



# Office of the City Auditor



## 2009 Annual Report March 30, 2010

Office of the City Auditor  
Room 1000, Chancery Hall  
3 Sir Winston Churchill Square  
Edmonton, Alberta, T5J 2C3

Phone: 780-496-8300  
Fax: 780-496-8062

Website: <http://edmonton.ca/auditor>

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## 1. Message from the City Auditor

I am pleased to present the Office of the City Auditor's Annual Report for year ended December 31, 2009. As in past years, the Office of the City Auditor (OCA) was successful in meeting its goal of delivering high-quality, innovative and cost-effective audit services. This success is primarily due to our commitment to core values of integrity, independence, and objectivity; and to the dedication, proficiency, and expertise of my staff. I also attribute our success to the support my Office receives from the Audit Committee and City Council, as well as the open and collaborative relationship we have developed with the Administration.

### **Areas of Progress**

Our Office plays an important role in promoting accountability, cost-effective municipal services, and ethical practices. We work with the Audit Committee, City Council and the Administration to improve the effectiveness of the City's risk management, control and governance processes. Our audits identify significant issues and provide practical recommendations to improve the City's operations and services. I am pleased to report that the City has made significant progress in several areas that we reported on in the past few years.

#### ***Improved Budget Processes***

In our 2007 Annual Report, I commented on the need for closer alignment between Council and the Administration around budget processes.

In 2009, City Council and the Administration engaged in more frequent communication as the Administration developed the City's budgets. They also agreed on a preliminary operating budget and the underlying assumptions early in the year to ensure a common understanding of expectations and impacts.

The Administration is also providing Council with more meaningful monthly financial and operational performance information. This combination of actions should allow Council and the Administration to progress steadily toward the final budget submission with common assumptions and performance expectations.

#### ***Effective Use of Performance Measures***

In our 2008 Annual Report, I encouraged the Administration and Council to continue along the evolution of the corporate business planning and performance reporting processes.

In 2009, the Administration began integrating corporate performance measures into the City of Edmonton's Corporate Business Plan. These will indicate to Council, the Administration and the public to what degree the City is achieving its projected outcomes. I am encouraged by the strong desire of both the Administration and Council to move toward utilizing effective performance data to its full potential.

### ***New Audit Committee Structure***

In 2001, I compared the City of Edmonton's Audit Committee structure with best practices and emerging practices of both private and public sector Audit Committees. I brought to Council's attention that current standards in the corporate world require that audit committees have at least one member who has the necessary accounting or related financial expertise to provide independent financial oversight.

I was pleased to see City Council expand Audit Committee's membership in 2009 to include two citizens with extensive background in financial accountability in large organizations.

In addition, Council significantly enhanced Audit Committee's mandate when it passed Bylaw 15310, *Audit Committee Bylaw*, which formalizes the Audit Committee's governance and oversight role.

### **Themes from 2009**

During 2009, in addition to performance and value-for-money audits, we also conducted corporate reviews of Information Technology, Employee Business Expenses, Consulting Services, and Privacy Controls for Laptops and Tablets. Many of our observations revolved around three internal control themes: Clear Roles and Responsibilities, Compliance with the City's Requirements, and Accurate Coding of Financial Transactions.

#### ***Clear Roles and Responsibilities***

Clear assignment of roles and responsibility is a critical element of the City's governance structure. It provides assurance to Council and the City Manager that they have delegated responsibility effectively to City staff to manage municipal operations and services. It also promotes accountability and enables staff to make meaningful decisions in their areas of responsibility.

In 2009, we observed that management and staff did not fully understand their roles and responsibilities, particularly in relation to corporate functions. This resulted in no singular owner assuming overall responsibility and accountability for many corporate business decisions such as IT Governance, privacy controls, and business expense review and approval.

#### ***Compliance with the City's Requirements***

Council and the City Manager establish the goals and objectives they expect the City to achieve. Management is responsible for designing and implementing the system of internal controls over City operations to achieve the stated goals and objectives. These requirements are formalized in City Policies, Administrative Directives, Procedures and Guidelines.

Throughout 2009, we observed and reported instances where City staff were not complying with the City's requirements. Some examples include not preparing adequate business cases, funding projects without positive business cases, and not fully complying with the City's Professional Services Tool Box when hiring consultants.

Overall, City staff's compliance with formal internal controls needs to be improved. City Council and senior management must have confidence that City operations are being planned, organized, managed and monitored in accordance with the direction they have provided. Where non-compliance is detected, immediate action is required to determine and address its cause. If the requirement is valid, appropriate action needs to be taken to ensure the need for compliance is understood and City staff effectively implements the requirement. If the requirement is out of date, new direction should be provided through revised policies, directives, procedures and guidelines, and be effectively communicated to staff.

### ***Accurate Coding of Financial Transactions***

An organization requires a robust financial system, adequate planning of how financial transactions will be tracked, and accurate coding of expenditures as they occur. The information must be complete, accurate, reliable, timely, and presented in a form that facilitates optimal decision-making for Council and the City's management.

Based on our 2009 audit projects, we found that although SAP, the City's corporate financial system provides adequate tracking and coding functionality, many expenses such as procurement of consulting services and employee business expenses were incorrectly coded. In our opinion, this is a result of inadequate upfront planning of how such expenditures will be tracked to provide meaningful reports for budget comparison, cost management and monitoring. In addition, City staff needs to clearly understand and implement the required coding structures to provide complete and accurate reports.

During our audits, we found that we could not always rely on the City's financial system and had to use specialized audit software to obtain a more accurate picture of the City's financial activity. The frequency and extent of miscoding errors we observed in 2009 poses a significant risk for Council and management as they may be basing their decisions on incomplete or inaccurate financial information. This risk must be addressed through appropriate upfront planning, guidance to City staff and effective monitoring processes.

### **Looking Ahead**

I am confident that the City is taking the risks and mitigating controls we identified in our 2009 reports seriously. Council, the Administration, and in some cases, the public have responded appropriately to our 2009 reports. This has already led to many discussions related to assessing and improving corporate oversight.

We will continue to focus our audits on promoting strong internal controls that result in secure, efficient, effective and economical City operations and services. This will assist in providing assurance that taxpayer's dollars and resources are protected and used appropriately.

## 2. City of Edmonton Audit Governance

One of our greatest accomplishments comes from our ability to relate effectively and openly with both members of Audit Committee and Council and the Administration. These relationships have gone far in ensuring that the OCA's recommendations 1) address significant issues, 2) are adopted and implemented by management in a cost-effective manner, and 3) will enhance the overall delivery of services by the City to its citizens.

The City of Edmonton's current Audit Governance structure is an important factor in ensuring that we have the ability to improve accountability and deliver insight into the use of taxpayers' money and resources. The City's Audit Governance structure provides the City with a high degree of oversight, accountability, and transparency.

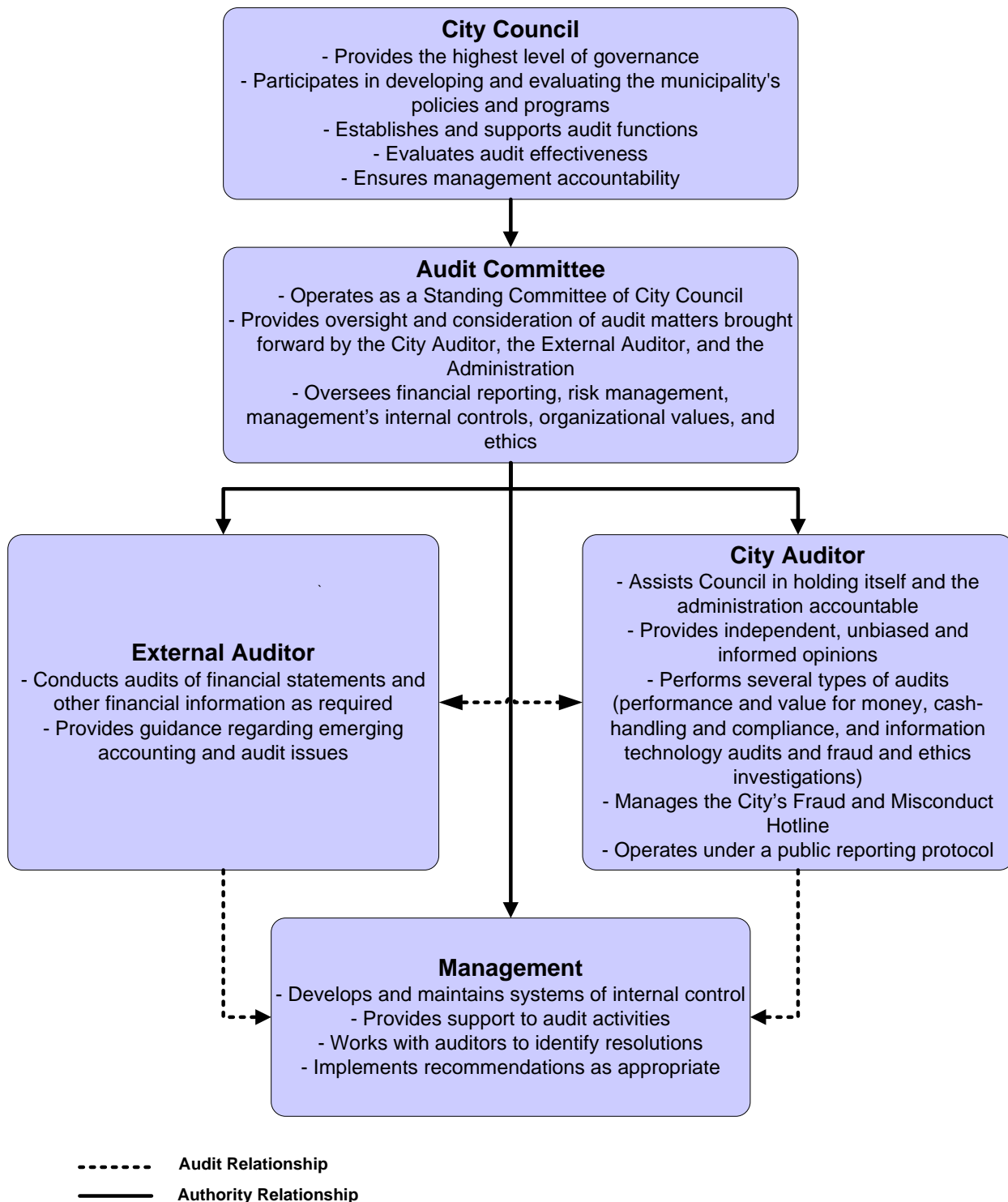
The City of Edmonton's audit legislative framework includes the following documents:

- The *Municipal Government Act* (MGA) establishes Council's principal roles and sets out its general powers and duties. The MGA provides Council the authority to establish and delegate responsibilities to Committees.
- *Bylaw 12424, City Auditor Bylaw*, prescribes the powers, duties and functions of the City Auditor. In 2000, Edmonton's City Council proactively established the City Auditor position as a designated officer for the purpose of internal auditing, pursuant to section 203 of the *Municipal Government Act*.
- *Bylaw 15310, Audit Committee Bylaw*, prescribes the powers, functions, duties, structure and procedures for Audit Committee. The City of Edmonton's Audit Committee provides oversight and support to the Office of the City Auditor.

Chart 1 on the following page provides a high-level overview of audit roles, responsibilities, and interrelationships of City Council, Audit Committee, Management, the City Auditor, and External Auditor. This chart conveys that the audit governance of the City of Edmonton is not the responsibility of a single group, but is shared amongst several groups.

The City's current audit framework enables these five groups to work together to achieve an effective governance environment. The goal of each group individually and all five collectively is to ensure that the City effectively achieves its goals while providing assurance that operations are being conducted in an appropriate and cost-effective manner.

### Chart 1 – Audit Governance Relationships





### 3. Annual Professional Standards Report

Bylaw 15310, *Audit Committee Bylaw*, Section 10(3)(c) states that Audit Committee has authority to “receive an annual report from the City Auditor demonstrating that the Office of the City Auditor is in full compliance with professional standards, including professionalism and competency.”

The following section summarizes our mandate, audit roles and compliance with professional standards.

#### 3.1. Our Mandate

We provide independent, unbiased, and informed opinions to City Council on matters that we consider significant. The scope of our audit work may include all phases of City activities where City Programs or City Agencies may render services.

This requires going beyond the accounting and financial records to include a full understanding of the operations under review and involves:

- Working with Council and Management to improve the effectiveness of the City’s risk management, control and governance processes.
- Providing independent, objective assurance and advisory services to promote efficient, effective and economical City operations.
- Promoting an ethical public service environment.
- Delivering high quality, innovative and cost-effective audit services.
- Communicating significant observations and information to Council, Management, and the public in a timely manner.

#### 3.2. Our Role

We strive to add value to the City of Edmonton and its citizens by promoting accountability, cost-effective municipal services, and ethical practices. To fulfill our mandate, the *City Auditor Bylaw* defines two roles: guardian and agent of change.

Projects conducted in our guardian role are directed primarily towards providing assurance by reviewing existing operations. We typically focus on compliance, controls, efficiency, effectiveness, and economy in order to systematically evaluate and improve the effectiveness of City operations and risk management, control, and governance processes.

In our agent of change role, we participate in proactive and forward-looking projects and provide strategic, risk, and control-related advisory services. These projects are designed to better serve the changing needs of the corporation and help bring about improvements in program performance.

Under our guardian and agent of change roles, we perform the following types of audits to review City operations:

- **Value for Money Audits** determine whether a department, service, or program operates efficiently, effectively, and economically and whether risks are managed appropriately. Results from these reviews are used both by the Administration and by Council to enhance service delivery.
- **Prioritized Projects** are areas where the OCA determines that there are strategic, operational, governance, and project risks faced by organizational units. Prioritized projects begin with identification of goals and the assessment of risks that could keep the organization from reaching those goals. The audit then provides recommendations that the Administration can use to address key risks.
- **Investigations** are designed to confirm or dispel alleged fraudulent behaviour or misconduct by a City employee or other parties. In the case of criminal acts, such as fraud, evidence must satisfy legal requirements before turning the case over to the Edmonton Police Service.
- **Hotline Administration** is coordinated by the OCA. City Policy C522, *Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection* incorporated a confidential hotline as an additional channel for City employees to report suspected fraud and misconduct. The hotline is available to City employees 24 hours a day, seven days a week, all year round by phone or Internet.
- **Cash-Handling Reviews** determine whether cash resources are handled in a manner consistent with established City requirements and are appropriately safeguarded against loss.
- **Compliance Reviews** provide City business areas with specific recommendations to help ensure compliance with applicable policies, plans, procedures, laws, regulations, contracts, and other requirements.
- **Information Technology Reviews** allow the OCA to provide proactive control-related advice and feedback during high-risk information technology systems development. This helps to ensure that appropriate safeguards are in place prior to implementation. Post-implementation reviews of selected applications may be undertaken when warranted. Information Technology Reviews also include use of computer assisted audit techniques which allow us to analyze large amounts of data on corporate systems. We also use some of these techniques to provide ongoing monitoring so as to ensure that specific controls are working as intended.
- **Follow-up Reviews** are normally conducted between six months and two years following the date for projected implementation of the recommendations in an audit report. The purpose of these reviews is to ensure that management action plans are effectively implemented to address the audit findings.
- **Special Projects** are audits or studies that are not listed in our Annual Audit Plan. These may be identified by the City Auditor during a scheduled audit, by City Council, by the Administration, or by a member of the public.
- **Governance Process Reviews** include providing members of the Audit Committee and Council with information that enables them to enhance their governance roles and responsibilities related to corporate oversight.

- **Corporate Steering Committees** are avenues used by the OCA to facilitate proactive involvement in corporate initiatives such as Freedom of Information and Protection of Privacy (FOIP). By serving on selected committees, the OCA is able to ensure that leading practice and control-related input receive appropriate attention throughout the project.
- **Advisory Services** allow the OCA to assist in the development of sound business practices and strategies or the enhancement of existing initiatives. These services include facilitation through Control Self-Assessments (CSA), Enterprise Risk Management process design, and training programs.

### 3.3. Independence and Objectivity

The concept of auditor independence is an essential element of the auditing profession. Independence in auditing is the freedom from conditions that potentially impair the ability of the auditors to effectively carry out their responsibilities in an unbiased manner. Our independence is achieved through both our organizational status (independent of management control) and adherence to the professional standard of objectivity.

The following mechanisms are in place to promote our independence and objectivity:

- The City Auditor's powers, duties, and functions are detailed in City of Edmonton Bylaw 12424, *City Auditor Bylaw*. Bylaw 12424 provides the necessary authority to conduct audits and investigations of any City operation. It also ensures that the City Auditor has unrestricted access to all information that is required during the conduct of projects and to all City-owned and/or operated facilities.
- The City Auditor is directly accountable to City Council through Audit Committee for the exercise of all powers, duties, and functions delegated to the City Auditor. Audit Committee is responsible for providing oversight and consideration of all audit matters brought forward by the City Auditor, thus ensuring our independence.
- Since we have limited audit resources, we utilize a risk-based evaluation process to ensure that our audits focus on the highest risks faced by areas under review. We complete objective assessments of each selected business unit or process to focus on the areas having the greatest potential to positively impact City services.
- The City Auditor is solely responsible to determine the appropriate methodologies, project scopes, and service delivery options necessary to discharge audit responsibilities. The City Auditor is also solely responsible for managing the work and staff of the OCA within the budget and Annual Work Plan approved by City Council.
- Audit staff members are required to follow the OCA's Audit Guidelines and the strict standards of independence and objectivity established by their professional associations. They must also adhere to the Institute of Internal Auditor's Code of Ethics and Rules of Conduct. We ensure that all personal, external, or organizational impairments that may affect an audit are properly mitigated.

### 3.4. Compliance with Professional Standards

Our audit assignments are performed with proficiency and due professional care. Effective quality assurance practices are in place to ensure that audit work is conducted in accordance with professional standards and our reports present information that is reliable, fair, and balanced.

The following quality assurance and professional development program is in place to ensure that we are in compliance with professional audit standards:

- We follow the *International Standards for the Professional Practice of Internal Auditing (Standards)*, established by the Institute of Internal Auditors (IIA). These standards are the internationally accepted criteria by which the operations of internal audit departments around the world are evaluated and measured. These *Standards* require due professional care in conducting audits, professionally qualified staff, independence, adequate supervision and planning of audit work, reporting of audit results, and periodic review of the office's activities by outside professionals.
- We have ensured that our internal *Audit Guidelines* are aligned with the *Standards*. Audit staff are required to follow our *Audit Guidelines* as well as the strict standards established by their professional associations, including the requirement to adhere to their Codes of Ethics and Professional Conduct.
- As a professional internal audit office, we encourage professional development to enhance our skills, effectiveness, and efficiency. This is consistent with one of the stated goals in our Vision statement, which is to *maintain a respectful, team-oriented workplace that helps individuals reach their career potential, and achieve personal growth goals*. We strive to improve our knowledge, skills, and abilities through training, work experiences, and related external activities. We encourage professional certification, facilitate required continuing education, and support staff involvement in professional associations. Training is vital because it keeps us fresh professionally and at the forefront of technology. In addition, staff must meet minimum continuing education requirements to retain their professional certifications. In 2009, some of those activities included attendance and participation in courses, conferences, and seminars pertaining to fraud investigation, project management, improving management in the public sector, Freedom of Information and Protection of Privacy, performance measurement, auditing (including computer-aided auditing), ethics, engineering and accounting principles.
- Several staff members are also active in organizations of auditors, accountants, engineers, public managers, and information technology professionals. Professional associations include the Institute of Internal Auditors, Canadian Institute of Chartered Accountants, Society of Management Accountants, Certified General Accountants Association, Association of Certified Fraud Examiners, Information System Audit and Control Association, Government Financial Officers Association, Association of Professional Engineers, Geologists, and Geophysicists of Alberta, Project Management Institute and the Association of Local Government Auditors.
- To help ensure that our work meets professional auditing standards, we employ quality control policies and procedures in every audit we conduct. These policies and

procedures are aligned with our goal to provide quality advice and are in accordance with our *Guidelines*. For example, conducting appropriate reviews is a procedure that enables us to ensure that we obtain adequate evidence to support project deliverables. Controls which the OCA has established and implemented to help ensure audit quality include: 1) supervisory review, 2) independent review, and 3) a quality control process and checklist.

- We also continuously enhance audit efficiency and effectiveness by utilizing recognized audit leading practices as well as monitoring our results. At the conclusion of all major projects, we perform an internal post-project evaluation. We also issue a customer satisfaction survey to the client to help us monitor our performance and to identify areas where improvements in our operations can be made. In 2009, we completed the process of moving to a totally electronic audit filing and referencing system. Electronic files increase the OCA's productivity and ensure that information is protected and maintained in a secured environment.

The City Auditor Bylaw 12424, states that "the City Auditor will arrange for peer reviews at intervals not to exceed five years." The objective of peer reviews is to obtain independent validation of our compliance to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Our most recent peer review was conducted in 2006. The 2006 peer review resulted in the Office achieving the highest possible rating for both the IIA's Attribute and Performance Standards and its Code of Ethics.

In late 2010 or early 2011, we are planning to undergo our second peer review.

## 4. Projects Completed in 2009

This section highlights audit activity for the 2009 year. Our program of work was set out in our 2009 Annual Audit Plan, as endorsed by Audit Committee in November 2008. In addition to the projects in our Annual Audit Plan, we undertook additional work resulting from a number of unplanned requests, investigations, consultancy projects, etc. All our audit work, whether planned or not, is subject to a risk assessment process, through which we try to ensure that we prioritize our workload appropriately.

Copies of our public audit reports are on our website: <http://edmonton.ca/auditor>. The following projects resulted in formal audit reports in 2009.

### 4.1. Information Technology Corporate Audit

Information Technology (IT) is an integrated part of the City of Edmonton's business environment. The City and those involved in the delivery of IT services face enormous challenges given the increasing demand both internally and externally for more services.

The Information Technology Branch is the business area primarily responsible for delivering the City's IT services, but the demand for and use of IT resources permeates the entire organization. Our two audit objectives were to assess the effectiveness and efficiency in the delivery of the City's IT services and the effectiveness of the City's IT Governance Framework in prioritizing and allocating the City's operating and capital resources for information technology.

We concluded that the City could deploy its IT resources in a more cost-effective and efficient manner. The City is currently engaged heavily in new initiative projects which will further increase future IT resource demands. We recommended that the IT Branch Manager review the current mix between ongoing support and new initiative work with a view toward reducing the new initiative side of the mix, which is aligned with current economic trends.

We also concluded that the IT Governance Framework is not effectively prioritizing and allocating information technology operating and capital resources. We observed that the City did not comply with its own *Project Management for Projects* Administrative Directive for some of the business cases we reviewed. For some projects business cases did not exist even though Capital Budget funding was already approved, while other IT capital projects did not have positive business cases.

We also found that budget estimates identified in business cases were typically lower than funds requested in the Capital Budget. We observed that IT project demands currently originate both from the IT Branch and from other City Departments, not a single governing structure. We believe that all IT projects should be prioritized through a single mechanism. We recommended that the Corporate Services General Manager develop an IT Governance Framework that will address these issues from a corporate perspective.

## 4.2. Consulting Services Review

Spending on consulting services has increased significantly since our last review. The primary objective of this review was to assess the value the City receives from using consultants and whether using external consultants is a cost-effective alternative to hiring additional permanent or temporary staff to perform the work.

Our second objective was to determine whether procurement and accounting practices effectively support monitoring and accurate, consistent reporting on consulting service expenditures.

We concluded that the City's level of effort to identify the need for and assess the value received from consulting services can be significantly improved. Specific areas requiring improvement include developing a business case, assessing alternate methods of achieving the desired results and evaluating performance and outcomes at the conclusion of an engagement.

We observed that there was little attention paid to accurately coding procurement and accounting documents. This resulted in us expending significant effort to arrive at a reasonable estimate of spending on consulting services.

We concluded that Administration must demonstrate the effectiveness and efficiencies gained from the use of consulting services if they intend to maintain the current level of spending. We made three recommendations to strengthen process controls to ensure that they can both demonstrate and measure value for future consultant engagements.

## 4.3. Stolen Fare Product Investigation

Edmonton Transit System (ETS) sells a variety of products to transit users including: Day Pass, Adult Ticket Strip, Youth/Senior Ticket Strip, Adult Monthly Pass, DATS Monthly Pass, and Seniors Monthly Pass. These products are sold through various retail venues and through an on-line store.

We conducted an investigation after being advised that some Transit Fare Products had been stolen. In two separate instances, individuals were apprehended for selling stolen Edmonton Transit System tickets from the same batch of tickets that Edmonton Transit had sent to the Corporate Records Centre for confidential shredding.

We determined that the underlying reason that the theft occurred was that there was not a single process owner with overall responsibility, accountability, and effective integration between the different business units involved with Transit Fare Products.

We concluded that the City needs to implement, and coordinate an appropriate strategy for dealing with its requirements for confidential records destruction. We made three recommendations to strengthen internal controls and help avoid a recurrence of this type of theft.

Three individuals were charged under the Criminal Code of Canada.

#### 4.4. Snow and Ice Control Cost Effectiveness

City Council approved the updated snow removal policy; Policy C409E – *Winter Road Maintenance Program Policy* (the Policy) on July 17, 2007. They also increased the Winter Road Maintenance budget by \$16.5 million to \$49 million in 2008. The objective of this audit was to assess the cost-effectiveness of the City's Winter Road Maintenance Program and Policy.

We determined that Roadway Maintenance used the additional dollars provided in 2008 to meet the Policy requirement of clearing snow from arterial roadways and bus routes within 48 hours of the end of a storm five out of six times. They had not been able to achieve this level of service in the past. Also, as additional plowing took place, the number of collisions on snowy and icy roads decreased by 14% and citizen satisfaction increased by 9%.

We determined that Edmonton spends the most money on winter road maintenance compared to Calgary, Winnipeg, Saskatoon and Regina. However, winter road maintenance costs in different cities are affected by many factors. In Winnipeg they do not have to remove snow from the majority of their streets due to the structure of their roadway system and in Calgary, they have warmer weather (chinooks) and thus less snow to remove. Edmonton has to remove and haul snow from the majority of the arterial roadways and bus routes to ensure safe driving lanes throughout winter.

We observed that overall citizen satisfaction with snow clearing is below 50 percent. The majority of people who responded that they were dissatisfied with winter road maintenance were dissatisfied with residential street clearing, which is not the focus of the Winter Road Maintenance Program. We observed that the number of inquiries from citizens regarding plowing, sanding and snow and ice removal increased by 15 percent. Roadway Maintenance has not determined citizen expectations since 1992. We recommended that Roadway Maintenance become more aware of citizen expectations.

#### 4.5. Operating Budget Process Review

The City Manager is responsible for submitting the City's annual operating and capital budgets to City Council. As the City's governing body, City Council approves funding for the operating and capital budgets.

Our objective in this review was to assess the City's operating budget process to identify improvements that could assist Council and the Administration make informed choices about the provision of services and the utilization of assets.

Our overall conclusion is that while positive steps were taken in 2009, the tough decisions around service levels, priorities, and funding allocations will not disappear. The improved information flow and additional opportunities being planned to discuss these issues should result in closer alignment between the Administration's budget submission and Council's expectations.

We have observed a heightened level of communication between Council and the Administration around budget proceedings. Timely financial updates along with more frequent, meaningful discussions about Edmonton's financial picture are positive and critical steps in this time of economic volatility.



#### 4.6. Employee Business Expense Review

Municipalities need to be in a position to assure taxpayers that their expenditures are reasonable and appropriate. Control and monitoring employee business expenses are an important part of ensuring the City of Edmonton's expenditures are reasonable and stand up to public scrutiny.

The objective of this review was to assess whether policies, procedures and controls over employee business expenditures were adequate and being followed.

We observed that the Administrative Directive, Procedures, and Guidelines governing these types of expenses are readily accessible to staff, but they are unclear and in some areas, inconsistent. Most importantly, the responsibility for ensuring expense claims are complete, correct, and approved appropriately is not clearly documented.

We concluded that the control environment surrounding employee expense payments requires strengthening. The main areas for improvement are related to unclear and inconsistent review and approval controls; the lack of a requirement for original itemized receipts for all expenses; compromised document integrity due to manual changes to expense forms, sometimes after approval signatures are obtained; and payment account coding errors and inconsistencies.

To strengthen the control environment, we recommended that the City define roles and responsibilities of all parties involved in the process; require original documentation to support all payments; develop a consistent corporate expenditure coding methodology; and update the applicable Administrative Directives so that guidance to employees is clear and complete.

#### 4.7. Planning and Policy Audit

The focus of this review was strategic. We directed our efforts to evaluating whether or not land use planning and policy activities support the City's Vision. We also assessed strategic alignment of the Corporate Strategic Plan, Master Plans, and Land Use Supporting Policies and Plans. This review also focused on the Planning and Policy Branch, within the Planning and Development Department, which is responsible for the development of City-wide land use policies and plans

We observed that the City's master plans and the City's Vision are strategically aligned. However, we also observed inconsistent terminology and structure within the City's planning framework. We believe that a significant gap in the City's strategic planning framework exists because of the lack of defined outcomes, targets, and timelines within these documents. Monitoring and reporting results towards the achievement of the strategic goals must be an integral part of this framework.

We observed that similar gaps exist in Land Use policies and plans in that there are no defined outcomes and targets. We made two recommendations to address these issues.

#### **4.8. Edmonton Transit Branch Follow-up to the 2006 Audit**

The objective of this follow-up review was to determine the implementation status of the five recommendations relating to bus and LRT operations from our Edmonton Transit Branch Audit Report issued on December 18, 2006. We re-examined statistical performance information presented in the 2006 report and assessed the actions taken by Edmonton Transit System (ETS) to address our recommendations.

We concluded that Edmonton Transit has implemented two of the five recommendations contained in our 2006 report. Specifically, recommendations related to performance reporting and the development of a long-term fleet replacement and funding strategy.

The following actions need to be taken to address the remaining three recommendations:

- A single method of presenting a revenue/cost (R/C) ratio needs to be established and approved by Council that considers affordability for both transit users and taxpayers. ETS will need to incorporate the approved R/C ratio in service planning and fare product pricing activities.
- The Ridership Growth Strategy needs to be reassessed to take into account the current economic climate and the City's ability to sustain service delivery in the future. Council needs to approve the resulting strategy prior to implementation.
- Service performance standards need to be established, approved and applied consistently to improve the cost-effectiveness of service delivery.

We will monitor the progress towards full implementation of these three recommendations and report the results to Council.

#### **4.9. Semi-annual Recommendation Follow-up**

We maintain a database of audit recommendations to facilitate the recommendation follow-up process. After an audit report is issued, we track audit recommendations with related management action plans, the position responsible for taking corrective action, and the estimated completion date for corrective action.

From June 2008 to June 2009, we worked with the City Manager's Office to follow up on a total of 65 recommendations. Through our assessment of the Administration's actions, we are satisfied that they have fully implemented 37 (57%) of the recommendations. In addition, 26 (40%) recommendations are in progress or partly implemented. Two recommendations have been closed due to the recommended action no longer being applicable.

#### **4.10. Tender Conflict of Interest Investigation**

In February 2009, we were alerted to a potential conflict of interest involving a project contract with a consulting firm (Consultant) that had recently hired an ex-employee of the City. Following a review of pertinent documentation, we chose to initiate a comprehensive investigation into the matter.

We found no evidence that the ex-employee or the Consultant breached any legislation or applicable codes of conduct. We did determine, however, that the City should strengthen its employment and contracting standards to reduce the risk of both real and perceived conflicts of interest. Such conflicts or apparent conflicts can arise when an employee with decision-making authority or procurement influence resigns and goes to work for a company that provides services to the City that encompass the ex-employee's former area of responsibility.

We made one recommendation to help the City limit the impact of similar situations in the future.

#### **4.11. Review of Payment Controls**

We completed an assessment of two unrelated incidents pertaining to payment processing in the City's corporate financial system. The objective of our review was to determine if there was a possible internal control problem with processing payment transactions within the Accounts Payable module of the City's corporate financial system.

Our initial scope was limited to evaluating payment controls in the City's SAP system in relation to the two reported transactions and to provide recommendations to strengthen failed controls. Based on our preliminary assessment, we determined that in view of excessive employee and contractor access to high-risk corporate and departmental systems, the City was in a vulnerable position. We expanded our scope to strengthening access controls in all four corporate systems, as well as identified high-risk departmental systems. We made six recommendations to strengthen access controls in the corporate and high-risk departmental systems.

#### **4.12. U-Pass Review**

The Universal Transit Pass (U-Pass) provides eligible students enrolled at the University of Alberta and Grant MacEwan University unlimited access to regular Edmonton, St. Albert, and Strathcona County transit services. As the three-year pilot for the U-Pass program is set to expire in April 2010, we performed a review focused on identifying the additional revenues and costs of the U-Pass program and determined its impact on Edmonton Transit Services' (ETS) overall operations.

In July 2009, we provided the results of this review to City Council, ETS, and to the members of the U-Pass Advisory Committee. ETS referenced our report as part of their September 15, 2009 U-Pass – Pilot Program Evaluation study. On October 14, 2009, City Council approved an approach for continuing the U-Pass program, with the U-Pass price adjusted upwards to better reflect actual program costs.

### 4.13. Corporate Environmental Review

This review focused on the City's corporate environmental governance framework and selected strategic objectives contained in the *2008 EcoVision Annual Report*.

Overall, we found that the City's environmental governance framework is an appropriate framework for managing the achievement of environmental strategic objectives. The framework is accountable, transparent, has defined roles and responsibilities for the committees involved, and allows for the prioritization and allocation of resources. The City also has developed environmental strategic objectives and performance targets, is collecting data, and is reporting on results.

We observed that the results are not presented as a formal report to Council. We recommended that the Administration regularly report to Council on the achievement of environmental objectives. This gives City Council members an opportunity to ask questions and provide feedback on the achievement of objectives. We also recommended that the Environmental Policy and Leadership Committee ensure that their reports on environmental strategic objectives include indicators that are relevant to the objectives and sufficient to assess all components of the objectives. They should also assess how other cities and levels of government report on similar objectives.

For each strategic objective we selected, we chose one indicator that related to the objective and assessed it for reliability, accuracy, and completeness. We also assessed the process used to determine the targets for each indicator. We did not find any issues with how targets were selected, but we did find that in three of the five indicators we selected, there were issues with the accuracy, completeness, and/or reliability of data used to calculate the results. We made three recommendations to the applicable business units to improve on the accuracy, completeness, and reliability of the data being presented.

### 4.14. Fleet Services Follow-up

The objective of Fleet Services Branch Follow-up Audit was to report on the status of Management's implementation in response to the twelve recommendations made in the 2007 Mobile Equipment Services Branch Audit and to City Council's 2008 motion calling for the Branch to reduce its costs by \$4 million in its 2009 budget submission.

Through Council motions, budget expenditures were reduced by \$2.0 million in 2008 and another \$4.0 million in 2009. We confirmed that these reductions were included in the finalized 2008 and 2009 operating budgets. As part of these savings, Fleet Services management demonstrated improved mechanic productivity with an estimated net cost avoidance of \$1.5 million once fully implemented.

Of the twelve recommendations in our original audit, nine have been satisfied and three are in progress. Fleet Services has made improvements in customer communications as illustrated by greater customer engagements in projects, customer forums and surveys. Fleet Services has also improved a number of key processes such as equipment planning, inventory control, and warranty recovery.

We will monitor the progress towards full implementation of the remaining three recommendations and report the results to Council.

#### 4.15. Audit of Privacy Controls for Laptops & Tablets

The City of Edmonton uses laptop and tablet computers (mobile devices) to carry out its routine business. Some of these mobile devices contain personal information (recorded information about an identifiable individual).

When a mobile device containing personal information is lost or stolen, a privacy breach occurs. The City must ensure that the personal information they collect and store is continually protected, as required by privacy legislation.

We conducted an audit of privacy controls to provide assurance that appropriate safeguards are in place to protect personal information residing on the City's mobile devices.

Our overall assessment of internal controls over personal information on the City's mobile devices is that:

- The City has implemented reasonable *physical controls* to protect personal information on mobile devices. We made recommendations for improvement to enhance these controls.
- The City has not implemented reasonable *technical* and *administrative controls* to protect personal information on mobile devices.

We believe that the root cause of the gaps between a strong internal control environment and the City's actual practices is the lack of clarity in roles, responsibilities, accountabilities, and authority for managing personal information on mobile devices. We recommended that Corporate Services develop an implementation plan to resolve the identified issues.

We also identified several attributes that would strengthen the corporate investigation process to ensure that it is both effective and timely. We recommended that Corporate Services develop and formalize a corporate investigation process to be followed for all laptop and tablet computers reported stolen or missing.

## 5. Other Audit Activity in 2009

In addition to projects that were identified on our 2009 Annual Work Plan, other activities emerged during the year. This section summarizes the additional significant activities and initiatives that we were involved with in 2009.

### 5.1. New Audit Committee Bylaw

For the first time in the City of Edmonton's history, two citizens were appointed to a City Council committee. Council's decision to add two citizens, at least one of which must have a professional accounting designation, has ensured that Audit Committee will consistently have a high level of financial literacy.

A review of the roles and responsibilities of Audit Committee had not been performed since establishing Audit Committee as a separate standing committee in 2002. The addition of two Public Members to Audit Committee in 2009 presented an opportune time for Audit Committee to review its role and mandate. To assist with that review, we compared the Audit Committee's current charter to both private and public sector audit committees.

We conducted a survey of Canadian municipalities to determine what leading practice elements are in place within other municipal Audit Committee Terms of Reference. We also obtained information on the composition and terms of appointment of audit committee members. We reviewed documented national and international audit committee practices to identify opportunities to enhance the City of Edmonton's Audit Committee Terms of Reference by incorporating leading practices. Based on our review, we incorporated a number of leading practices into Bylaw 15310, *Audit Committee Bylaw* for Audit Committee's review and consideration.

On November 23, 2009, Audit Committee reviewed their mandate and recommended changes to City Council. On December 16, 2009, Bylaw 15310, *Audit Committee Bylaw*, received three readings. It prescribes the powers, functions, duties, structure and procedures for Audit Committee and significantly enhances Audit Committee's governance and oversight role.

### 5.2. Audit Committee Orientation

On June 18, 2009, we provided an Audit Committee orientation for the two new Public Members of Audit Committee. As part of the orientation, we provided updated reference materials to all Audit Committee members that discussed our office and provided an overview of audit functions and interrelationships within the City of Edmonton. The orientation material outlines the governing relationships between City Council, Audit Committee, and the City Auditor and provides information focusing on Audit Committee roles and responsibilities.

### **5.3. Knighton Award**

In May 2009, the Association of Local Government Auditors (ALGA) awarded our office its prestigious 2008 Knighton Bronze award for our 2008 report on the *23<sup>rd</sup> Avenue and Gateway Boulevard Interchange Project* in the Medium Audit Shop category (6 to 15 auditors). ALGA is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education and training, while upholding the highest standards of professional ethics. ALGA currently lists more than 2,000 members, from Canada and the United States, representing a wide diversity of local government audit organizations. The Knighton Awards are given each year to the offices producing the top-rated performance (value-for-money) audit reports. Knighton Award winners are selected by a team of judges from peer organizations. Audits are evaluated using selection criteria including: scope and the potential for significant impact, persuasiveness of conclusions, focus of the recommendations on effective and efficient government, clarity and conciseness of communication style, and innovation.

### **5.4. Project Management Learnings**

In 2009, we were invited by several organizations to share our project learnings arising from the 23<sup>rd</sup> Avenue and Gateway Boulevard Interchange Review. Formal presentations were made to the Project Management Institute (Northern Alberta Section), the Association for the Advancement of Cost Engineering (Aurora Edmonton Section), and the Program Management Branch (Capital Programs Division) of Alberta Infrastructure.

### **5.5. External Audit Support**

We meet regularly with Deloitte to discuss ongoing and future audit projects. We also provide assistance to the City's External Auditors, Deloitte, in its audit of the City's financial statements. Coordinating our audit efforts with the external auditor provides benefits to the City, including avoiding duplicate work. We provide Deloitte with copies of our audit reports, as required, to help them plan their financial statement audit.

### **5.6. Police Commission Self Assessment**

In 2009, we supported the Edmonton Police Commission's self-assessment exercise for the second time. The Commission monitors its progress towards achieving its priorities and strategic plan and annually assesses whether course adjustments are required. The self-assessment process involved having each Commission member complete two surveys – A Commission Self-Assessment Survey and a Chair Evaluation. The Commission initially requested us to assist in evolving the process in 2008 and did so again in 2009. We received and consolidated the 2009 Edmonton Police Commission self-assessment surveys and prepared a report of survey results for the Commission's consideration. We presented the report at the Commission's October 22, 2009 meeting.

## 5.7. Password Reset

We provided proactive risk and control-related advice to the working committee responsible for implementing Password Reset. This is a foundational IT initiative that allows employees to unlock or reset their Windows account password if they forget it or become locked out of their account. They no longer have to call the City's Inside Information group to have their password reset or account unlocked. The application verifies their identity based on answers they provided when enrolling in this initiative.

We worked with Information Technology Branch (ITB) staff to ensure that all required controls were in place prior to ITB making this service available to employees. This initiative has been fully tested and implemented.

## 5.8. Bylaw Community Standards Grant

City Council approved a Bylaw Community Standards Fund as part of the 2008 operating budget. Its purpose is to establish a yearly grant fund that provides money to small-scale projects organized by community groups or business associations to benefit communities by promoting safety, cleanliness and livability at a neighbourhood level. In 2008, we provided proactive control-related feedback on a pilot program for the grant allocation process and assisted the Complaints and Investigation Section, Planning and Development Department, in ensuring that the \$150,000 annual fund is safeguarded, fairly distributed, and accounted for.

In 2009, we evaluated the results of the pilot program, conducted tests for compliance to established procedures, and provided recommendations to strengthen controls and further enhance the grants allocation process. All of our recommendations during the pilot and post pilot have been incorporated in the roll out to the 2009 grant allocation process and beyond. We received positive feedback from the Project Manager and the Manager of Community Standards Branch and they are sharing learnings from the pilot with City staff responsible for implementing other grant programs.

## 5.9. Bill 202

The City of Edmonton was invited to make a written submission on Bill 202: *Municipal Government (Municipal Auditor General) Amendment Act, 2009* to the Standing Committee on Community Services of the Legislative Assembly of Alberta.

In response to Bill 202, we prepared a formal report (*Overview of City of Edmonton's Audit Function*) for City Council's information. Our report formed the substance of the Mayor's written submission to the Standing Committee on Community Services of the Legislative Assembly of Alberta. In addition, the City Auditor joined the Mayor in presenting the City's position on the proposed new legislation to the Standing Committee on Community Services of the Legislative Assembly of Alberta. We aimed our presentation at ensuring that the Standing Committee understood the framework of the City of Edmonton's audit oversight prior making a decision on Bill 202.

On November 24, 2009, the Standing Committee on Community Services of the Provincial Legislature passed a motion that "Bill 202, the Municipal Government (Municipal Auditor General) Amendment Act 2009, not proceed..."



## **5.10. International Fellowship Program**

For the second year in a row, the Canadian Comprehensive Auditing Foundation (CCAF) asked us to partner with the Office of the Auditor General of Alberta to host two more auditors from Vietnam for the 2009 International Fellowship Program.

The International Fellowship Program invites senior auditors from a partner country's government audit office to acquire knowledge and experience in audit methodologies, techniques and practices for the purpose of transferring that knowledge to their colleagues upon their return home.

As part of the fellow's program, we provided the auditors with some training and orientation on the City of Edmonton's Governance Structure. The two auditors participated in a number of activities that allowed them to become familiar with our city, the City of Edmonton's organization, and our approach and methods to auditing.

## **5.11. Chinese Delegation Presentation**

On May 4, 2009, we made a presentation to a delegation of 15 government officials from China (Ningxia Hui Autonomous Region – Ningxia Audit Department and the China National Audit Office) and two representatives from Transparency International Canada on performance (value-for-money) audits from a City of Edmonton perspective. Their tour also included audit offices in Ottawa and Toronto.

The Canadian International Development Agency (CIDA), Transparency International Canada, and the Chinese Government organized the study tour. CIDA was established in 1968 with the aim to reduce poverty, promote human rights, and support sustainable development. The purpose of Transparency International Canada Inc. (TI-Canada) is to inform businesses, government, and the general public of the effects of corruption in national and international marketplaces, and to provide support and resources for public and private sector initiatives to prevent corrupt business practices.

## 6. 2009 Fraud and Misconduct Hotline Summary

The City implemented its Fraud and Misconduct Hotline on January 2, 2007. Section 27(2)(g) of Bylaw 12424, *City Auditor Bylaw*, requires the City Auditor to provide the Audit Committee with periodic reports related to the overall hotline activity. Below is a brief summary of hotline activity for 2009.

### 6.1. Background

The City of Edmonton values integrity and ethics and expects its employees to demonstrate civic values by working responsibly, being trustworthy, and behaving ethically. However, the risk of fraud and misconduct is an inherent part of conducting business in all organizations, including the public sector. Measuring the total cost of occupational fraud is a difficult task because fraud is hard to detect and can sometimes go undetected for many years. According to the Association of Fraud Examiners, the typical Canadian organization loses 5% of its annual revenues to fraud every year.

### 6.2. Hotline Operation

The City has promoted its Fraud and Misconduct Hotline as an additional channel for employees to report alleged fraud or misconduct anonymously (if desired) and confidentially. The hotline is available 24 hours a day, seven days a week, all year round. Employees can provide anonymous reports using an online web reporting service or through professionally trained live agents via a toll free telephone service.

The hotline system provides the following eight reporting categories:

- Financial reporting and accounting
- Health and safety, environment
- Unethical conduct and conflict of interest
- Manipulation or falsification of data, records, reports, contracts
- Harm to people or property
- Theft, embezzlement, fraud
- Violation of laws, regulations, policies, procedures
- Miscellaneous

The reporters are asked to indicate the category that best represents or describes the nature of their complaint when providing reports to the hotline. Employees are also asked to answer additional questions to validate the information provided and gather pertinent information should an investigation be initiated. Automatic e-mail notifications immediately alert authorized OCA employees to newly submitted or updated reports that are stored on the service provider's Canadian-based secure servers. The security of the system was reviewed by a team of City staff from the OCA, Information Technology and Law Branches as well as staff members with privacy expertise.

When reports are received, authorized OCA employees conduct a preliminary screening to determine the disposition of the report in accordance with the Protocol document prepared and maintained by the City Auditor and the City Manager. Depending on the

nature of the complaints, we decide whether to investigate the reports or refer them to the City Manager or relevant City Boards or Authorities. The case management system provides a variety of summary and detailed reports to facilitate tracking and reporting.

To ensure that all alleged fraud and misconduct reports are tracked, monitored, and reported using a common system, we input reports received directly from employees via the City's e-mail, telephone, general mail, etc. into the hotline system with a unique identifier. This method also provides an effective quality assurance tool for us to ensure that the hotline system is operating as intended. All such reports have been included in the following Fraud and Misconduct Hotline Summary to provide comprehensive information on our 2009 investigative work.

### **6.3. Hotline Administration and Cost**

Currently, existing internal resources administer the hotline in addition to their normal duties. Based on our current experience, additional resources will not be required to administer the hotline in 2010. We will continue to monitor the volume of complaints received through the hotline and other sources, the effort required to investigate them, and the impact on our ability to meet our 2010 and future Annual Plans that are approved by Council. The annual operating cost of the hotline will be approximately \$21,000 for 2010. We have been able to absorb this cost in our budget.

### **6.4. Hotline Activity**

In 2009, we received 39 reports through the hotline, of which 15 (38%) were through live agents, 23 (59%) were through the online web service, and one (3%) was through the hotline voice mail service. In addition, five reports/complaints were received directly by us, three through phone calls, one via e-mail, and one via the City's inter-office mail service.

A total of 44 reports/complaints were received and reviewed for 2009 in comparison to 33 reports for 2008. All 44 reports have been closed.

The following table summarizes the reports received by the Hotline and the OCA for 2009 by report category. For comparison purposes, a summary for 2008 has also been provided.

### Reports received by the Hotline and the OCA – 2008 and 2009

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

#### 6.4.1. Disposition of Reports/Complaints

The OCA screened all 44 of the 2009 reports to determine their disposition in accordance with the Protocol document and appropriate City Policies and Administrative Directives. The following is an explanation of the process that led to the investigation of 16 of the 44 reports received in 2009.

Despite our attempts to obtain additional information through the hotline system, we were unable to take action on some reports due to insufficient information. The system's interactive dialogue capability allows us to pose additional questions within the security of the web application while maintaining the employee's anonymity. Possible reasons for employees not providing the requested information are that they may not be checking the status of their report on the system, or they may not be able to substantiate their complaint and provide the required information. Other possible reasons are that they may have addressed their concern through other sources or decided not to pursue further action.

Some reports provided tips that we can use on future audits. We will use these reports in future audits to design tests that may lead to improved controls within City operations.

Due to the nature of the complaints and the knowledge and expertise required, we referred some reports that pertained to operational matters to the Administration for investigation through the City Manager. In these cases, we asked departmental management to report back to us on the resolution and any action taken. We reviewed the results of these investigations prior to closing the reports on the hotline system.

We investigated the remaining reports on fraud and misconduct in accordance with internal procedures and guidelines, as well as professional standards. We investigated these cases in detail and gathered evidence to confirm or dispel the allegation reported. We also consulted with internal experts from Corporate Security, the Law and Human Resources Branches, as well as appropriate departmental staff as required.

We also received a number of reports that pertained to workplace issues that fall within the jurisdiction of the City Manager. Our research indicates that when organizations implement hotlines, employees, who feel that their complaints to management have not resulted in appropriate action, use the hotline as an additional avenue to elevate their complaint. In accordance with City Policy C522 and the Protocol document, we referred these reports to the City Manager for resolution, closed them on the hotline system, and informed the employees who submitted the reports accordingly. We are also making continuous efforts to educate City employees to report workplace issues to their supervisors and other City resources.

We also have regular meetings with the City Manager and the Director of Corporate Security to evaluate the nature of the complaints received and determine whether any corporate action needs to be taken. This forum will assist us in the future to focus on common areas of concerns identified through trend analysis of all complaints received.

The following table summarizes the disposition of the 44 reports/complaints we received in 2009. For comparison purposes, a summary for 2008 has also been provided.

#### Disposition of Reports/Complaints – 2008 and 2009

Description	2008	2009
No action taken (insufficient information, comments and inquiries on the hotline, follow-up on previously submitted report, etc.)	9	5
Tips provided that will be used in future audits	3	4
Referred to the City Manager (workplace issues, retaliation complaints, etc. that are outside the scope of the OCA)	7	19
Reports/Complaints Investigated by the OCA	7	9
Reports/Complaints Investigated by the Administration	7	7
<b>Total</b>	<b>33</b>	<b>44</b>

The above results indicate a significant increase in employee concerns around workplace issues. In 2010, we will work with the City Manager to provide employees better access to effectively address such concerns and explore additional reporting channels if required. In addition, we will, in collaboration with the City Manager, provide further clarification to employees on definitions of fraud, misconduct, and workplace issues.

#### 6.4.2. Investigation of Reports and Complaints

In 2009, the OCA and Administration investigated 16 reports/complaints, nine by the OCA and seven by the Administration. We have closed all the investigations. For investigations conducted by the Administration, the protocol in place requires the individuals conducting the investigations to consult with the OCA to ensure they have followed appropriate investigative steps. We reviewed all findings from reports investigated by the Administration to ensure that the investigations were thorough and

applicable action plans were sufficient. Based on our review, we determined whether additional action was required prior to us closing the complaint.

All employees participating in the review and/or investigation of these allegations were required to maintain confidentiality and comply with the *Freedom of Information and Protection of Privacy Act*. Employees who submitted the reports through the hotline were given the opportunity to provide additional information during the investigation.

## **6.5. Outcomes of the Completed Investigations**

Of the 16 complaints that were investigated and closed, seven allegations could not be substantiated and confirmed based on the information available. Therefore, no further action was taken.

The remaining nine allegations were substantiated and confirmed, and resulted in the following outcomes.

### **Overcharging for road barriers**

As a result of a joint investigation conducted by our office and the Administration, the City of Edmonton recovered \$11,180 from a contractor. We found that the contractor did not construct concrete road barriers in accordance with the required specifications. Construction engineers reviewed the structural strength of concrete barriers and concluded that there is still sufficient strength in the barriers that durability is not affected.

### **Misuse of City property**

A violation of the City's Code of Conduct occurred when City employees were inappropriately parking in a City of Edmonton Parkade. Individuals were transferring their work parking pass for use to their personal vehicle. As a result of this complaint, the Administration issued a directive to ensure that this practice is discontinued.

### **Theft of cash at City of Edmonton facility**

In May 2009, we conducted an investigation into an alleged cash theft at a City of Edmonton Community Service's Facility. Our investigation focused on the identification of control weaknesses as well as assessing the losses sustained. Our analyses, based on information provided during the employee's termination interview, calculated an estimated loss of approximately \$13,700. The City forwarded the evidence prepared in this case to the Edmonton Police Service. The case concluded with the ex-employee pleading guilty and being sentenced to 18 months suspended sentence and 18 months probation. The employee was ordered to refrain from any contact with the City's Community Services Facility, and also ordered to provide restitution of \$1,000 to the City.

### **Theft of cash at a second City of Edmonton facility**

In November 2009, in collaboration with the City's Corporate Security Office, we conducted another investigation into an alleged theft at a different City of Edmonton Community Service's facility. In this case, we compared the transaction records for the accused against transaction records for all cashiers working at the facility. We determined that the individual had significantly more "no sale" transactions than what we would normally expect. Further analysis identified a potential loss of approximately

\$5,300. Management advised us that they terminated the individual's employment with City of Edmonton and the Corporate Security Office forwarded the evidence prepared in this case to the Edmonton Police Service. Edmonton Police Service advised the City that the likelihood of conviction was extremely low, so no charges were laid. As a result of our investigation, we provided five recommendations to Community Service's management to reduce the possibility of future occurrences. In addition, the individual reimbursed the City of Edmonton \$1,600.

### **Inappropriate usage of email**

We confirmed that the content of an individual's email communications were in violation of the City of Edmonton's Administrative Directive A1429, *Acceptable Use of Communication Technology*. The employee's supervisor provided the employee with a memorandum that outlined expectations regarding proper computer use. The employee's supervisor also placed the memorandum in the employee's file.

### **Not disclosing operation of a private business**

We received an allegation that an employee was operating a business on the side and was using City of Edmonton equipment for this business. We reviewed the individual's project and labour records and uncovered evidence that the employee was operating a private business similar to what their responsibilities were with the City of Edmonton. We recommended that management take immediate steps to further educate all staff on the obligations identified in the City's Code of Conduct. Management implemented a process that included developing an operational directive for staff which deals with norms, code of conduct, City of Edmonton policies, procedures and directives, as well as accountability responsibilities.

### **Inappropriately claiming long term disability**

We received an allegation that an employee who was claiming long-term disability because he was not able to lift heavy objects was working at a private business that required heavy lifting. Human Resources conducted the investigation and confirmed that the allegation was true. The City subsequently terminated the employee.

### **Irregular work hours**

We received a complaint that an employee was not available for meetings in the late afternoon since the employee often went home early. We passed this file on to departmental management to investigate. Management reinforced the appropriate hours of work with the employee by having the employee sign an understanding relating to work hour expectations.

### **Misuse of City Resources**

We received an allegation that a City employee lent a Microsoft surface personal computer to an outside organization in violation of the purchase agreement. This also minimized the City's ability to safeguard the asset. As a result of the tip, the organization has returned the computer to the City of Edmonton.

## 6.6. Summary

The key benefit from the hotline is the fact that it serves as a deterrent to fraud. In its 2008 Report to the Nation on Occupational Fraud and Abuse, the Association of Certified Fraud Examiners found “that approximately half of fraud tips came through a hotline when that mechanism was available.”

As important as the dollar recoveries that occurred in some investigations, the recommendations that arose from a number of the investigations allowed business operations to strengthen their controls and improve their operational practices and procedures. We will continue to work with the Administration to implement an effective ongoing communication strategy that promotes the hotline as part of the City’s overall program for encouraging ethical behavior and minimizing instances of fraud and misconduct.

In conjunction with the City Manager, we will also establish and implement a corporate communications strategy to improve employee fraud awareness using a variety of tools and methodologies including a fraud awareness training program that meets current and ongoing needs.



## 7. Measuring our Performance

Just as we assess the performance of City Departments, we are accountable for our performance in relation to our goals. While measuring an internal audit function has historically been difficult, we have implemented a range of performance indicators that are designed to provide assessments of both our internal business processes and our external outcomes. We measure key quality and efficiency indicators in order to continuously improve our strategic performance and results.

We have adopted the four perspectives of a Balanced Scorecard™ as our framework for performance measurement. The Balanced Scorecard™ is a way of measuring our success, by balancing long-term and short-term actions and by balancing customer relationships, internal business measures, learning and human resource measures, and financial measures. Each of these measures is an indicator of our success towards achieving our strategic vision and mission.

The following statistics provide an overview of our performance trends over the past five years. We have been able to maintain consistent performance during that time.

Performance Indicator	Industry*	2005	2006	2007	2008	2009
<b>Customer Relationships (client surveys)</b>	(out of 5)					
<b>Communication</b> How well the client was informed of objectives, process, timeframe, and emerging findings.	N/A	4.4	4.4	4.6	4.6	4.6
<b>Understanding of client's business</b> How well the audit staff demonstrated their understanding of the client's issues and challenges.	N/A	4.3	4.4	4.6	4.4	4.5
<b>Professionalism</b> How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients.	N/A	4.6	4.6	4.6	4.7	4.6
<b>Quality of findings</b> Practicality, adequacy, and openness of communication with the clients.	N/A	4.2	4.4	4.6	4.4	4.5
<b>Overall average</b> Client's overall assessment of the value received.	4.3	4.4	4.5	4.6	4.5	4.6

Performance Indicator	Industry	2005	2006	2007	2008	2009
<b>Internal Measures</b>						
<b>% Recommendations accepted</b> A measure of the value provided by the audit.	92%	92%	100%	100%	100%	100%
<b>% Recommendations Implemented or Satisfactory Progress Observed During Follow-up</b> A measure of the feasibility of recommendations.	83%	97%	94%	90%	97%	93%
<b>% chargeable time vs. available time</b> A measure of the available time worked on projects.	74%	79%	83%	78%	75%	82%
<b>% of completed engagements to number scheduled</b> A measure of office productivity.	80%	N/A	N/A	91%	90%	95%

\*Industry is represented by the Association of Local Government Auditors. The latest comparative year is 2008.

Performance Indicator	Industry	2005	2006	2007	2008	2009
<b>Human Resources</b>						
<b>Days of City-funded training &amp; development/employee</b> A measure of staff commitment to maintaining and enhancing professional certifications and skills.	8 – 12	9.3	10.9	8.9	9.9	7.0
<b>Percent staff certified or with advanced designations</b> A measure of staff qualifications.	64%	93%	93%	93%	92%	92%
<b>Average years of audit experience</b> A measure of staff commitment to the audit profession.	10 to 15	14.8	15.7	14.4	13.2	13.7

Performance Indicator	Industry	2005	2006	2007	2008	2009
<b>Financial</b>						
<b>% Actual vs. budgeted expenditures</b>	90 to 110%	93%	90%	90%	90%	84%

### Office of the City Auditor Budget Performance – Year Ending 2009 – (\$000)

	Ytd Budget	Ytd Actual	Variance	Variance %
<b>Total Expenses</b>	\$1,936	\$1,623	\$313	16.2%
<b>Total Revenues</b>	0	0	0	0
<b>Net Position</b>	\$1,936	\$1,623	\$313	16.2%

Expenditure	(\$ 000)	Variance Explanation
Personnel	208	Two maternity leave absences and one vacancy for part of year.
Material and Equipment	11	Due to savings on stationery, computer hardware purchases, and computer software maintenance.
Services	51	Internal staff used to conduct audits resulting in a saving of projected consulting fees.
Other/General Costs	43	Due to savings on telephone charges, travel and training, memberships, and professional fees.
<b>Total</b>	<b>\$313</b>	

## 8. Conclusion

In this annual report, I have reported on the results of projects we undertook in 2009 and provided reports on the Fraud and Misconduct Hotline as well as our performance. I am proud of our accomplishments and our contributions to the City of Edmonton in 2009. Implementation of recommendations contained in our reports facilitate a more open, transparent and accountable municipal government. Consistent with our *Mission*, we believe that Edmontonians want our audit projects to add value to the City of Edmonton by promoting accountability, cost-effective municipal services, and ethical practices. In 2009, we tackled some tough issues that were both challenging and sensitive. I believe that by dealing with these issues, we were able to provide recommendations that will improve City services and provide better value for tax dollars.

I acknowledge the support and keen interest in our work that members of Audit Committee and City Council demonstrate as we support them in their governance roles. I value my strong, open relationship with the Audit Committee and City Council. That relationship is a critical contributor to our success.

I also appreciate the support and the cooperation that is extended to us by City Administration. I would also like to acknowledge and thank the recently retired City Manager, Al Maurer. My relationship with Mr. Maurer was one of mutual respect and collaboration throughout all audit projects. Throughout his leadership, he ensured that we were provided the necessary information to conduct our projects. I look forward to working with the new City Manager, Simon Farbrother in 2010.

In closing, I wish to pay tribute to my staff. The audit task is never an easy one. Our accomplishments in 2009 would not be possible without the competency and dedication they bring to each of our audit projects. I am very fortunate to work with such a talented and professional group of individuals.

### **2009 Staff of the Office of the City Auditor**

Gordon M. Babey  
Chrisy Burton  
Bill Cook  
Paul Ebenezer  
Leslie Glasbeek  
Todd Horbasenko  
Larry Laver  
Rhonda Minchau  
Beata Montgomery  
Janine Mryglod  
Almas Murji  
Edwin Ryl  
Thomas Wong  
David Wiun