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# **Office of the City Auditor**

## **Follow-Up of Recommendations**

### **From Previous Audit Reports**

**June 12, 2008**

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## 1. Introduction

All of the Office of the City Auditor's (OCA) audits are directed towards helping City Departments and Agencies achieve their goals and objectives. Although most audits take into consideration how things were done in the past and how they are done today, the information is used to develop audit recommendations to improve future operational effectiveness and efficiency of City business units or processes.

This report provides information regarding the implementation status of audit recommendations contained in various reports we have issued to City Departments. Within each audit report, management responds to the audit recommendation with action plans and target dates to make needed improvements. Much of the benefit from our audit work is not in the observations reported or the recommendations made, but in their effective implementation and resolution.

We perform follow-up reviews to assess the adequacy, effectiveness, and timeliness of action taken by management on reported observations. Performing follow-up reviews is not only a strong governance and risk management practice; it is also mandated in the audit standards that we adhere to. As the governing body for the internal audit profession, the Institute of Internal Auditors (IIA) maintains the *International Standards for the Professional Practice of Internal Auditing* and the profession's *Code of Ethics*. As an organizational IIA member, we are required to adhere to the *Standards* and *Code of Ethics*. These *Standards* require an audit follow-up process to determine the status of outstanding audit recommendations. This in turn provides the assurance that the intent of our recommendations has been accomplished.

## 2. Objective

Our audit monitoring program consists of reviewing the status of actions taken on recommendations in previously released audit reports with the appropriate management staff. It is intended to provide assurance that proposed action plans were or are being carried out and to assess the rationale where action will not be taken or has been delayed.

Our review assesses the extent of corrective action taken, if any, using the following status statements:

**Implemented** – Action was taken to implement the recommendation or an alternative approach was taken that achieved the same objective.

**Partially Implemented** – We observed that action was in progress to implement the recommendation or the recommendation's objective and confirmed that a planned completion date has been formalized.

**Not Implemented** – There was insufficient evidence of implementation action being taken.

**No Longer Applicable** – Recommendations are no longer relevant since the units programs have changed in a manner that the recommendations are no longer applicable.

### 3. Summary of completed follow-up reviews

Since October 2007, we completed eight follow-up reviews of audits previously conducted. There were a total of 31 recommendations made in the original audit reports. The results of our follow-up reviews indicated that management has fully implemented 17 (55%) of the recommendations. In addition, a total of 13 (42%) recommendations are in progress or partly implemented. Only one recommendation has had no progress since the original report was issued. Below is a summary of the implementation status of recommendations made in the eight follow-up reviews completed in this time period.

Audit Report	Recommendations		Implementation Status		
	Number	Agreed	Completed	In Progress	Not Implemented
South Eco Station Cash Handling Review Follow Up	5	5	1	4	0
ETS Fare Evasion Review Follow Up	6	6	6	0	0
Transit Information Centre Cash Handling Review Follow Up	4	4	0	4	0
Property Assessment Data Review Follow Up	2	2	1	1	0
Rundle and Hawrelak Park Concessions Review Follow Up	1	1	0	0	1
Professional Services Agreements, Sole-Source Review Follow Up	7	7	3	4	0
City Archives Cash Handling Review Follow Up	2	2	2	0	0
Corporate Procurement Card Program Review Follow Up	4	4	4	0	0
Follow-up Summary	31	31 (100%)	17 (55%)	13 (42%)	1 (3%)

### **3.1. Completed Projects**

Below are the summaries of eight follow-up reports completed during this reporting period. We are also presenting them for discussion at the June 17, 2008 Audit Committee meeting.

#### **3.1.1. South Eco Station Cash Handling Review Follow Up (Original Report issued November 4, 2005) (Follow Up Report issued October 23, 2007)**

In 2005, we conducted a cash handling review of the South Eco Station. We reviewed the physical security and cash handling procedures and practices at the facility and conducted several audit tests to assess the adequacy and effectiveness of cash handling controls. Areas reviewed included (a) cash equipment, (b) controls over floats, (c) controls over refunds, voids and cancellations, and (d) reconciliation of daily sales and deposit preparation. We identified five opportunities for improvement.

Our follow-up concluded that implementation of one recommendation was complete and four recommendations were in various stages of implementation but required further action. Since the issuance of our follow up review, the Waste Management Branch has advised us that they have implemented all four of the outstanding recommendations. The manual cash register has now been upgraded to a corporate electronic point of sale system. In addition, robbery prevention training has been completed for Eco Station employees and spot checks are performed twice a month for each cashier.

#### **3.1.2. ETS Fare Evasion Review Follow Up (Original Report issued May 10, 2005) (Follow Up Report issued November 1, 2007)**

In 2005, we reviewed the internal controls designed to manage and mitigate ETS fare evasion, evaluated the effectiveness of the fare evasion controls, and developed recommendations designed to reduce fare evasion. At the time of our audit, we estimated an annual revenue loss of \$967,000 and \$664,000 from fare evasions of the bus and LRT systems respectively. We also conducted interviews with Transit Operators, Transit Inspectors, and Transit Security Protective Services Officers to determine the root causes for fare evasion. Root causes included passengers having no money for the fare, short changing the fare payment by using a large number of small coins, using a senior or student pass in place of an adult pass (typically a student pass), use of expired transfers and tickets, abuse of ticket booklets through improper validation (stamping on the wrong side or not validating the ticket), and counterfeiting of bus passes. Our research indicated that modern fare media and collection technology is available and used by other transit authorities. Within the original audit report, we concluded that smart card technology has the potential for meeting ETS's fare collection requirements while assisting to reduce fare evasion.

Our follow-up review concluded that ETS has implemented all six of the recommendations contained in the original report. Transit Security has expanded their role from only patrolling the LRT System to also deploying to surface locations such as Transit Centres, ETS Garages and Bus Stops. Furthermore the Transit Security

Protective Services Officers also now have access to real-time risk assessment information allowing for more effective officer deployment as ETS has implemented an intelligence-based risk assessment system that monitors fare evasion risk levels on a continuous basis. The more effective deployment of Transit Security has resulted in tangible gains including reduced fare evasion on the LRT system, calculated to be in excess of \$200,000 per annum. Intangible benefits include improved safety for ETS employees and passengers.

**3.1.3. Transit Information Centre Cash Handling Review Follow Up  
(Original Report issued May 3, 2005)  
(Follow Up report issued November 20, 2007)**

In 2005, we reviewed the physical security and cash handling procedures and practices at the Transit Information Centre and conducted several audit tests to assess the adequacy and effectiveness of cash handling controls. Areas reviewed included: (a) cash equipment, vaults and skim safes; (b) controls over floats; (c) controls over refunds, voids and cancellations; (d) ticket and pass inventories and (e) reconciliation of daily sales and deposit preparation.

Our follow up review concluded that the Transit Information Centre has made reasonable progress in addressing the three recommendations contained in our original report. As a result, controls over cash handling have improved, but further enhancements are still necessary. During this review, we also noted an additional opportunity to strengthen controls. We will follow up on all of these in progress recommendations again in 2008 or 2009.

**3.1.4. Property Assessment Data Review Follow Up  
(Original Report issued December 5, 2005)  
(Follow Up Report issued January 22, 2008)**

In December 2005, we completed a review to ensure that appropriate security of property assessment data was in place. The Assessment and Taxation Branch collects and stores electronic data on all property and businesses to prepare the annual property and business assessments. Some of this information is confidential and proprietary and as a result should be restricted to only those individuals requiring access. The original audit determined that the Branch had in place some controls to restrict access, however the ability to monitor data access was limited. If a breach were to occur, there were no controls to determine which individuals accessed the information. We made two recommendations that were intended to strengthen the controls around access to proprietary and sensitive assessment data.

Management stated that their action plans to address our recommendations would be complete by January, 2007. The Assessment and Taxation Branch in conjunction with the IT Branch have made efforts to implement our recommendations. One recommendation has now been implemented and the other recommendation remains in progress. We will continue to follow up on the progress of the outstanding recommendation.

**3.1.5. Rundle and Hawrelak Park Concessions Review Follow Up  
(Original Report issued January 20, 2005)  
(Follow Up Report issued March 31, 2008)**

In 2005, we completed a review of the Rundle and Hawrelak Park Concession operations. The concession, paddle boat, and mini-golf attractions provided at Rundle and Hawrelak Park are sub-contracted. Our objective was to determine whether controls and systems were in place to ensure that revenues reported and submitted by the contractor were complete and accurate. Our 2005 review consisted of two main procedures. The first was to determine whether the revenue collected, reported and remitted by the contractor was in accordance with the terms and conditions contained in the contractor agreements. This was accomplished by reviewing the contracts and examining monthly contractor revenue submissions to ensure that revenues due to the City were recorded and received. The second procedure was to assess whether the information provided by the contractor is sufficient to enable spot checks and audits.

The original report contained one recommendation and action plan to implement the recommendation. Our follow up review determined that the recommendation contained in the original report has not yet been implemented. The recommendation is intended to improve the overall accuracy and completeness of contractor revenue reporting. Community Services has committed to a revised action plan that will address the recommendation in 2008.

**3.1.6. Professional Services Agreements, Sole-Source Review Follow Up  
(Original Report issued March 1, 2005)  
(Follow Up Report issued April 22, 2008)**

In 2005, we performed a review to provide assurance that sole-source procurement of professional services was being used appropriately, in compliance with the established guidelines, and in the best interests of the City. Sole-source procurement is used to obtain a variety of professional services, ranging from small projects to complex engineering projects when one party enters into an agreement with another without a tender call or request for proposal. This type of agreement is justifiable and legitimate in several specific circumstances. There is however, a risk to the City that inappropriate use of sole-source procurement can violate the City's procurement principles of openness, transparency and best value.

Our original report contained seven recommendations that were intended to minimize the City's risk exposure to any perceived unfair contract awards and to strengthen the City's adherence to the Agreement on Internal Trade. Our follow-up review concluded that three of the recommendations are implemented and four recommendations are currently in the process of becoming fully implemented pending PSA training to be delivered to the City's various operational areas. To date, we are aware that one session of training was successfully offered on March 31, 2008 and attended by 25 City employees. It is our understanding that there will be additional training sessions offered in the upcoming months. We will continue to monitor the progress in completing the outstanding recommendations.

**3.1.7. City Archives Cash Handling Review Follow Up  
(Original Report issued August 23, 2005)  
(Follow Up Report issued May 7, 2008)**

In 2005, we completed a review of the cash handling operations at the City Archives facility. The City Archives is located in the Prince of Wales Armouries and is operated by the Recreation Facility Services Branch of the Community Services Department. The facility offers a small number of archival or historical related products and services. The facility also rents out meeting rooms and banquet facilities contained within the Prince of Wales Armouries.

The primary objective of the original report was to determine whether cash resources were handled in a manner consistent with established City requirements and whether they were adequately safeguarded against loss. Our original review determined two control deficiencies: that inventory records were not being maintained and that reconciliation to sales of inventory items was not being performed. These controls are necessary to minimize inventory shrinkage due to theft or error. Two recommendations were made within the original report to address these control issues.

Our follow-up review concluded that Community Services has implemented both of the recommendations contained in the original report. Inventory is now being recorded into the Point of Sale (POS) system. In addition, we confirmed that when sales of inventory items occur, they are appropriately being accounted for in the inventory system. In addition, two surprise inventory counts were completed in 2007, one of which we observed. Management has committed to sustaining ongoing surprise inventory counts to test the accuracy of the system and the completeness of sales records.

**3.1.8. Corporate Procurement Card Program Follow Up  
(Original Report issued May 29, 2006)  
(Follow Up Report issued June 12, 2008)**

In 2006, we completed a review of the City's corporate procurement card (CPC) program to determine whether the City is accomplishing its goals in implementing the program and to provide assurance that the City is adequately controlling the program. We concluded that the City is meeting its goal of providing an efficient and cost effective method of acquiring and paying for low value goods and services. We also made four recommendations to help strengthen the program.

Our follow-up review concludes that the City has implemented all four of the recommendations contained in the original report. The City has clarified what constitutes appropriate support documentation for CPC purchases, they have reinforced to users that personal purchases are a violation of the purchasing policy and they have provided up-to-date guidance on items that cannot be purchased using a CPC. The City has also made the recommended improvements to CPC monitoring and controls and they have provided clear corporate guidance for all in-town restaurant and catering expenses.



#### 4. Additional Follow Up Initiative – Assessment and Taxation Branch

At its April 30, 2008 meeting, City Council passed the following motion: “That administration, in consultation with the Office of the City Auditor, provide a report to Executive Committee, on the current challenges faced and actions taken relating to the 2007 Taxation and Assessment Branch Audit recommendations.”

The Assessment and Taxation Branch audit report was completed on March 12, 2007. The report contained six recommendations, which were all agreed to by Management. After the passing of Council’s motion, we met with the Branch Manager of the Assessment and Taxation Branch to discuss the strategies and initiatives put in place to address the workplace issues and challenges facing the Branch.

The Assessment and Taxation Branch has five initiatives in progress to address our recommendations and the challenges that the Branch is facing. These initiatives focus on the assessment complaint/appeal process; development of a new governance model; staffing requirements; technology; and training.

A full report on these initiatives and actions taken on the six recommendations in our original report will be provided by the Assessment and Taxation Branch at the June 23, 2008 Executive Committee meeting.

To date, three of our recommendations have been implemented. The Tax Assessment and Collection System (TACS) software is now better supported with the reorganization of the TACS Working Committee. The Director of Audit and Standards position was vacant at the time of our audit. This position has now been filled and this individual is responsible for establishing and providing the general overview and guidance for the assessment valuation and taxation notice mail out. In addition, the Branch has now developed performance measures that are included in the 2008-10 Department Business Plan, Planning and Development.

The other three recommendations are currently in the process of becoming fully implemented. We will continue to monitor the progress in completing the outstanding recommendations.

## 5. Conclusion

In accordance with our 2007-2008 annual audit plans, we have completed eight follow-up reviews of projects previously completed. The objective of each of these reviews was to determine whether management's proposed action plans for corrective action had been implemented. We verified management's corrective actions through interviews, observation, and audit tests.

Management's corrective actions to the recommendations contained in the seven follow-up reviews have resulted in:

- Increased armored car pickup of cash at the City's Eco Stations.
- More effective deployment of Transit Security resulting in reduced fare evasion.
- Improved cash handling controls at the Transit Information Centre.
- Implementation of access logging for the Taxation, Assessment and Collection System (TACS), resulting in the ability to track when users access the system.
- Better inventory control at the City Archives' facility.
- Strengthened practices and controls and a more consistent approach to the Professional Services Agreements procurement process.
- Clear corporate guidance for all in-town restaurant and catering expenses

To facilitate the follow-up process, we maintain a database of outstanding audit recommendations. After audit report issuance, we track audit findings, including the related management action plans, the position responsible for taking corrective action, and the estimated completion date for corrective action.

The City Manager has indicated that he is committed to ensuring that the Administration makes substantial and significant progress toward the implementation of audit recommendations. To help facilitate this, we have agreed to provide, on a semi-annual basis, a listing of all open recommendations to the City Manager's Office to assist in monitoring progress toward corrective action.

City management is responsible for resolving audit findings and implementing audit recommendations. The above process of tracking recommendation status will help management fulfill this responsibility and ensure that:

- A system of cooperative audit resolution and follow-up is documented and in place;
- There are timely responses to all audit recommendations; and
- Corrective action is taken on a timely basis due to improved communication between the Office of the City Auditor and the Office of the City Manager on outstanding recommendations.

We wish to acknowledge the proactive efforts of the City Manager in ensuring that our recommendations are implemented in a timely manner.