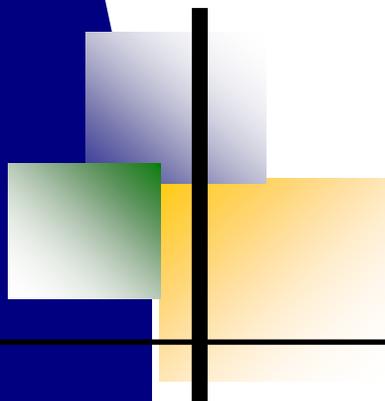


Office of the City Auditor



2014 Annual Report
March 18, 2015



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1. Introduction

I am pleased to present a summary of key activities for the Office of the City Auditor for the year ended December 31, 2014. In accordance with Bylaw 12424, *City Auditor Bylaw*, the City Auditor is responsible for all internal auditing activities within City Programs and City Agencies. As City Auditor, I am accountable to City Council through Audit Committee, not to City Administration. This independence allows my office to be objective, impartial, and resolute when reviewing City-related business and program activities.

We conduct high-quality audits with competence, integrity, objectivity, and independence by following international internal auditing standards. Our public reports contribute to good governance by supporting the principles of openness, transparency and accountability in government. Our reports focus on areas where improvements can be made in municipal operations for the benefit of the citizens of Edmonton. In 2014, we focused our audits on uncovering the root causes of performance shortfalls, making recommendations to strengthen operations and procedures on a citywide basis, and using existing data to improve performance.

Our recommendations continue to identify opportunities for new revenue, cost recovery, and increased efficiency, with economic impact well beyond the audit costs. We anticipate that the long-range financial benefits of the audits we completed will include improved efficiency and effectiveness of citywide services and significant improvements to the City's internal controls. We also work to mitigate the effects of fraud and to protect City assets. In addition, we provide insights into the short- and long-term effects of the City's actions.

In addition to producing high-impact audit reports and providing a number of advisory services, we had several notable accomplishments during the year, many of which are highlighted within this report. Those accomplishments include being named by the Institute of Internal Auditors Research Foundation as a "best practice" audit function and a "leader" in performance auditing. This honour was only bestowed upon 11 municipalities in the United States and Canada. The quality of our audits is dependent upon the knowledge, skills, and ability of our staff. I am very proud of my staff and glad to see their hard work recognized with this honour.

The role of this Office and the work we do is important and valued by City Council, the Administration, and the citizens of Edmonton. Delivering high quality reports efficiently and effectively requires a competent, dedicated, and enthusiastic workforce. We understand how important it is to effectively manage our staff, develop them, and provide them with opportunities to grow. Our focus is to provide all our staff with a supportive environment and encourage them in their role of working with us to achieve the desired outcomes of the Office of the City Auditor. I believe it is this work environment that led to a 100 percent job satisfaction rating for the Office of the City Auditor on the City of Edmonton's 2014 Employee Engagement and Diversity Survey.

In 2015, 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. Our Strategic Framework

City Council is responsible for determining the needs of the citizens of Edmonton and providing policy direction to the City Administration. The Administration is then responsible for providing the services and activities required to appropriately address those needs. Audit Committee and City Council rely upon the OCA to provide objective and constructive assessments of how efficiently, effectively, and economically the Administration is fulfilling its mandate within the context of City Council's directives and policies. The scope of our audit work can include all phases of activities through which City Programs or City Agencies provide services to citizens. This requires going well beyond accounting and financial records to developing a good understanding of the operations under review.

Our Vision

Our vision statement defines the focus of the work we do every day:

“Committed to adding value”

Our Mission

Our mission statement defines our purpose within the organization:

“We strive to add value to the City of Edmonton by promoting accountability, cost-effective municipal services, and ethical practices.”

Our Principles

As audit professionals we must uphold the principles of all the professional associations we represent and those of the City of Edmonton. The following principles define our expected behaviour as leaders:

***Integrity
Objectivity
Confidentiality
Competency***

Our Goals

Our strategic goals identify the things toward which we must strive in order to fulfill our mission:

- 1. To support the City's achievement of its strategic goals.***
- 2. To improve the effectiveness of the City's risk management, control, and governance processes.***
- 3. To promote efficient, effective, and economical City operations.***
- 4. To promote an ethical public service environment.***
- 5. To deliver high quality, innovative, and cost-effective audit services.***
- 6. To maintain a respectful, team-oriented workplace that helps individuals reach their career potential and achieve personal growth goals.***

Authority and access

Pursuant to section 203 of the *Municipal Government Act*, Edmonton's City Council proactively established the City Auditor position as a designated officer for the purpose of internal auditing. The City Auditor's powers, duties, and functions are detailed in City of Edmonton Bylaw 12424, *City Auditor Bylaw* (Bylaw). The City Auditor is independent of City Administration and is accountable to City Council through Audit Committee for the exercise of all delegated powers, duties, and functions. The Bylaw 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 any project and to all City-owned and/or operated facilities.

Adherence to professional standards

Professional standards provide an overall framework for ensuring that auditors have competence, integrity, objectivity, and independence in planning, conducting, and reporting their work. We follow the *International Standards for the Professional Practice of Internal Auditing (Standards)*, established by the Institute of Internal Auditors (IIA). We have fully aligned our internal *Audit Guidelines* with the *Standards*. Audit staff members are required to follow our *Audit Guidelines* as well as the strict standards established by their professional associations, including the requirement to adhere to the City's and their own associations' Codes of Ethics and Professional Conduct.

Independent quality assurance review

The *Standards* and the *Bylaw* both require the Office of the City Auditor to undergo an independent external quality assessment review at least once every five years. The Office of the City Auditor's last peer review was a full External Quality Assessment that was presented to Audit Committee on April 18, 2011. We achieved the highest rating an audit office can earn regarding compliance with the *Standards*. In 2015, a full External Quality Assessment as defined by the Institute of Internal Auditors will be completed. The review will cover the entire spectrum of audit and consulting services conducted by the Office of the City Auditor, to provide our stakeholders with ongoing assurance on our professionalism and quality.

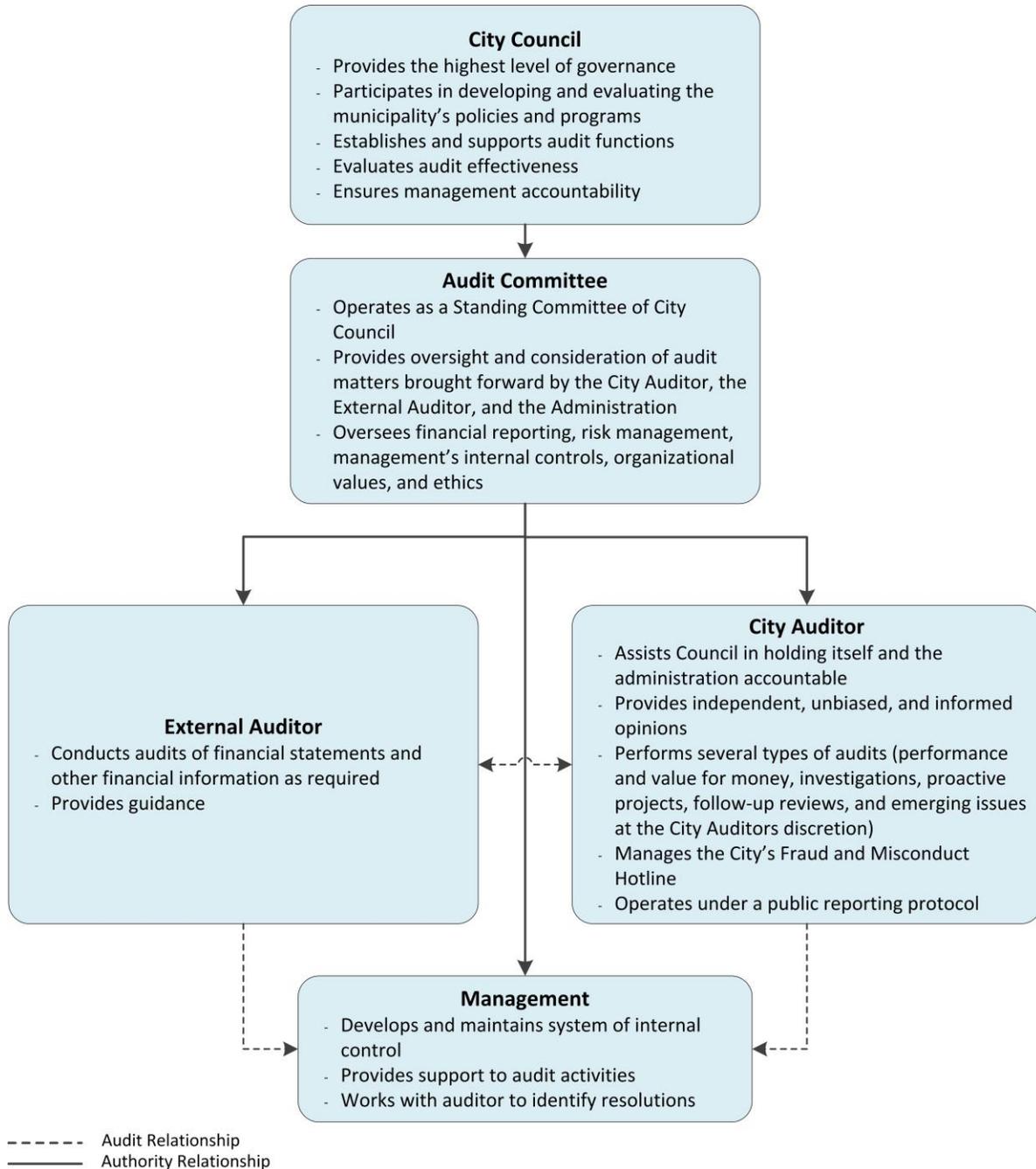
Professional internal audit staff

The extensive variety of skill sets offered by staff members enables us to conduct most of our work with internal resources, rather than hiring external resources on a regular basis. OCA staff members collectively hold one or more of the following professional certifications/designations: Certified Internal Auditor, Certified Fraud Examiner, Certification in Control Self-Assessment, Certified Information Systems Auditor, Certification in the Governance of Enterprise Information Technology, Certification in Risk Management Assurance, Certified General Accountant, Certified Management Accountant, Chartered Accountant, Chartered Professional Accountant, Professional Engineer, Fellow of Engineers Canada, Honorary Fellow of Geoscientists Canada, Master of Science in Civil Engineering, Master of Business Administration, Master of Public Administration, Master of Divinity, Master of Arts in Social and Economic History, Master of Arts in Communication and Technology, Bachelor of Commerce, Bachelor of Business Administration, Bachelor of Arts in English, Bachelor of Science in Civil Engineering, Bachelor of Science in Electrical Engineering and Bachelor of Management.

Audit governance is the responsibility of multiple parties

The figure below provides a high-level overview of audit roles, responsibilities, and the interrelationships of City Council, Audit Committee, Management, the City Auditor, and the External Auditor. The goal of each group, both individually and collectively, is to ensure that the City effectively achieves its goals while providing assurance that City operations are being conducted appropriately and cost-effectively.

Audit Governance Relationships



3. Projects Completed in 2014

All members of Audit Committee and City Council receive reports from the City Auditor. Upon completion, the City Auditor's reports are forwarded to Members of Audit Committee and City Council and are then available for discussion at a subsequent Audit Committee meeting. The OCA operates under a public reporting protocol that requires audit reports to be issued publicly unless a specific exemption to disclosure exists under the *Freedom of Information and Protection of Privacy Act* (FOIP). In addition to being distributed to members of Audit Committee and City Council, reports are also distributed to the City Manager, the operational area(s) reviewed, and posted to the OCA website (<http://www.edmonton.ca/auditor>).

| Title | Description |
|---|---|
| Value for Money Audits – These audits and reviews determine whether a department, service, or program operates efficiently, effectively, and economically and whether risks are appropriately mitigated. In 2014, we performed eight value for money audits. | |
| Community Programs | The results of the <i>Community Programs Review</i> were presented at the April 24, 2014 Audit Committee meeting. The objective of this review was to determine whether appropriate controls exist to ensure that community programs do not duplicate one another. |
| Social Media Review | The results of the <i>Social Media Review</i> were presented at the June 9, 2014 Audit Committee meeting. This review included an evaluation of the current practices and guidelines around the use of social media sites currently managed by the City. |
| Public Involvement Audit | The results of the <i>Public Involvement Audit</i> were presented at the June 9, 2014 Audit Committee meeting. This audit evaluated the alignment of expectations between Council, Administration, and public stakeholders; the Administration's compliance with policy; and the effectiveness of the City's public involvement processes. |
| Information Protection Readiness for Securing Personal Information | The results of the <i>Information Protection Readiness for Securing Personal Information Audit</i> were presented at the June 9, 2014 Audit Committee meeting. The objective of the audit was to determine if the City was employing reasonable security safeguards to secure the personal information it controls and is in its custody in accordance with Section 38 of Alberta's <i>Freedom of Information and Protection of Privacy Act</i> . |

| Title | Description |
|---|--|
| Google Procurement Process Review | The results of the <i>Google Procurement Process Review</i> were presented at the September 8, 2014 Audit Committee meeting. This review had two objectives. Our first objective was to determine whether the decision to sole source was justified at the time it was made. Our second objective was to determine whether the assumptions used to forecast the \$9.2 million cost avoidance were reasonable and whether the cost savings are still attainable. |
| Automated Photo Enforcement Review | The results of the <i>Automated Photo Enforcement Review</i> were presented at the September 8, 2014 Audit Committee meeting. This review assessed the effectiveness and efficiency of the City's operation of the Automated Photo Enforcement program and the degree to which the expected outcomes outlined in the 2007 report to City Council are being achieved by the City. |
| Landscaping Securities | The results of the <i>Landscaping Securities Audit</i> were presented at the September 8, 2014 Audit Committee meeting. The objective of this audit was to evaluate the effectiveness of the current and the proposed landscaping securities processes. |
| City Streets Audit | The results of the <i>City Streets Audit</i> were presented at the November 25, 2014 Audit Committee meeting. The objectives of this audit were to determine if the City is adequately protecting its roads as a capital asset and to assess the effectiveness and efficiency of the City's Pothole Repair Program. |
| Emerging Issues – These are audits or projects that are not listed in the Annual Work Plan. These projects may be identified by the OCA during a scheduled audit, by City Council, by the Administration, or by a member of the public. In 2014, we performed two additional projects that were not on our original work plan. | |
| Community and Recreation Facilities Cash Controls Audit | The results of the <i>Community and Recreation Facilities Cash Controls Audit</i> were presented at the February 11, 2015 Audit Committee meeting. The objectives for this audit were to determine if Community and Recreation Facilities have appropriate controls and procedures in place to ensure the safeguarding of City money, as well as to determine if Community and Recreation Facilities are effectively managing promotional and social development programs. |
| South Edmonton Sanitary Sewer Installation Tender Review | The results of the <i>South Edmonton Sanitary Sewer Installation Tender Review</i> were presented at the February 11, 2015 Audit Committee meeting. The objectives of this review were to determine whether the tender submissions complied with all bid requirements and tender specifications and to review the process used to award the tender. |

| Title | Description |
|---|---|
| Investigations – These are designed to prove or refute alleged fraudulent behavior or misconduct by a City employee or other parties. | |
| Investigation Projects | As per the City’s Administrative Directive A1454, <i>Fraud</i> , the City Auditor has primary responsibility for investigating suspected fraud and will involve the City Manager as appropriate depending on the nature and scope of the complaint. Allegations of fraud were investigated as required and are discussed in Section 5. |
| Hotline Administration | The OCA coordinates the City’s Fraud and Misconduct Hotline. It is available to City employees 24 hours a day, seven days a week, all year round, by phone or via the Internet. Hotline activity is discussed in Section 5. |
| Proactive Projects – These projects allow the OCA to provide proactive, strategic, risk, and control-related advice prior to and during the development and implementation of projects, programs, and systems. | |
| Continuous Auditing | We continue to support the Community and Recreation Facilities Branch by providing them with an analysis of cashier transactions on a quarterly basis. We provide analysis of all cashier transactions at recreation and community facilities, including golf courses. We use specialized audit analysis software to determine the number of transactions completed by each cashier at each location. We also determine the number of times each cashier’s till was over or short of funds at the end of their shift compared to the actual number of shifts they worked. The Branch uses this information to identify anomalies and potential training requirements. |
| Edmonton Police Commission Self-Assessment | Since 2007, we have supported the Edmonton Police Commission’s self-assessment exercise. The Commission monitors its progress towards achieving its priorities and strategic plan and annually assesses the need for adjustments. We presented the results of the assessment to the Police Commission at its regularly scheduled December 18, 2014 meeting. |
| Enterprise Risk Management Framework | In 2014, the OCA further supported the Administration’s efforts to expand the corporate role of Enterprise Risk Management. |

| Title | Description |
|---|--|
| Capital Projects Advisory Assistance | The objective of our proactive audit involvement in major capital projects is to determine the degree to which sound project management practices, as described in the City's Project Management Reference Guide are being applied throughout all stages of a project. In 2014, the OCA was involved proactively in four major capital projects: the Rogers Place and Related Facilities, Walterdale Bridge Replacement, Light Rail Transit Valley Line - Stage 1, and Alex Decoteau Park. |
| Follow-up Reviews – These projects allow the OCA to determine the adequacy, effectiveness, and timeliness of actions taken by management on recommendations made in audit reports. | |
| Follow-up of Recommendations for the period October 2013 through August 2014 | In October 2014, the OCA issued a report on all outstanding audit recommendations. The intent of the report was to inform Audit Committee on the adequacy, effectiveness, and timeliness of the Administration's actions on our audit recommendations. In November 2010, we reported that there were 128 outstanding recommendations. Over the past four years, the OCA issued 36 reports containing an additional 119 recommendations. The combined effort of the Administration and OCA has resulted in continued decline in the number of outstanding recommendations. At the end of this reporting period (August 2014), 42 recommendations remained open. |
| OCA Governance and Leadership Activities – The OCA participates in a number of initiatives that support City Council and Audit Committee's governance responsibilities and contributes to leading audit practices by others. | |
| Annual Report | Bylaw 1242, <i>City Auditor Bylaw</i> , states that the "City Auditor will submit to Council an Annual Report." We issued the City Auditor's 2013 Annual Report on April 7, 2014. The report summarized the activities of the OCA for the calendar year 2013. |
| Activity Reports | To assist Audit Committee and Council in their governance oversight role of the City Auditor, the City Auditor provides Activity Reports to Audit Committee that summarizes the status of projects identified in the approved OCA Annual Work Plan. In 2014, we provided Activity Reports for the April 24, 2014 and the November 25, 2014 Audit Committee meetings. |

| Title | Description |
|------------------|---|
| Annual Work Plan | Bylaw 16097, <i>Audit Committee Bylaw</i> , Section 9 states that, "Committee has the power to approve the City Auditor's annual work plan and any changes to the work plan requested by the City Auditor within approved budgets." In 2014, the OCA, working with the Administration, conducted a risk self-assessment of all 83 City programs. The risk assessment model incorporated the City Administration's current Enterprise Risk Management Framework. The results of this assessment were used to identify a three year plan for future value for money audits. The Office of the City Auditor's 2015 Annual and Long Term Work Plans were presented and approved at the November 25, 2014 Audit Committee meeting. |

4. Other Audit Activity in 2014

This section summarizes some of our significant accomplishments, activities, and initiatives completed during the year.

4.1. Employee Engagement and Diversity Survey

In 2014, staff members from the Office of the City Auditor were included in the City's comprehensive Employee Survey that addressed employee engagement, diversity, inclusion, workplace, and culture. Feedback from the survey provides a catalyst for action on many aspects of organizational health including employee perceptions of work environment, satisfaction, pride, and corporate culture.

Employee Engagement at the City of Edmonton can also be viewed as the extent to which employees enjoy and believe in what they do and feel valued as a result of their contributions. The City of Edmonton defines a respectful workplace as, "a work environment free from discrimination or harassment, one in which everyone treats each other with respect and dignity." The City defines employee diversity as the range of human difference. Each person has layers of diversity which make his/her perspective unique. Inclusion is defined as involving and valuing human differences and viewing such differences as strengths.

In 2014, the overall Employee Engagement score for the Office of the City Auditor was 91.7 percent favourable as compared with the City's overall average of 70.5 percent. The following table displays the survey items by dimension as follows:

- OCA 2014 – survey results for the Office of the City Auditor for 2014
- OCA 2012 – survey results for the Office of the City Auditor for 2012
- COE 2014 – survey results for all City of Edmonton employees for 2014

Employee Engagement Index Results Summary

| | OCA 2014 | OCA 2012 | COE 2014 |
|------------------------------------|----------|----------|----------|
| Employee Engagement Index | 91.7% | 90.3% | 70.5% |
| Culture Index | 93.9% | 91.6% | 69.2% |
| Workplace Index | 93.2% | 91.0% | 69.3% |
| Job Satisfaction Index | 100.0% | 100.0% | 69.0% |
| Overall Immediate Supervisor Index | 94.7% | 91.7% | 71.5% |
| Survey Participation Rate | 100.0% | 100.0% | 62.0% |

4.2. Audit Recognition

The Office of the City Auditor for the City of Edmonton was named as a “best practice” audit function and a “leader” in performance auditing (also known as value-for-money auditing) by the Institute of Internal Auditors (IIA) Research Foundation. The IIA Research Foundation surveyed performance auditing across all cities in the United States and Canada with populations greater than 150,000. The objectives of the study *“were to determine the percentage of time allocated to performance audits by internal auditors in major cities in the United States and Canada, identify factors that discourage performance auditing, and identify best practices for conducting performance audits.”* The study identified the following 12 “best practice” characteristics:

1. Establishing a mandate for performance auditing within the audit charter;
2. Establishing a formal audit committee with terms of reference/charter;
3. Building understanding and support for the audit activity and performance audit function;
4. Supporting the establishment of mature/robust governance processes;
5. Making performance audit reports readily available to the public;
6. Establishing risk-based, multi-year audit plans;
7. Selecting audit objectives that address all relevant/significant aspects of performance;
8. Scoping audits broadly enough to support accountability for results;
9. Following accepted auditing standards;
10. Actively building competencies and capability in performance auditing;
11. Supporting involvement of the audit activity in professional associations; and
12. Demonstrating leadership in performance auditing.

In total, 84 cities in the United States and 32 cities in Canada participated in the research study. Each of the cities were evaluated on the twelve best practices. The City of Edmonton’s Office of the City Auditor was rated as one of only two top-performing city audit functions in Canada and one of only eleven among all North American cities. To be classified as a best practice audit office, the audit function had to have at least 40% of internal audit time spent on performance auditing and follow at least 10 of the 12 best practices. Higher standards were required for some of the best practices, particularly “building relevant competencies,” “making reports available to the public,” “following accepted standards,” and “having a clear mandate for performance auditing.”

4.3. International Fellowship Program

The Canadian Comprehensive Auditing Foundation's International Fellowship Program invites auditors from a participating country's government audit office to acquire knowledge and experience in audit methodologies, techniques, and practices for the purpose of transferring these to their colleagues upon their return home. Since November 2008, we have hosted eight auditors from the State Audit Office of Vietnam in four separate fellowship opportunities. In February 2014, we provided the latest two participants in this program with an opportunity to understand and become familiar with the City of Edmonton's governance structure and our audit practices. As part of this program, we have helped the auditors from Vietnam understand how to implement value-for-money auditing in a municipal government environment.

4.4. Industry Sharing

We provide national, and where possible, global leadership in the government auditing profession. To stay current in the industry, our staff undertakes a number of activities that promote the profession and our audit practices within and outside the City. The following are some of the significant activities and initiatives that we were involved with during 2014.

- **Serving on Boards** - Many of our audit staff members actively support the auditing profession by chairing or serving on boards of directors or committees of professional audit-related and other organizations. These include the Institute of Internal Auditors (IIA) Edmonton Chapter, the Association of Local Government Auditors (ALGA), Information Systems Audit and Control Association (ISACA), Association of Professional Engineers and Geoscientists of Alberta (APEGA), and the Association of Administrative Assistants. We have a staff member who is the current President of the IIA Edmonton Chapter. We also have a staff member who is the current President of the Association of Administrative Assistants.
- **Volunteer IIA Instructors** - Two of the OCA's staff serve the profession by acting as volunteer instructors for Value-for-Money auditing courses hosted by the Institute of Internal Auditors (IIA) throughout North America. All costs of transportation, accommodation, and meals for the instructor are covered by the IIA. This arrangement provides the OCA with the opportunity to send employees to IIA courses offering the same number of professional development credits at no registration cost. Providing this service to the IIA also helps our employees' satisfy their ongoing professional development requirements and keeps the OCA in touch with changes and professional contacts in the auditing field. In June 2014, an OCA staff member was an instructor for the *Auditor in Charge* course held in Toronto.
- **2017 IIA Canadian Conference** - One of the OCA's staff was selected in January 2014 to be the co-chair of the Organizing Committee of the 2017 IIA Canadian Conference. This 3-day Conference will bring around 500 internal auditors from all across Canada to Edmonton.

- **Auditing in the Public Sector Panel Discussion** - On February 25, 2014, the City Auditor was a presenter to the Financial Management Institute (FMI) Edmonton Chapter as part of a panel discussion on the auditor's role in the public sector. The other two panelists included the Auditor General of Alberta and a partner with Deloitte Canada. The FMI is a nationally recognized, not-for-profit volunteer association with members across Canada, both within and outside of the public sector working to improve the financial management of all levels of government across Canada.
- **Chief Audit Executive Roundtable** - On April 15, 2014, the City Auditor participated in an audit leadership event that brought Chief Audit Executives (CAE) from Edmonton together to discuss audit practices within their respective industries. These roundtable discussion groups offer a unique and valuable opportunity for CAEs to discuss common concerns and challenges, to share lessons learned, and to brainstorm with their peers on solutions and best practices.
- **Articles Published** - In 2014, two staff members had articles published in the Association of Local Government Auditors Quarterly publication. One article was titled "Internal Audit as an Agent of Change." The second article was titled "The Fraud Triangle and What Auditors Can Do About It."
- **Canadian Forum for Municipal Auditors** - On November 3 and 4, 2014, the City Auditor attended the first ever "*Canadian Forum for Municipal Auditors*" in Ottawa. The forum brought together municipal and local government auditors representing 16 jurisdictions across Canada. The forum was organized by the Canadian Comprehensive Auditing Foundation (CCAF). CCAF helps to strengthen public sector accountability by promoting effective performance audit and oversight of government operations. The forum was designed to foster dialogue and exchange perspectives on issues, strategies and best practices to support municipal and local government auditing.

4.5. Audit Efficiency

We are always trying to improve our audit efficiency. In 2014, we continued to improve our audit efficiency through the following means:

- **Audit Management Software** - Prior to 2013, the Office of the City Auditor did not use audit management software to manage its internal audit activity. Our records were fragmented in multiple locations using different software and filing conventions. Audit management software is designed to bring these systems and records together, resulting in improved efficiency and consistency.

With the introduction of audit management software in 2013, we were able to standardize and automate numerous quality control activities, including project supervision and review of working papers. In 2014, we were able to use the system to effectively manage both small and large audits and to more efficiently and effectively plan, monitor, and control our audit projects. In 2015, we will start the transition of our current recommendation follow-up tracking process to the new audit

management software. This will allow for more streamlined tracking and reporting to the Administration on the status of outstanding audit recommendations.

- **Audit Analysis Software** - In 2014, we continued to use specialized audit analysis software on a number of our projects. This has helped to eliminate significant manual effort and increase our audit efficiency by automating data import, export and analysis tasks. For example, instead of taking multiple days to manually reconcile multiple spreadsheets, we are now able to import, combine and test data using a script that only takes seconds to execute.
- **Post Project Evaluation** - 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.
- **Long Term Audit Plan** - In 2014, the OCA, working with the Administration, conducted a risk self-assessment of all 83 City programs. The risk assessment model incorporated the City Administration's current Enterprise Risk Management Framework. The results of this assessment were used to identify a three year plan for future value for money audits. The results were presented in the 2015 Annual Plan and Long Term Audit Plan providing an opportunity for Audit Committee to have increased input on future audit projects.

5. 2014 Fraud and Misconduct Hotline Summary

The *City Auditor Bylaw* section 22(2) states “The City Auditor will lead the implementation and operation of the City’s hotline.” The City implemented its Fraud and Misconduct Hotline on January 2, 2007. Since implementation, we have managed the City of Edmonton’s hotline.

Section 27(2)(g) of Bylaw 12424, *City Auditor Bylaw*, requires the City Auditor to provide Audit Committee with periodic reports related to overall hotline activity.

The following sections include a summary of hotline activities, as well as a brief narrative describing the categories of cases resolved during the year.

5.1. Background

The City of Edmonton introduced a combined fraud and whistleblower policy in 2006. In 2007, the City’s Fraud and Misconduct Hotline was implemented as an additional channel for employees to confidentially and anonymously report suspected fraud and significant misconduct by City employees. In 2011, City Policy C522 – *Fraud and Misconduct*, was repealed and replaced with two Administrative Directives to help City employees more easily understand their responsibilities and the processes to follow.

The *Fraud* Administrative Directive outlines the process for employees to report suspected fraud and for the Office of the City Auditor to investigate those reports. The *Whistleblower Protection* Administrative Directive outlines the process to report any retaliation an employee may experience and how the City will investigate those reports. Nothing has changed in the way employees report concerns, including the ability of employees to use the City’s Fraud and Misconduct Hotline.

5.2. Hotline Operation

The hotline is available 24 hours a day, seven days a week, 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. So far, we have been able to administer the hotline using existing staff who conduct investigations in addition to their normal duties.

Hotline reports are classified into the following eight categories:

- Financial reporting and accounting
- Health and safety or 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. They are also asked to anonymously answer additional questions to validate the information provided and to

gather pertinent information should an investigation be initiated. Automatic email notifications immediately alert authorized OCA employees when newly submitted or updated reports are received. All information is stored on the service provider's Canadian-based secure servers.

When reports are received, authorized OCA employees conduct a preliminary screening to determine the disposition of the reports. Depending on the nature of the complaints, we decide whether or not to initiate an investigation. Reports on operational matters are referred to the City Manager. 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 that we receive directly from employees via the City's email, telephone, general mail, etc. into the hotline system with a unique identifier. This method also provides an effective quality assurance tool to help us ensure that the hotline system is operating as intended.

5.3. Hotline Activity

The table below summarizes the reports received by the hotline and the OCA for 2014 by category. For comparison purposes, summaries for the previous two years have also been provided.

Reports Received by the Hotline and the OCA (2012 – 2014)

| Report Category | 2012 | 2013 | 2014 |
|--|-----------|-----------|-----------|
| Financial Reporting and Accounting | 0 | 0 | 0 |
| Health and Safety or Environment | 1 | 3 | 0 |
| Unethical Conduct and Conflict of Interest | 10 | 14 | 20 |
| Manipulation or Falsification of Data | 2 | 0 | 0 |
| Harm to People or Property | 1 | 1 | 1 |
| Theft, Embezzlement, Fraud | 12 | 3 | 5 |
| Violation of Laws, Regulations, Policies, Procedures | 11 | 8 | 12 |
| Miscellaneous | 1 | 9 | 8 |
| Total | 38 | 38 | 46 |

In 2014, we received and reviewed a total of 46 reports. We received 44 of the reports through the hotline, of which 10 (23%) were through live agents, 33 (75%) were through the online web service, and 1 (2%) was through the hotline voice-mail service. We received the other 2 reports directly. All but 1 of the 46 reports were closed as of the year-end.

Disposition of reports

We screen all hotline reports to determine their disposition. Due to the nature of the reports and the knowledge and expertise required, we referred those that pertained to operational matters to the City Manager for investigation. In those cases, we asked the assigned departmental managers to report back to us on the resolution and any actions taken. We reviewed the results of those investigations prior to closing the reports on the hotline system.

The system's interactive dialogue capability allows us to ask additional questions of the reporter within the security of the web application, while maintaining the employee's anonymity. Despite our attempts to obtain additional information through the hotline system, we were unable to take action on some reports due to insufficient information. Employees may not provide the requested information because they may not be able to substantiate their complaint or may not check the status of their report on the system. They may also have addressed their concern through other resources or decided not to pursue further action.

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

We received a number of reports that pertained to operational matters that fell within the jurisdiction of the City Manager. We have regular meetings with the City Manager to evaluate the nature of the complaints received and determine whether any corporate action needs to be taken. The table below summarizes the disposition of the 46 reports we received in 2014. For comparison purposes, a summary of the previous two years has also been provided.

Disposition of Reports/Complaints (2012 – 2014)

| Description | 2012 | 2013 | 2014 |
|---|-----------|-----------|-----------|
| No action taken (insufficient information, comments and inquiries on the hotline, follow-up on previously submitted report, etc.) | 6 | 6 | 6 |
| Tips provided that will be used in future audits | 2 | 1 | 2 |
| Referred to the City Manager (operational matters, retaliation complaints, etc. that are outside the scope of the OCA) | 15 | 17 | 17 |
| Reports Investigated by the OCA and/or the Administration (Corporate Security, Labour Relations, etc.) | 15 | 14 | 21 |
| Total | 38 | 38 | 46 |

5.4. Outcomes of the Completed Investigations

In 2014, the OCA and Administration investigated 21 reports. We also reviewed all findings from reports investigated by the Administration to ensure that the investigations were thorough and that remedial action plans were sufficient. Based on our review, we determined whether additional action was required prior to us closing the report in the tracking system. All employees participating in the review and/or investigation of reported 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.

Of the 21 complaints that were investigated, 20 were closed and 1 investigation was still in progress at year-end. Of the 20 investigations that were closed, 8 allegations could not be substantiated or confirmed based on the information available. Therefore, no further action was taken. The remaining 12 allegations were either confirmed or led to recommendations based on additional findings that came about through the investigations. The following is a summary of the outcomes.

Inappropriate time entry processes

A complaint was received that an employee was not submitting exception time when away from the work area and the employee's supervisor was not correcting the time entered. It was alleged that the individual used City time for personal reasons and that the time was entered as if the individual had worked a full day. Our investigation did confirm that time entered within the City's time entry system for four days when the employee was not working were recorded as being at work. The investigation also determined that the employee did receive permission from the supervisor for time away from the office. As a result of the investigation, the employee's time for the four days were corrected within the City's time entry system and accounted for as time away from the office. In addition, given the seriousness of the matter in terms of negligent time reporting, the employee's supervisor received formal counselling outlining time reporting expectations.

Preferential scheduling of overtime

It was alleged that a supervisor was a friend of a subordinate and was showing favouritism in the assignment of work. The complainant indicated that an employee was being assigned extra overtime, which included working on stat holidays more than other employees. We determined that the allegations raised in the complaint were not in violation of any Policy, Procedure, and/or Collective Agreement. However, it was still recommended that the business area review their scheduling practices to ensure that they are consistent with previously established scheduling guidelines and other similar business units in the City.

Theft of cash

It was alleged that an employee was taking money from a cash float and replacing the roll of coins with paper and plastic washers. While conducting a cash count of an employee's float, a Supervisor discovered a roll of coins to be lighter than normal. An investigation by Corporate Security determined that the employee had taken approximately \$377.00 over a few months. When the employee was questioned, the employee admitted to the theft and the employee was subsequently terminated.

Inconsistent time recording practices

A complaint was received that there were inconsistent time recording practices in a business unit. It was confirmed that some of the employees in the business unit were not using the proper time recording codes for time away from the office for classroom training, attendance at conferences, and business travel. An email was sent to all staff in the business area reminding them of the importance of recording all time correctly. In addition, all supervisors approving time were provided guidance on their time approval responsibilities.

Overpayment for statutory holiday pay

It was confirmed that an employee was receiving the wrong overtime rate for working on statutory holidays. The employee incorrectly received a premium for working statutory holidays at a rate of double pay when it should have been at time-and-a-half. In addition, it was determined that this same error had occurred for other employees. We analysed the statutory holiday pay for 6 employees in the program area. In the course of the investigation, another pay issue came to light. We determined that the employees in the area had been underpaid for working on Sundays. The investigation determined that for 3 of the 6 employees, the employee owed the City for overpayments ranging from approximately \$335 to \$460. The City needed to reimburse the other three employees for underpayments ranging from \$275 to \$965. We determined that the overpayments were a result of a misunderstanding of the proper pay code to use versus an intentional act to receive more pay.

Inappropriate employee conduct

A complaint was received regarding alcohol being found by staff in a work area. The complainant indicated that this was raised to the appropriate supervisor. However, no accountability occurred as the no tolerance for alcohol consumption policy was not addressed. It was confirmed that some full bottles of alcohol were in the fridge, while empty bottles were in the return deposit box. The Manager of the work area held a meeting with the staff to reinforce the City's alcohol policy and to ensure that all employees conduct themselves in accordance with the *Code of Conduct*. All staff were cautioned about appropriate conduct in the workplace. One employee was also dismissed.

City vehicle parked outside designated work area

A complaint was received that a city vehicle was parked at the same location on a reoccurring basis. The investigation confirmed that the same employee was the primary driver during the time of the allegations and the investigation. Throughout the investigation, the employee was observed at the same address on multiple occasions. The address was outside of the employee's designated work area. The employee claimed that this was a common area to stop for a restroom break. However, the time and duration of the breaks did not justify stopping in this area at the observed times. The employee was disciplined as a result of this investigation and placed on a vehicle with GPS on a go forward basis. All employees in the work area were reminded of the required performance expectations and the work area implemented additional operational controls to address concerns of this nature.

Inappropriate recording of time

It was alleged that a number of staff attended an off-site social function as part of a retirement event during work hours. The complainant alleged that in addition to the social event being paid for, the staff did not record their time off as vacation time. The allegation regarding the social event being paid for by the City was not correct. The individuals who attended this event were personally responsible for the cost. However, the time recording was not done properly. Staff believed that this function was an offsite team function and that it did not require vacation time. The function was a social function and all time was changed to reflect acceptable practice. In addition, the supervisor met with the program area to discuss this issue and to provide clear interpretation and expectations for the future.

Excessive breaks

A complaint was received that an employee was taking 6 or 7 smoke breaks throughout the day in addition to taking a regular coffee break and lunch break. As a result of this complaint, management sent out a reminder to all staff in the area regarding break times to ensure all staff are aware of expectations.

Inappropriate usage of the internet

It was alleged that an employee was in violation of the City of Edmonton's Administrative Directive A1429C *Acceptable Use of Communication Technology*. The reporter alleged that an employee was spending numerous hours each day on YouTube, Pinterest, and other social media sites. It was also alleged that the employee spent a significant amount of time texting. Unfortunately, server issues impacted the ability to get relevant internet usage reports. However, it was recommended that the supervisor meet with the employee to review the *Acceptable Use of Communication Technology Administrative Directive A1429C*. At this meeting it was stressed that incidental internet usage should be limited to coffee and/or lunch breaks. It was also recommended that the Supervisor conduct random spot checks to ensure compliance with Administrative Directive A1429C.

Inappropriate conduct while off duty

A complaint was received that an employee, while off-duty, but identifiable as a City employee, was aggressive, verbally abusive, and used racial obscenities after a minor motor vehicle collision. It was confirmed that the employee was involved in a motor vehicle collision in a parking lot while off-duty and was wearing a City of Edmonton uniform. The employee also admitted that a heated discussion took place about who hit who but denied that anything racist was said. The allegations regarding racial obscenities were not able to be substantiated. However, the employee did not follow the City's Code of Conduct which states that employees are expected to represent the City in a positive way. The Code of Conduct as well as the Business Unit's Operations Manual were reviewed with the employee in terms of appropriate conduct while off-duty and wearing a City uniform.

Vehicle Take-Home Permit procedures not being followed

An allegation was received that the City's Vehicle Take-Home Permits were being misused by at least three employees in a business unit. It was confirmed that the patterns of usage observed in the monthly kilometer logs for the three employees are not consistent with the City's rationale for Vehicle Take-Home Permits as indicated in

Administrative Directive A1421A *Vehicle Take Home Permits*. Two of the three employees had their vehicle take home permit revoked. For the third employee, the permit has been temporarily approved pending further justification to be provided by the employee. As a result of this investigation, procedures for granting Vehicle Take-Home Permits and the monitoring of the use of permits has been strengthened.

6. Measuring Our Performance

We have implemented a range of performance indicators that are designed to provide assessments of both our internal business processes and external outcomes. We measure key quality and efficiency indicators in order to continuously improve our strategic performance and outcomes. Each of these measures is an indicator of our success towards achieving our strategic vision and mission. The Association of Local Government Auditors (ALGA) represents local government audit organizations in both the United States and Canada. Based on biennial surveys of members, performance benchmarks are established for audit organizations by size. The OCA falls within the group having eleven to fifteen auditors. The latest comparative survey was published in March 2013 and is based on 2012 data. Where possible, we have included the latest comparative ALGA survey results in the following measures.

6.1. Customer Relationships

We strive to deliver high-quality, innovative and cost-effective audit services. To accomplish this objective, we emphasize the importance of our relationships and communications with audit clients. At the conclusion of all major projects, we issue a customer satisfaction survey to obtain feedback on our performance and to identify areas where we can improve our operations. Our customer satisfaction survey focuses on how well we communicated throughout the audit, our understanding of the client's issues, the professionalism of our audit staff, and the quality of our findings.

Customer Satisfaction Survey Results

| Performance Indicator | Industry ¹ | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|-----------------------|------|------|------|------|------|
| Communication How well the client was informed of objectives, process, timeframe, and emerging findings. | N/A | 4.5 | 4.6 | 4.6 | 4.9 | 4.4 |
| Understanding of client's business How well the audit staff demonstrated their under-standing of the client's issues and challenges. | N/A | 4.4 | 4.3 | 4.4 | 4.4 | 4.0 |
| Professionalism How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients. | N/A | 4.6 | 4.8 | 4.8 | 4.9 | 4.6 |
| Quality of findings Practicality, adequacy, and openness of communication with the clients. | N/A | 4.4 | 4.3 | 4.5 | 4.2 | 4.2 |
| Overall average Client's overall assessment of value. | N/A | 4.5 | 4.5 | 4.6 | 4.6 | 4.3 |

¹ The Association of Local Government Auditors 2012 Benchmarking and Best Practices Survey did not have any results for the audit departments in the eleven to fifteen range for this measure.

The overall client rating for our 2014 projects was 4.3 out of 5, which is slightly below our performance during the past five years. During 2014, we conducted a number of audits that received significant amounts of negative press coverage directed toward the Administration. The customer satisfaction survey results from these audits reduced our overall customer satisfaction survey results. During his regular meetings with Management, the City Auditor will be exploring potential means of raising those scores to be more in line with prior years.

6.2. Optimize Productivity

We also have a number of internal measures to monitor our effectiveness and productivity. These include percentage of recommendations accepted, project time, and audit plan completion. The ALGA benchmarking survey also requested information on areas that were considered best practice initiatives to increase an audit office's effectiveness, such as the use of a fraud hotline, computer assisted audit techniques, and audit management software. We use all three of those best practices.

Effectiveness and Productivity Results

| Performance Indicator | Industry | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|------------|------|------|------|------|-------------|
| Percent of recommendations accepted A measure of the value provided by the audit. | 88% | 100% | 100% | 100% | 100% | 100% |
| Percent of project time vs. available time A measure of the available time spent working on projects. | 81% | 80% | 79% | 80% | 79% | 81% |
| Percent of completed or partially completed projects to number scheduled A measure of office productivity. | 72% | 94% | 94% | 96% | 92% | 96% |
| Use of a fraud hotline A tool to enhance accountability and promote ethical operating practices. | 64% | Yes | Yes | Yes | Yes | Yes |
| Use of computer assisted audit techniques A tool to optimize productivity. | 68% | Yes | Yes | Yes | Yes | Yes |
| Use of audit management software A tool to optimize productivity. | 60% | No | No | No | Yes | Yes |

Recommendations accepted

We are committed to providing recommendations that identify potential efficiency gains, improve operational effectiveness, and provide guidance for providing more economical services to citizens. It is our responsibility to present accurate and convincing information that clearly supports our recommendations. The percent of recommendations accepted by the Administration is an indication of our effectiveness in this regard. Management accepted 100 percent of the recommendations we made in 2014

Productivity – project time

Productive time is considered time spent directly working on audits, investigations, follow-up audits, or other audit projects. Our productivity ratio was 81 percent in 2014, which was a slight increase compared to the four previous years.

Productivity – audit plan completion

We develop our annual audit plan through a formal risk assessment process, with input from City Council, Audit Committee, and Administration. With the exception of one project, we either completed or were near completion of all projects approved in our 2014 Annual Work Plan. In addition to the scheduled projects, we also completed a number of projects that were not in the original work plan.

Ethical operating practices – use of a fraud hotline

The use of a fraud hotline in an organization is fundamental to enhancing public confidence in civic government. It demonstrates an organization's commitment to corporate accountability, responsibility, and sound and ethical operating practices. It helps to support a high level of integrity of employees in the workplace and also to protect City property, resources, and information.

Productivity – use of computer assisted audit techniques

The main advantage of computer assisted audit techniques is that they can be used to scrutinize large volumes of data. This is much more efficient than doing this manually. The programs can then present the results so that they can be investigated further. This can simplify the auditor's task by selecting samples for testing, identifying risk areas, and performing specific substantive procedures.

Productivity – use of audit management software

Audit management software is designed to integrate and automate numerous activities within an audit process. System capabilities include long range audit planning, electronic working papers, document management, resource use, recommendation follow-up, and performance management. With the introduction of audit management software in 2013, we were able to standardize and automate numerous quality control activities, including project supervision and review of audit working papers. The system is being used effectively to assist with managing both small and large audits and to more efficiently and effectively plan, monitor, and control our audit projects.

6.3. Human Resources

One of our goals is to maintain a respectful, team-oriented workplace that helps individuals reach their career potential and achieve personal growth goals. Strategies to help achieve this goal include providing encouragement to pursue training and professional certifications and to foster a positive working climate.

Human Resource Related Results

| Performance Indicator | Industry | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---------------|------|------|------|------|-------------|
| Average days of City-funded training & development A measure of commitment to maintaining and enhancing professional certifications and skills. | 8 – 12 | 9.1 | 9.6 | 8.9 | 10.0 | 8.0 |
| Percent of staff certified or with advanced designations A measure of staff qualifications. | N/A | 92% | 92% | 92% | 92% | 92% |
| Maintain a positive working climate A measure of the average level of staff job satisfaction (data from employee engagement surveys). | 69% | 100% | N/A | 100% | N/A | 100% |

Training

Training is vital because it keeps us fresh both professionally and with technology. Internal auditing standards require that our staff enhance their knowledge, skills, and other competencies through continuing professional development. Those staff members who are Certified Internal Auditors are required to complete at least 40 hours (5 days) of continuing education every year. In addition, staff must also satisfy the continuing education requirements of any other professional certifications they hold. In 2014, our staff completed an average of 8 days of professional development by attending courses, seminars, workshops, conferences, monthly professional association luncheons, and in-house training sessions. To help minimize training costs in 2014, we held two in-house retreats that incorporated topical training courses and utilized cost-effective webinars.

Professional certification

Professional certifications are strongly encouraged within the OCA. The extensive variety of skill sets offered by staff members enables us to conduct most of our tasks with internal resources. Ninety-two percent of the professional staff members possess one or more certifications or advanced degrees.

Employee satisfaction – maintaining a positive work climate

The City of Edmonton's Employee Satisfaction Survey is conducted every two years. In 2014, OCA staff members were part of the City's comprehensive Employee Engagement Survey that integrated employee engagement, diversity, inclusion, workplace, and culture. In 2014, the overall Employee Job Satisfaction score for the

OCA was 100 percent favourable as compared with the City's overall average of 69 percent.

6.4. Financial Perspective

As an independent audit office reporting on the efficiency, effectiveness, and economy of City operations, we must operate in a cost-effective and clearly accountable manner. We have two measures that monitor our cost effectiveness. We monitor our percentage of actual versus budgeted expenditures. We also benchmark our staffing levels.

Cost Effectiveness Results

| Performance Indicator | Industry | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|-------------------------------|------|------|------|------|---------------|
| Prudently manage public resources Percent actual vs. budgeted expenditures | 95 to 105% | 97% | 96% | 92% | 94% | 101.7% |
| Prudently manage public resources Number of auditors to total organizational staff | 1 auditor to 835 staff | N/A | N/A | N/A | N/A | 1:997 |

Actual versus budgeted expenditures

Approximately 92 percent of the OCA's budget consists of salary and benefits. Our financial objective is to manage our expenditures so that actual year-end expenditures are within +/- 5 percent of budgeted expenditures. Our 2014 results were approximately 1.7 percent above budgeted expenditures. The primary reason for the variance related to the timing of vacations and lower than expected short-term disability.

Audit Department staffing

In 2014, we had 1 auditor for every 997 City full-time employees. This is approximately 19 percent fewer auditors than industry average. We have implemented a range of performance indicators that are designed to provide assessments of both our internal business processes and external outcomes. We measure key quality and efficiency indicators in order to continuously improve our strategic performance and outcomes. Each of these measures is an indicator of our success towards achieving our strategic vision and mission. The Association of Local Government Auditors (ALGA) represents local government audit organizations in both the United States and Canada. Based on biennial surveys of members, performance benchmarks are established for audit organizations by size. The OCA falls within the group having eleven to fifteen auditors. The latest comparative survey was published in March 2013. Where possible, we have included the latest comparative ALGA survey results in the following measures.

7. Conclusion

In this Annual Report, I have reported on the results of our projects and other accomplishments in 2014 and provided a report on Fraud and Misconduct Hotline activities. I am proud of our accomplishments and our contributions to the City of Edmonton. Implementation of the recommendations contained in our reports facilitates a more responsive 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 accountable, cost-effective municipal services, and ethical practices. In 2014, we tackled some issues that were both challenging and highly sensitive. I believe that by reviewing these issues, we were able to provide recommendations that will improve City services and provide better value for citizen's 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 role. I value my strong, open relationship with Audit Committee and City Council. This relationship is a critical contributor to our success.

I also appreciate the support and the cooperation that is extended to us by the City Administration. Continuing to nurture this mutual cooperation is conducive to our common goal of ensuring that the operations of the City of Edmonton are carried out in an efficient, effective, and economical manner.

In closing, I wish to pay tribute to my staff. The goals of the OCA were achieved in 2014 as a result of my staff's hard work, perseverance, and commitment to delivering high quality, innovative, and cost-effective audit services. Their ability to willingly adapt and rise to new challenges and complexities in our work needs to be acknowledged. I am very fortunate to work with the following talented and professional group of individuals:

Staff of the Office of the City Auditor

Gordon M. Babey
Chrisy Burton
Lisa Callas
Bill Cook
Queena Dong
Paul Ebenezer
Leslie Glasbeek
Sophia Kasozi
Larry Laver
Janine Mryglod
Edwin Ryl
Jason Solowan
Thomas Wong



David Wiun
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