

***Elections compliance audit of the
campaign finances of Third-Party
Advertiser Horizon Ottawa from the
2022 Municipal Elections***

AUDIT REPORT

The Office of the City Clerk and the Election Compliance Audit Committee

July 29, 2024

Prepared by: BDO Canada LLP

Table of Contents

Introduction	3
Background/Context.....	3
Restrictions	5
Audit Objective	6
Audit Scope.....	6
Conclusion	7
Audit Findings	8
Appendix A – Audit Criteria	14
Appendix B – Audit Approach.....	16
Appendix C - Glossary	17

Introduction

On behalf of the City Clerk of the City of Ottawa, the City of Ottawa’s Elections Office sought out a licensed auditor to complete a compliance audit of the campaign finances for third-party advertiser Horizon Ottawa in the 2022 Municipal Elections to determine whether they appeared to have contravened any of the campaign finances rules established by the Municipal Elections Act, 1996 (the “MEA”). On December 8, 2023, the Election Compliance Audit Committee (“ECAC” or the “Committee”) appointed BDO Canada LLP (“BDO” or the “Auditor”) to complete the compliance audit.

Background/Context

Appointment of an Auditor

At the ECAC meeting on Monday, July 31, 2023, the Committee considered an election compliance audit application for third-party advertiser Horizon Ottawa from the 2022 Municipal Elections. At the same meeting, by way of Motion, the ECAC granted the application for a compliance audit and directed that the Office of the City Clerk, in consultation with the Committee’s independent legal counsel, to initiate a call-up against the City’s Standing Offer to appoint an Auditor.

Horizon Ottawa’s Registration as a Third-Party Advertiser

The following information with respect to the third-party advertiser, Horizon Ottawa, was collected throughout the completion of the compliance audit, and provides context for the audit report:

- Horizon Ottawa registered as a third-party advertiser on August 24, 2022.
- Leading up to registration, Horizon Ottawa’s Board of Directors discussed the topic of registration, notably at the April 20, 2022 meeting, where meeting minutes indicated the organization would not register.
- At that meeting, there did not appear to be a formal vote or resolution cast against registering as a third-party advertiser; however, meeting minutes indicated a decision not to register would be communicated to Horizon Ottawa’s membership.
- Ultimately, Horizon Ottawa’s Board of Directors held a formal vote that closed on August 24, 2022, with results in favour of registering; thus, registering as a third-party advertiser on that date.

Elections Compliance Audit – Audit Report

- Throughout the period of May 1, 2022 (the earliest date one can register) to August 24, 2022 (the date of registration), Horizon Ottawa continued operating in the normal course of business with respect to its ongoing mission.
- Planning with respect to Horizon Ottawa activities/events (e.g., HorizonFest) were underway throughout this period, and had begun prior to Horizon Ottawa registering as a third-party advertiser.
- Upon registering as a third-party advertiser, the requirements, and restrictions applicable to registered third parties were triggered.
- Following the end of the advertising campaign period, and as of the date of this audit report, Horizon Ottawa has continued to operate in the normal course of business with respect to its ongoing mission.

Restrictions

We understand that our report is intended to assist the ECAC in completing a compliance audit of the campaign finances for third-party advertiser Horizon Ottawa in the 2022 Municipal Elections, and our report may be referred to in the context of determining whether Horizon Ottawa appears to have contravened a provision of the MEA relating to campaign finances.

We understand that in this case, our report will be provided to the ECAC, the City Clerk of the City of Ottawa, Horizon Ottawa representatives, and the Applicant. Our report may be provided to Horizon Ottawa representatives on a non-reliance basis and for informational purposes only, and we consent to such uses of our report.

We further understand that documents and materials filed with or prepared by the City Clerk or any other election official under the MEA are public records. As a result, we understand that documents and materials filed with the City Clerk or any other election official under the MEA, until their destruction, may be inspected by any person at the City Clerk's office at a time when the office is open. However, our report is not intended for general use, circulation, or publication for any purpose outside of this matter. For the avoidance of doubt, other than as specifically noted in this section, our report may not be disclosed, copied, quoted, or referred to in whole or in part, whether for the purposes of litigation, disciplinary proceedings, or otherwise, without our prior written consent in each specific instance.

We will not assume any responsibility or liability for any costs, damages, losses, liabilities, or expenses suffered by the City of Ottawa, or Horizon Ottawa, as a result of circulation, publication, reproduction, use of or reliance upon our report contrary to the provisions of this section. We will not assume any responsibility or liability for any costs, damages, losses, liabilities, or expenses incurred by anyone else as a result of circulation, publication, reproduction, use of or reliance upon this report. Comments in our report are not intended, nor should they be interpreted to be, legal advice or opinion.

Subject to the exercise of professional judgment, we have relied upon the completeness, accuracy, and fair presentation of all the information obtained (the "Information"). Our comments are conditional upon the completeness, accuracy, and fair presentation of such Information. Should additional information be provided to us after the date of this report, we reserve the right, but will be under no obligation, to review this information and adjust our report accordingly.

Audit Objective

The overall objective of this audit was to determine whether Horizon Ottawa appeared to have contravened any of the campaign finance rules established by the MEA. BDO audited for any apparent violations of the provisions of the MEA relating to election campaign finances (MEA s. 88.33(12), incorporated by reference in s. 88.35).

More specifically, the comprehensive compliance audit was performed to:

1. Determine whether a segregated third-party advertiser bank account was opened and utilized for the purposes of the 2022 Municipal Elections advertising campaign.
2. Evaluate whether contributions were accepted and/or campaign expenses were incurred outside of the advertising campaign period.
3. Verify that contribution limits were adhered to, and that contribution receipts were appropriately issued.
4. Validate that spending limits were appropriately adhered to.
5. Confirm that fundraising functions were only held during the advertising campaign period and that gross income and expenses related to fundraising raising events/activities were recorded within the campaign financial statements.
6. Assess the third-party advertisers financial record keeping practices.

Audit Scope

The scope of the compliance audit included the relevant campaign finance rules related to the 2022 Municipal Elections. The audit period under examination coincided with the period of May 1, 2022 (the earliest date one can register) to January 3, 2023 (the advertising campaign deadline). The advertising campaign period applicable to Horizon Ottawa is August 24, 2022 (the date of registration), to January 3, 2023.

Conclusion

Below is a summary of the audit conclusions made with respect to each audit criteria identified. Please refer to the section of this report entitled *Audit Findings* for detailed information on the exceptions identified. Please refer to *Appendix A* for the detailed Audit Criteria developed.

Audit Criteria		Conclusion
1	Determine whether a segregated third-party advertiser bank account was opened and utilized for the purposes of the 2022 Municipal Elections advertising campaign.	<p>Criteria Met</p> <p>No Apparent Contraventions Identified</p>
2	Evaluate whether contributions were accepted and/or campaign expenses were incurred outside of the advertising campaign period.	<p>Criteria Not Met</p> <p>Apparent Contraventions Identified</p>
3	Verify that contribution limits were adhered to, and that contribution receipts were appropriately issued.	<p>Criteria Not Met</p> <p>Apparent Contraventions Identified</p>
4	Validate that spending limits were appropriately adhered to.	<p>Criteria Met</p> <p>No Apparent Contraventions Identified</p>
5	Confirm that fundraising functions were only held during the advertising campaign period and that gross income and expenses related to fundraising raising events/activities were recorded within the campaign financial statements.	<p>Criteria Met</p> <p>No Apparent Contraventions Identified</p>
6	Assess the third-party advertisers financial record keeping practices.	<p>Criteria Not Met</p> <p>Apparent Contraventions Identified</p>

Audit Findings

1. Advertising Campaign Expenses

Relevant Audit Criteria	
2. Evaluate whether contributions were accepted and/or campaign expenses were incurred outside of the advertising campaign period.	
2.1	Contributions were not accepted, and expenses were not incurred, outside of the advertising campaign period (with the exception of expenses related to the preparation of an auditor’s report).
2.2	If contributions were accepted or expenses were incurred outside of the advertising campaign period: <ul style="list-style-type: none"> • The contribution was returned to the contributor or turned over to the Clerk, as appropriate. • The expense was determined to be allowable under the MEA.

Observation

A sample of expenses was examined to ensure that the expenses were not incurred outside of the advertising campaign period (with the exception of expenses related to the preparation of an auditor’s report).

As part of the audit, risks were assessed to ensure areas requiring focus/attention were identified. To select a sample, a listing of advertising campaign expenses incurred was obtained and the full population was reviewed and validated against the financial statements filed by Horizon Ottawa for completeness. A risk-based sampling methodology was applied, and samples were purposively selected based on the level of risk.

For the samples reviewed, the following apparent contraventions to the MEA were noted:

- Two samples selected were expense reimbursements to staff/representatives of Horizon Ottawa. The samples contained multiple invoices, including four invoices that were dated/expenses that were incurred outside the advertising campaign period (i.e., were incurred prior to Horizon Ottawa's registration as a third-party advertiser on August 24, 2022).

Elections Compliance Audit – Audit Report

- Sample 1: This sample related to a bank of phone credits. The sample included three invoices that were dated August 17, 2022. The expenses were incurred by an employee, and subsequently reimbursed from the organization’s third-party advertising campaign bank account on December 31, 2022. Horizon Ottawa confirmed that the expenses were incurred prior to the advertising campaign period; however, that the phone credits were utilized within the period. Upon review of evidence that could be made available, it was noted that at least one of the credits was used on August 22, 2022, prior to the date of registration.
- Sample 2: This sample included nine expenses related to HorizonFest. At that time, the expenses were incurred by a representative of Horizon Ottawa, and subsequently reimbursed from the organization’s third-party advertising campaign bank account on December 31, 2022. Within the reimbursement, three expenses were identified that were incurred prior to Horizon Ottawa’s registration; a Liquor License with an invoice dated June 17, 2022, a charge for Theatre Stage Use with an invoice dated July 12, 2022, and a Tarp purchase dated August 17, 2022. Horizon Ottawa confirmed that the expenses were incurred prior to the advertising campaign period; however, that the items purchased were utilized within the period.
- The expense categories identified above were not among those allowable under the MEA to be incurred outside of the advertising campaign period.
- It was noted that Horizon Ottawa incurred audit fees after the advertising campaign period (i.e., after January 3, 2023), which were deemed allowable under the MEA.
- The value of identified expenses incurred outside of the advertising campaign period amounted to \$947.24 (refer to table below), which equated to an identified error rate of 5.68% and an extrapolated error of \$1,394.45 across total campaign expenses.

Expense	Amount (CAD)
Phone Credits (3 Invoices)	\$517.24
Liquor License	\$300.00
Stage Use	\$50.00
Tarp	\$80.00
Total	\$947.24

Conclusion

Based on the above, it was concluded that expenses, which were not deemed to be allowable under the MEA, were incurred outside of the advertising campaign period. As a result, Horizon Ottawa appears to have contravened the campaign finances rules established by the MEA [MEA s. 88.21(2)].

2. Returning Ineligible Contributions & Financial Recordkeeping

Relevant Audit Criteria	
3. Verify that contribution limits were adhered to, and that contribution receipts were appropriately issued.	
3.3	If a contribution was ineligible, the contribution was returned to the contributor or turned over to the Clerk, as appropriate.
6. Assess the third-party advertiser’s financial recordkeeping practices.	
6.1	Processes were in place for maintaining advertising campaign records.
6.2	Financial records appeared to be appropriately maintained.

Observation (A)

A sample of contributions was examined to verify that:

- Processes were in place to inform every contributor of contributions limits.
- Contribution limits were adhered to.
- Contribution receipt was appropriately issued.
- Ineligible contributions were returned to the contributor or turned over to the Clerk, as appropriate.
- For contributions greater than \$100 in value, the contribution, including the name and address of the contributor, was included in Horizon Ottawa’s financial statements.

Of the contributions reviewed, the following apparent contraventions to the MEA were noted:

- A cash donation jar was used to collect donations at the event, HorizonFest, totaling an amount of \$448.15. Based on the information reviewed, HorizonFest did not appear to meet the criteria of a fundraising function under the MEA, where a fundraising function represents an event or activity held by a registered third-party or under its direction for the purpose of raising funds in relation to third party advertisements.

Elections Compliance Audit – Audit Report

- As described in the 2022 Third-Party Advertisers' Guide, "third-party advertisers are required to return any contribution that was made or accepted in contravention of the MEA as soon as they learn that it was an ineligible contribution. If the contribution cannot be returned, it must be turned over to the clerk." Contributions received from an anonymous source (except for donations of \$25 or less at a fundraising event) are considered ineligible and should be returned or paid to the clerk. As HorizonFest did not appear to meet the criteria of a fundraising function, and records were not kept nor receipts issued for every donation in this circumstance, the \$448.15 from the donation jar should have been returned or paid to the City Clerk.

Observation (B)

Horizon Ottawa's financial records were also examined throughout the course of the compliance audit to validate that the following were maintained:

- Contribution receipts, including the date and value of the contribution and the contributor's name and address
- Expenses, including receipts for expenses incurred
- Claims for payment of expenses that the third-party advertiser disputed/refused to pay
- Funds raised and expenses incurred for each separate fundraising function
- Terms of any loan received from the bank or other recognized lending institution

Of the financial records reviewed, the following apparent contraventions to the MEA were noted:

- Ineligible expenses were incurred outside of Horizon Ottawa's advertising campaign period (Audit Finding 1); however, the organization's financial records indicated that the expenses were incurred within the applicable period (i.e., expenses were reported based on the reimbursement date to the relevant employee, rather than the incurred/invoice date).
- Horizon Ottawa reported beverage sales from the event, HorizonFest, as "Other Income" on the financial statements. Among these sales were credit card and cash transactions, which were deposited into the bank account of a Horizon Ottawa representative using the Square point of sale (POS) system, and subsequently transferred to the segregated third-party advertiser bank account. As this individual also purchased other items for the event (Sample 2, Audit Finding 1), a portion of the beverage sales were used as reimbursement for

these purchases. Upon settlement, a discrepancy of \$86.04 was noted between the sales report (extract from the Square POS system) and the amount deposited by Square into the bank account of a Horizon Ottawa representative. Although the individual transferred the full deposit amount to Horizon Ottawa's third-party advertiser bank account, the unexplained discrepancy suggests that Horizon Ottawa did not appropriately maintain financial records, nor did the organization identify or investigate the discrepancy with Square at the time of deposit.

- Among expenses reviewed for the event, HorizonFest, Horizon Ottawa reported a payment to a musician for \$500.00 on September 11, 2022. Although evidence to confirm the musician's participation in the event and the payment made could be retained, supporting documentation was not available to support the services agreed upon/rendered (i.e., invoice, agreement, contract, etc.).

Conclusion

Based on the above, it was concluded that Horizon Ottawa's collected ineligible contributions, which were not returned to the contributor or turned over to the Clerk. In addition, it was concluded that Horizon Ottawa's financial records did not appear to be appropriately maintained and processes for maintaining advertising campaign records were insufficient. As a result, Horizon Ottawa appears to have contravened the campaign finances rules established by the MEA [MEA s. 88.26(1,3)].

Appendix A – Audit Criteria

Criteria listed below had been developed from material gathered from document review and analysis.

1. Determine whether a segregated third-party advertiser bank account was opened and utilized for the purposes of the 2022 Municipal Elections advertising campaign.	
1.1	Horizon Ottawa opened a segregated third-party advertiser bank account for the purposes of the 2022 Municipal Elections advertising campaign.
1.2	Contributions appeared to be appropriately deposited into, and expenses were appropriated paid for from, the third-party campaign bank account.
2. Evaluate whether contributions were accepted and/or campaign expenses were incurred outside of the advertising campaign period.	
2.1	Contributions were not accepted, and expenses were not incurred, outside of the advertising campaign period (with the exception of expenses related to the preparation of an auditor’s report).
2.2	<p>If contributions were accepted or expenses were incurred outside of the advertising campaign period:</p> <ul style="list-style-type: none"> • The contribution was returned to the contributor or turned over to the Clerk, as appropriate. • The expense was determined to be allowable under the MEA.
3. Verify that contribution limits were adhered to, and that contribution receipts were appropriately issued.	
3.1	Processes were in place to inform every contributor of contributions limits.
3.2	Contribution limits appeared to be appropriately adhered to and contribution receipts were appropriately issued.
3.3	If a contribution was ineligible, the contribution was returned to the contributor or turned over to the Clerk, as appropriate.

3.4	Advertising campaign contributions greater than \$100 in value, including the name and address of the contributor, were included within Horizon Ottawa’s financial statements.
4. Validate that spending limits were appropriately adhered to.	
4.1	Spending limits appeared to be appropriately adhered to based on the general spending limits communicated to Horizon Ottawa on or before September 25, 2022.
5. Confirm that fundraising functions were only held during the advertising campaign period and that gross income and expenses related to fundraising raising events/activities were recorded within the campaign financial statements.	
5.1	Fundraising functions that were held as a part of the 2022 Municipal Elections advertising campaign were appropriately held during the advertising campaign period.
5.2	Fundraising gross income and expenses were incurred during advertising campaign period and recorded within the campaign financial statements.
6. Assess the third-party advertiser’s financial recordkeeping practices.	
6.1	Processes were in place for maintaining advertising campaign records.
6.2	Financial records appeared to be appropriately maintained.

Appendix B – Audit Approach

The results of our planning and fieldwork activities guided the development of our audit approach, which included the following activities:

- Performed a risk assessment to ensure areas requiring focus/attention had been identified
- Conduct interviews, as required, to gain a thorough understanding of the third-party advertiser's campaign finance processes
- Reviewed and examined relevant documentation to further develop our understanding
- Reviewed and analyzed evidence gained through interviews, document review, and testing of campaign finance activities, including a sample of contributions and expenses
- Conducted other procedures as deemed necessary for purposes of concluding on the audit objectives
- Identified apparent/potential contraventions or violations of the campaign finance rules established by the MEA
- Prepared a draft report for distribution to the City Clerk (and/or his designate) and confirmed the validity of the compliance audit performed
- Finalized the report for issuance to the third-party advertiser, the City Clerk (and/or his designate), and the applicant

Appendix C - Glossary

Advertising campaign contributions - Any money, goods or services that are given to a third-party advertiser for use in the advertising campaign, including money and goods that the third-party advertiser contributes to their own campaign.

Advertising campaign expenses – The costs that are incurred during the campaign. These include costs directly related to producing, distributing, or publishing advertisements, as well as indirect costs such as hiring someone to keep track of contributions and issue receipts.

Advertising campaign period – Begins on the day the City Clerk certifies the registration of an individual corporation or trade union to be a third-party advertiser and runs until January 3, 2023, or anytime between voting day and January 3, 2023, if the third-party advertiser is certain that they will not have any more financial activity after voting day.

Fundraising functions - Events or activities held for the primary purpose of raising money for a third-party's advertising campaign.

Third-party advertisement - An advertisement in any broadcast, print, electronic or other medium that promotes, supports, or opposes a candidate in the election, or a "yes" or "no" answer to a question on the ballot.