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**Goal 1** – To establish an independent whistleblower function within the OAG.

KPI	Description	2023 Target	Actual to date
1.1 Number of investigators hired in 2023	Council directed City staff to revise the Whistleblower Policy to assign responsibility for the whistleblower function to the Auditor General. Through the budget process, Council’s Auditor General Committee has endorsed the hiring of two staff in 2023.	2 in Q4	-
1.2 Develop and operationalize procedures and infrastructure to support the OAG’s independent whistleblowing function	Develop and implement administrative procedures for the intake, processing, investigation and reporting of whistleblower activities. Acquire and install an IT platform to support the OAG’s whistleblower function.	Q4 2023	Procedures on track Q4 IT 2024

Notes: A revised Whistleblower Policy has yet to be brought to Council for approval. Work on the redraft continues with the OAG and the City on mutually acceptable revisions to the policy, AG By-law and underlying processes (see pg. 4 for more detail). The draft policy and procedures still needs to be shared with the City’s unions. Assuming a revised policy is



Office of the Auditor General for the City of Vancouver  
2023 Mid-Year Report

approved by Council, hiring of whistleblower staff will be conducted in Q4. Policies and procedures necessary to operate the whistleblower function are currently being drafted and will be in place prior to the anticipated transition to the OAG on January 1<sup>st</sup>, 2024. A request for IT support for the acquisition of case management system has been submitted, however, it is not expected that a system will be in place until late 2024.

**Goal 2** – To produce objective, high quality audits in accordance with Canadian Audit Standards.

**Key Performance Indicators**

<b>KPI</b>	<b>Description</b>	<b>2023 Target</b>	<b>Actual to date</b>
2.1 Number of reports produced	Audit reports are the principal output of the OAG’s operations and the primary means of communicating the results of our work to Council and the public.	6	3
<u>Notes:</u> Three audit reports were released from January to May 2023. Two further audit reports are scheduled for release before year end, as is the OAG’ first follow-up report on the implementation of audit recommendations. The OAG 2023 Audit Plan provides more information on upcoming work in 2023 and beyond.			
2.2 Proportion of audit files passing inspection by the Chartered Professional Accountants of BC (CPABC)	The OAG is a licensed practicing office with CPABC, subject to periodic inspection by the Public Practice Committee. Performing all audit work in accordance with Canadian Audit Standards is an essential input to ensure the credibility of our work.	100%	100%
<u>Notes:</u> CPABC’s first inspection was conducted in March 2023. The OAG passed the inspection with no exceptions noted.			

**Goal 3** – To provide City departments with objective, helpful recommendations.

**Key Performance Indicators**

<b>KPI</b>	<b>Description</b>	<b>2023 Target</b>	<b>Actual to date</b>
3.1 Proportion of recommendations accepted by audited departments	Recommendations made to audited departments are intended to address opportunities for improvement identified during our work, address underlying issues, be practicable and be cost effective. Acceptance by audited departments is an important short-term outcome on the path to achieving our mission.	100%	100%
<u>Notes:</u> The three audit reports released this year contain a total of 18 recommendations for improvement. All 18 recommendations have been accepted by City management.			

Office of the Auditor General for the City of Vancouver  
2023 Mid-Year Report

KPI	Description	2023 Target	Actual to date
3.2 Proportion of recommendations endorsed by the AGC	After receiving our audit findings and recommendations as well as management's response to them, AGC's endorsement of audit recommendations is a short-term outcome confirming the need for action.	100%	100%
<p><u>Notes:</u> The 18 recommendations contained in the three audit reports released this year were presented with our findings and with a response/action plan from management. The AGC endorsed all 18 recommendations.</p>			
3.3 Proportion of recommendations fully implemented by audited departments within three years	Performance on this mid-term outcome will be determined through the OAG's follow-up process. Some recommendations may take longer than three years to fully implement, and City departments may find alternate approaches to address the root causes.	1 <sup>st</sup> report Dec '23  Fully measured in 2026	-
<p><u>Notes:</u> The City provided action plans for all 18 audit recommendations. The OAG will follow-up on the status of these recommendations until they are implemented. Interim measurement for this KPI will begin with the issuance of our first Follow-up Report in December 2023. Full results will be known after the issuance of our December 2026 Follow-up Report.</p>			

**Goal 4** – To produce a positive return on investment for Vancouver taxpayers.

**Key Performance Indicator**

KPI	Description	2022 Target	Actual to date
4.1 Proportion of OAG five-year operational costs matched by positive financial impacts for the City attributable to our recommendations	Many audit recommendations should, if fully implemented, produce positive financial impacts through cost savings, cost avoidance or enhanced revenue. We aim to ensure such savings at least match the office's cost of operations over a five-year period. This long-term outcome ensures the OAG provides value for Vancouver taxpayers.	100%  Fully measured in 2027	200% from 2021 to June 2023  Fully measured in 2027
<p><u>Notes:</u> For each audit we have identified quantifiable and non-quantifiable benefits of our recommendations. Return on investment (ROI) is calculated by summing the quantifiable impacts and comparing this to the cost to operate the office.</p> <p>It should be noted that not all audit recommendations will result in outcomes that can be measured. For instance, our audit report on Office Furniture Purchases contained recommendations to improve the City's compliance with national and international trade agreements. While it is important that the City avoid potential litigation and other costs related to non-compliance, we do not believe it is reasonable to report an economic benefit</p>			

Office of the Auditor General for the City of Vancouver  
2023 Mid-Year Report

for costs that may have been avoided through improved compliance. A summary of non-quantifiable benefits will be provided in the OAG’s 2023 Annual Report.

The figures below represent conservative estimates of the potential financial benefits to the City should our recommendations be fully implemented. The actual ROI that the City achieves could be more or less, depending on the actions that are actually taken, and benefits to the City will extend beyond the five years included in this analysis.

This is an interim measurement. Over time as our recommendations are implemented, we will revisit our calculations to ensure that our underlying assumptions remain valid. Performance for this KPI will not be fully measured until the OAG has been operational for five years.

To date, the OAG has achieved an estimated ROI for the City of 200%. This is a conservative measure because it includes costs associated with setting-up the office in 2021 and 2022 before it was operational; operational ROI would be actually higher.

Estimated Benefits Resulting from Implementation of Audit Recommendations

2023	Audit	One Time	Annual Recurring Benefits					Total
		Benefits	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	
1	Building Permit Fees	-	\$ 1,723,985	\$ 1,723,985	\$ 1,723,985	\$ 1,723,985	\$ 1,723,985	\$ 8,619,925
2	Office Furniture Purchases	-	-	-	-	-	-	-
3	Permit Cost Recovery Model	-	2,395,087	4,790,174	7,185,261	9,580,348	11,975,435	35,926,305
		<b>A</b>	<b>\$ 4,119,072</b>	<b>\$ 6,514,159</b>	<b>\$ 8,909,246</b>	<b>\$ 11,304,333</b>	<b>\$ 13,699,420</b>	<b>\$44,546,230</b>
	<b>Annual Operating Costs</b>	2021	\$ 159,167					
		2022	1,177,328					
		2023	719,053					
	<b>Total Cumulative Operating Cost</b>		<b>\$ 2,055,548</b>	<b>B</b>				
	<b>Return on Investment</b>	<b>A/B</b>	<b>200%</b>					