



---

# 2007 Annual Report

March 31, 2008

---



## How to Reach Us

If you would like to obtain copies of one of our reports, provide comments or receive more information about our office, please contact us as noted below.

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>

# Table of Contents

|   |                               |    |
|---|-------------------------------|----|
| 1. Message from the City Auditor.....   | 1                             |    |
| 2. Overview of our roles and responsibilities.....                                | 3                             |    |
| 2.1. Guardian Role.....   | 3                             |    |
| 2.2. Agent of Change Role.....  | 4                             |    |
| 3. Mission, Vision, and Values .....  | 5                             |    |
| 4. Outcomes of Prior Years' Audits .....  | 6                             |    |
| 4.1. Voter Identification Introduced in 2007 Election.....                        | 6                             |    |
| 4.2. Process Improvements to Better Manage Edmonton Police Service Overtime ..    | 7                             |    |
| 4.3. Improved Understanding of Police Governance Roles .....                      | 7                             |    |
| 4.4. Improved Governance for the Combative Sports Commission .....                | 8                             |    |
| 4.5. New Guidance for In-City Restaurants and Catering Expenses .....             | 8                             |    |
| 4.6. Improved Compliance to the Low-Value Purchase Policy.....                    | 9                             |    |
| 4.7. More Rigorous Re-inspection Fee Process for Properties Under Construction .. | 9                             |    |
| 4.8. More Focus Placed on Transit Revenue/Cost Ratio .....                        | 10                            |    |
| 4.9. Edmonton Transit System Fare Evasion Reduced .....                           | 10                            |    |
| 4.10. Improved Value of the Edmonton Composter .....                              | 11                            |    |
| 4.11. Increased monitoring of cash handling irregularities .....                  | 11                            |    |
| 4.12. Updated Standards for Handling City Money .....                             | 12                            |    |
| 4.13. More Proactive Bylaw Enforcement.....                                       | 12                            |    |
| 4.14. Reduced Cycle Time for Issuing Uninsured Property Claims Invoices .....     | 13                            |    |
| 5. Projects Completed in 2007 .....   | 14                            |    |
| 5.1. Branch Audits .....  | 14                            |    |
| 5.1.1. Assessment and Taxation Branch – Report issued March 12, 2007 ..           | 14                            |    |
| 5.1.2. Mobile Equipment Services – Report issued October 17, 2007 .....           | 17                            |    |
| 5.1.3. Land and Buildings Branch – Report issued January 21, 2008 .....           | 19                            |    |
| 5.2. Prioritized Projects.....  | 22                            |    |
| 5.2.1. Employee Internet Usage – Report issued February 15, 2007.....             | 22                            |    |
| 5.2.2. City of Edmonton Governance Review – Report issued February 28,            | 2007 .....                    | 23 |
| 5.2.3. Continuous Monitoring – Report issued July 4, 2007 .....                   | 27                            |    |
| 5.2.4. Post-implementation review – MAIN-LINK – Report issued January 21,         | 2008 .....                    | 28 |
| 5.2.5. 2007 Municipal Election – Report issued January 15, 2008.....              | 30                            |    |
| 5.3. Emerging Requests .....  | 31                            |    |
| 5.3.1. Street Light Poles – Powder Coating Investigation – Report issued May      | 28, 2007 .....                | 31 |
| 5.3.2. Heritage Grant and Downtown Housing Grant Investigation – Report           | issued October 23, 2007 ..... | 32 |
| 5.3.3. External Audit Assistance – Report issued May 8, 2007 .....                | 33                            |    |
| 5.3.4. Hotline Implementation – Hotline operational as of January 2, 2007..       | 33                            |    |
| 5.3.5. Audit Committee Orientation – Report issued November 15, 2007 ....         | 33                            |    |
| 5.4. Cash Handling Reviews.....   | 34                            |    |
| 5.4.1. Eastglen Leisure Centre – Report issued February 13, 2007.....             | 34                            |    |

|        |   |    |
|--------|---|----|
| 5.4.2. | North Eco Station – Report issued November 27, 2007 .....                             | 34 |
| 5.4.3. | Mitchell Transit Garage – Report issued January 7, 2008.....                          | 35 |
| 5.5.   | Follow-up Audits .....  | 36 |
| 5.5.1. | Accounts Receivable Process – Report issued February 12, 2007 ....                    | 36 |
| 5.5.2. | Surplus Sales Cash Handling – Report issued February 14, 2007.....                    | 36 |
| 5.5.3. | Edmonton Police Governance – Report issued March 9, 2007 .....                        | 36 |
| 5.5.4. | Business Licensing Revenue – Report issued March 30, 2007 .....                       | 36 |
| 5.5.5. | Debenture Servicing – Report issued June 28, 2007 .....                               | 36 |
| 5.5.6. | South Eco Station – Report issued October 23, 2007 .....                              | 37 |
| 5.5.7. | ETS Fare Evasion – Report issued November 1, 2007 .....                               | 37 |
| 5.5.8. | Transit Information Centre – Report issued November 9, 2007 .....                     | 37 |
| 6.     | Annual Fraud and Misconduct Hotline Report .....                                      | 38 |
| 6.1.   | Background.....   | 38 |
| 6.2.   | Hotline Operation .....   | 38 |
| 6.3.   | Hotline Administration and Cost.....  | 39 |
| 6.4.   | Hotline Activity .....  | 40 |
|        | Reports received by the Hotline and the OCA – January 2 to December 31,<br>2007 ..... | 40 |
| 6.4.1. | Disposition of Reports/Complaints.....  | 40 |
|        | Disposition of Reports/Complaints – January 2 to December 31, 2007 .....              | 42 |
| 6.4.2. | Investigation of Reports/Complaints .....   | 42 |
| 6.5.   | Outcomes of the Completed Investigations .....  | 42 |
| 6.6.   | Sharing with Other Organizations .....  | 44 |
| 6.7.   | Summary .....   | 45 |
| 7.     | Leadership and Professional Development .....   | 46 |
| 8.     | Measuring our Performance .....   | 47 |
| 9.     | Conclusion .....  | 49 |

## 1. Message from the City Auditor

Looking back, I am very proud of the contribution the Office of the City Auditor (OCA) has made to the City of Edmonton in 2007. The contribution is reflected through results such as:

- Successful implementation of the City's Fraud and Misconduct Hotline. In addition to implementing the hotline we assumed responsibility for its operation while utilizing existing resources.
- Implementation of voter identification that was recommended following our participation in the 2004 municipal election.
- Implementation of a renewed Council Orientation and Training program that resulted from our City of Edmonton Governance Review. As part of the Council orientation, we presented an updated Audit Committee training package that highlights the Audit Committee's specific governing responsibilities.

The City's ability to provide cost-effective services during times of intense inflationary pressure is difficult. The City's challenge is to compete for labour, materials and contract resources while attempting to limit the impact of escalating costs on citizens. Each business unit within the City is challenged to demonstrate the value they provide with the funding they receive.

This past year also brought its share of challenges for the Administration and City Council as Edmonton experienced unprecedented economic growth. This included skyrocketing costs to construct the 23<sup>rd</sup> Avenue & Calgary Trail/Gateway Boulevard interchange, exploring opportunities around P3 initiatives, and what appeared to be one of the most difficult budget approval processes I can remember.

In response to these challenges we have initiated a review of the 23<sup>rd</sup> Avenue & Calgary Trail/Gateway Boulevard interchange project and of the use of P3 contracts by municipalities. We also continue to modify our internal processes to ensure that our services are delivered in an efficient, economical and effective manner.

The City's budgeting process is an area where we believe there are opportunities to improve. In observing the process, it was clear that Council direction to develop the budget within specified parameters is required. The 2008 budget was prepared without this direction, resulting in the Administration's initial budget request not matching Council's expectations.

The Administration follows a traditional incremental budgeting process where the budget is developed by re-costing the previous year's services and adding salary and inflationary increases. Council's budget deliberations included reviewing these increases, but their primary focus appeared to be on the justification of the base costs for some programs. Council's frustration was further exhibited through its final direction to the City Manager to reduce the overall tax levy by an additional \$13.8 Million (2%).

In addition to clear Council direction, alternative budget concepts used by other municipalities such as three-year budgets and full cost program evaluation and budgeting, should be considered. In 2008, a Chief Financial Officer (CFO) will be added to the Senior Management Team, bringing fresh insights and leadership to the budgeting exercise. We will support the CFO and the City Manager as they work to meet the budgeting challenge.

Internally, I implemented a reorganization in my office to realign responsibilities and create a structure that allows for succession planning as well as the attraction and retention of staff. We also started to review our processes and reporting formats to meet the changing needs of City Council. We are continually looking for ways to demonstrate that we are fulfilling our vision, "Committed to adding value." To achieve value, we regularly undertake a variety of reviews that either result in direct savings or in improved controls that in turn result in indirect savings. In light of our vision, this annual report highlights benefits that the Administration has realized as a result of our reviews. For example:

- In our 2006 audit of Edmonton Transit Services we indicated that Edmonton's subsidy of fares and level of tax support was higher than other Canadian municipalities by about 8% or \$12 million per year. We recommended using the revenue/cost ratio as a means to measure Edmonton's program. In 2007 and into 2008, discussions around fares and transit expansion now include the consideration of Transit's revenue/cost ratio.
- In our 2007 audit of Mobile Equipment Services we identified a decline in overall productivity and a number of issues relative to efficient service delivery. This information was subsequently considered in the 2008 budget deliberations, resulting in an agreement between Council and the Administration to reduce the budget by \$2 million.

In conclusion, I am very proud of our 2007 accomplishments and believe that the information and insight we provide assists Council to demonstrate accountability to the citizens of Edmonton. I look forward to working with Council and the Administration to address the challenges and capitalize on the opportunities that 2008 will bring.

## 2. Overview of our roles and responsibilities

Bylaw 12424, *City Auditor Bylaw*, states that the City Auditor is responsible for all internal auditing activities within City Programs and City Agencies. The *City Auditor Bylaw* directs the City Auditor to:

- Provide independent, objective assurance and advisory services designed to add value and improve the City's programs.
- Assist the City to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- Coordinate fraud investigation activities within City Programs or City Agencies.

The *City Auditor Bylaw* defines two roles to fulfill the City Auditor's mandate: Guardian and Agent of Change.

### 2.1. Guardian Role

The projects we conduct in this role primarily provide assurance through review of existing operations. They focus on compliance, controls, efficiency, effectiveness, and economy. The following are descriptions of the types of audit projects that fit into the guardian role.

**Branch reviews** determine whether a department, service or program operates efficiently, effectively and economically and whether control systems are adequate.

**Governance process reviews** determine whether corporate oversight practices meet general ethical and performance standards, and comply with legal and regulatory requirements.

**Cash-handling reviews** determine whether cash resources are handled in a manner consistent with established City requirements and are safeguarded against loss.

**Compliance reviews** determine whether or not the process or organizational unit being reviewed complies with applicable policies, plans, procedures, laws, regulations, contracts, and other requirements.

**Information technology reviews** determine whether adequate controls are built into automated systems and whether they continue to operate effectively. They also include use of computer assisted audit techniques that allow us to analyze large amounts of data on corporate systems. We also use some of those techniques to provide ongoing monitoring to ensure that particular controls are working as intended.

**Investigations** are designed to prove or refute alleged fraudulent or inappropriate behaviour by a City employee. Evidence must meet sufficient legal requirements before being turned over to the Edmonton Police Service.

**Special projects** are audits or studies that are not listed in the OCA's Annual Audit Plan. These projects are conducted at the discretion of the City Auditor and may be identified by OCA staff, members of City Council, members of the Administration, or by a member of the public.

**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 the follow-up audit is to determine the progress achieved in addressing the original recommendations and determining whether the problems or issues originally identified have been resolved.

## 2.2. Agent of Change Role

The projects we conduct in this role are proactive and forward-looking. They focus on the provision of strategic, risk, and control-related advisory services. We design these projects to better serve the changing needs of the corporation and help bring about improvements in program performance. The following are descriptions of the types of projects that fit into the Agent of Change role.

**Governance process reviews** include providing Audit Committee with information to assist members of both Council and Audit Committee in enhancing their governance roles and responsibilities related to corporate oversight.

**Corporate steering committees** are avenues used to provide proactive involvement in corporate initiatives such as Freedom of Information and Protection of Privacy and the Environmental Management System. By serving on selected committees, we are able to ensure that leading practice and control-related input receive appropriate attention throughout the project.

**Information technology reviews** allow us to provide proactive control-related advice and feedback during information technology systems development to ensure that appropriate safeguards are in place prior to implementation. We also provide ongoing monitoring services for selected corporate systems.

**Special projects** allow us to be proactively involved in corporate initiatives and projects such as e-business, Corporate Business Planning, and other initiatives identified by the Administration, Council, or a member of the public. Participation in these projects is at the discretion of the City Auditor.

**Advisory services** allow us 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, Enterprise Risk Management process design, and training programs. These projects may or may not result in a public report depending on the nature of the project. The OCA will normally include a summary of each activity in summary reports to Audit Committee and Council.



### 3. Mission, Vision, and Values

## OFFICE OF THE CITY AUDITOR

# OUR VISION

Committed to adding value



## OUR MISSION

**To assist the City of Edmonton in achieving its business objectives by:**

- Working with Management and Council in support of their corporate governance responsibilities.
- Providing independent analysis and assurance that operations are efficient, effective and economical.
- Promoting accountability to ensure responsible use of resources and to improve program performance.
- Working as agents of change by promoting continuous improvement and cost-effective, innovative solutions.
- Partnering with stakeholders to provide responsive and value-added professional audit services.

## OUR VALUES

### We Promote

- Customer Service
- Integrity
- Independence
- Teamwork
- Trust
- Employee Development
- Respect

### We Encourage

- Open Communication
- Proactive Involvement
- Candid Feedback
- Innovative Solutions

### We Strive for

- Timely Service
- Partnership with Stakeholders
- Quality Service



## 4. Outcomes of Prior Years' Audits

The OCA's audit reports provide recommendations to the Administration that identify opportunities for improvement. Over the past several years, we have been pleased to report that all or nearly all of the recommendations that were developed during audit projects have either been implemented as planned or that the Administration is making reasonable progress toward implementation. High implementation rates (like those we have observed in recent years) are only achieved as auditors, audit committees, and management are committed to working together for the common good of the organization.

When the Administration implements these recommendations the City obtains notable improvements to operations. Certain audits result in tangible cost savings while others relate to avoiding future costs or protecting City assets. Strengthening controls and improving governance may not have immediate financial impacts; however, they do provide significant long-term benefits to the City.

In 2007, recommendations from previous years audits have resulted in significant payback to the City in terms of:

- Increased revenues
- Reduced costs
- Improved internal controls
- Stronger ethical framework
- Operational efficiencies; and
- Enhanced protection of city assets.

The following summarizes original audit results along with the corresponding improvements to City operations.

### 4.1. Voter Identification Introduced in 2007 Election

For the past seven elections, the Office of the City Clerk has asked us to participate on the Election Planning Team and to conduct field observations during Election Day. As part of the Election Planning Team, we provide control and process-related input throughout the election planning process. In the OCA's 2004 Municipal Election report, we recommended that the Office of the City Clerk evaluate the use of voter lists and/or authority to request voter identification for the 2007 municipal election.

**2007 Outcomes:** In the 2007 Municipal Election, voters had to provide identification that confirmed their age and identity. This was a significant process change that helped to strengthen the integrity of the voting process.

## 4.2. Process Improvements to Better Manage Edmonton Police Service Overtime

In 2004, we reviewed the Edmonton Police Service's (EPS) overtime to determine whether or not the EPS ensures its' officers are using overtime in an efficient, effective and economical manner. Our report concluded that EPS cannot eliminate overtime expenditures altogether, regardless of the number of members employed, because of inevitable shift extensions, unpredictable events and contract requirements. However, we did make 11 recommendations to ensure EPS overtime resources are adequately monitored and managed in an efficient, effective and economical manner.

**2007 Outcomes:** In 2007, through a follow-up review, we determined that all eleven recommendations were satisfactorily completed. Implementation of our recommendations has resulted in improved management controls over the use of overtime. In October 2007, the EPS revised their policy to require that planned overtime be evaluated annually regarding cost-effectiveness. Specifically, the policy and procedure manual states: "... reports will address planned use of overtime and a post-event evaluation of cost-effectiveness." The EPS has also revamped its overtime claim forms. Reports are now made available through the payroll system to better enable managers to gain a perspective on the hours worked by their staff. In addition, the EPS is now reporting to the Edmonton Police Commission on a quarterly basis presenting overtime management strategies and trend analysis. In 2007, EPS overtime went down approximately \$1.1 million from the previous year (\$8.4M in 2006; \$7.3M in Dec. 2007).

## 4.3. Improved Understanding of Police Governance Roles

In 2005, we completed an Edmonton Police Governance audit. The objectives of that audit were to review the governance roles, responsibilities and relationships of City Council, the Police Commission and the Police Service as they related to the policing program in Edmonton. The original report contained 31 recommendations; 14 were directed to the City of Edmonton (the City) and 17 to the Edmonton Police Commission (the Commission). We also assessed the Honorarium Policy and recommended that the Commission review the policy and bring a revised payment structure forward for Council approval. Our 2005 audit report also concluded that:

...being an organization with a budget nearing \$200 Million, the OCA believes that the organization is of sufficient size to consider establishing an internal audit function. The OCA recommends that the Commission consider establishing an independent and objective internal audit function that would support the objectives of both the Commission and the Police Service.

**2007 Outcomes:** In 2007, our follow-up review found that the City and the Commission have made very good progress in implementing the recommendations from our original report. The City has implemented all 14 of the recommendations directed to them. The Commission has addressed 11 of our recommendations and is in the process of implementing the remaining 6. With the revisions to Bylaw 14040, *Police Commission Bylaw*, there is greater clarity of the relationships/authority between City Council and the Police Commission. Updates to Policy C472B, *Appointment Process to Certain Key*

*Boards* have enhanced the City's appointment process to Boards and ultimately improved transparency and accountability. In compliance with the new *Edmonton Police Commission Honorarium Policy*, the Edmonton Police Commission brought forward a report to Community Services Committee outlining how Edmonton Police Commission budget funds were used for honoraria. In addition, the EPS internal audit function is to be fully established in 2008.

#### 4.4. Improved Governance for the Combative Sports Commission

In 2006, we completed the Edmonton Boxing and Wrestling Commission (now called Combative Sports Commission) Governance review. The objective of this project was to review and assess the effectiveness of the governance roles, responsibilities, and relationships of the Commission. Our observations and recommendations presented in the report focused on areas where improvements to the governance framework could be enhanced: orientation and training, role clarity, meeting protocol, conflict of interest, bylaw revision, appointment process, and annual reporting process.

**2007 Outcomes:** At the March 12, 2007, Community Services Committee meeting, Bylaw 14308, *Boxing, Wrestling and Other Combative Sports Bylaw*, was forwarded to City Council. Bylaw 14308 implements our recommendations by clarifying the mandate of the Combative Sports Commission. The annual report summarizing the 2007 Activities of the Combative Sports Commission stated that the Commission is dedicated "to achieving full implementation and compliance" with all of the audit recommendations.

#### 4.5. New Guidance for In-City Restaurants and Catering Expenses

We completed a review of the City of Edmonton's Corporate Procurement Card program in 2006. Our research of five Canadian corporate procurement card programs (4 municipal and 1 provincial) found that the programs either do not allow restaurant, hosting, entertainment or gift expenses to be purchased using corporate credit cards or they have appropriate guidance in place to define acceptable parameters. We recommended that the City of Edmonton adopt this best practice and provide clear corporate guidance for all in-town restaurant and catering expenses.

**2007 Outcomes:** Administrative Directive A1415G *Employee Business Expenses – Local and Out of Town* was finalized on November 30, 2007. This directive establishes guidelines for reimbursement of expenses while conducting official City business. The directive provides per diem rates which act as guidelines for in-town and out-of-town hosting, requiring details of the hosting event, the names of individuals hosted, and the business reason. The impact of this is improved accountability and clear expectations to all employees that in-city restaurant and catering expenses are appropriate as outlined in the directive.

#### 4.6. Improved Compliance to the Low-Value Purchase Policy

Since the beginning of 2005, we have been monitoring low-value purchase orders for compliance with City purchasing guidelines and policies. The City currently requires that all departments use the purchase requisition process to purchase goods and services in excess of \$5,000. The requisition process has built-in controls to prevent unauthorized purchases. In addition to the dollar limit restriction, certain types of purchases (e.g., computers, furniture, chemicals, and printing), regardless of value, must also use the requisition process. For qualifying purchases less than \$5000, goods and services can be ordered by issuing what is called an 'L-order.' On a quarterly basis, our L-order continuous monitoring application identified all L-orders that appeared to be exceptions to the approved process. We then forwarded all items selected to the Finance Branch for investigation, resolution, and reporting. We also monitored significant violations of purchasing policies on an on-going basis and made recommendations as appropriate. Based on the results of our monitoring of L-orders, we recommended "that Materials Management reinforce appropriate use of L-orders to all employees who create purchase orders, including additional guidance for restricted items and consequences for continued guideline violations."

**2007 Outcomes:** In 2007, Materials Management issued a memorandum to all existing L-order users reinforcing the appropriate use guidelines as well as reminding them of restricted items that are not to be purchased using L-orders. As a result of our monitoring efforts and the action taken by management, the number of L-order purchasing anomalies identified has decreased significantly since 2005. In 2008, we will hold discussions with Materials Management on whether there is still the need to monitor the use of L-orders in order to minimize non-compliance.

#### 4.7. More Rigorous Re-inspection Fee Process for Properties Under Construction

As part of our 2005 audit of the Development Compliance Branch, we performed ride-alongs with both a Building and a Mechanical Inspector. We observed what appeared to be a high percentage of re-inspections. While some degree of re-inspection cannot be avoided, we concluded that some homebuilders did not fully understand the City's expectations prior to requesting or scheduling an inspection. This resulted in the rate of re-inspections being higher than what we would have expected to see. At the time of the audit, Bylaw 8664, *The Edmonton Building Permit Bylaw*, included provision for assessing a \$50 fee for inspections above the norm on a single property. We determined that the Development Compliance Branch was not applying this assessment fee for additional inspections. We concluded that the \$50 fee was not sufficient to recover re-inspection costs for the Branch and that the Branch should re-evaluate this assessment fee and apply it consistently. However, even at a \$50 re-inspection fee, we estimated that the Branch could recover approximately \$118,000 from re-inspection fees. We recommended that applying the assessment fee consistently could increase the Branch's overall productivity as the number of re-inspections decreases.

**2007 Outcomes:** Based on our recommendation, the Planning and Development Department discussed the possibility of a more rigorous re-inspection fee process with

some individual builders. Feedback received from the Builders was that if changes were to occur, it would help to be consistent with Calgary. At the time of the Administration's report (May 24, 2006), Calgary's re-inspection fee was \$158. On December 14, 2007, changes to *The Edmonton Building Permit Bylaw* were consolidated. Schedule "A" Building Permit Fees establishes a re-inspection fee of \$167.

#### 4.8. More Focus Placed on Transit Revenue/Cost Ratio

A 2006 branch audit of Edmonton Transit (ETS) concluded that ETS' revenue/cost ratio was 8% below the average ratio for comparable Canadian transit organizations. Within the audit report, we estimated that each increase of 1% in the revenue/cost ratio represented approximately \$1.5 million of tax levy savings which could be achieved through a combination of revenue increases, service changes and cost reductions. Bringing the ETS' revenue/cost ratio up to the average ratio represents \$12.0 million dollars in potential tax levy savings. The audit report concluded that one factor that has contributed to ETS having a lower revenue/cost ratio compared to many Canadian transit organizations is that Edmonton's cash fares and pass prices were 11% to 14% below the average of comparable organizations. We recommended that ETS Management develop a fare policy for Council's approval and seek direction from Council on the appropriate transit revenue/cost ratio.

**2007 Outcomes:** In May 2007, City Council approved a new fare policy that defines the fare structure to 2013 and includes increases in the price of monthly passes, which in turn is expected to result in a higher cost recovery ratio. In addition, the Administration is to come forward with a report to Council in the spring of 2008 on the definition of "Revenue/Cost ratio that incorporates all revenues and costs associated with operating the conventional transit service including buses/LRT and excluding DATS."

#### 4.9. Edmonton Transit System Fare Evasion Reduced

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

**2007 Outcomes:** Our 2007 follow-up review concluded that ETS has implemented all of the recommendations contained in the original report. Transit Security has expanded

their role from only patrolling the LRT System to also deploying to surface locations such as Transit Centres, ETS Garages and Bus Stops. Furthermore the Transit Security Protective Services Officers also now have access to real-time risk assessment information allowing for more effective officer deployment as ETS has implemented an intelligence-based risk assessment system that monitors fare evasion risk levels on a continuous basis. The more effective deployment of Transit Security has resulted in tangible gains including reduced fare evasion on the LRT system, increasing revenues in excess of \$200,000 per annum. Intangible benefits include improved safety for ETS employees and passengers. ETS is anticipating further gains from the proposed use of smart card technology.

#### 4.10. Improved Value of the Edmonton Composter

In a 2003 audit, we assessed the economic reasonableness and value of City ownership of the Edmonton Composting Facility. One of the objectives of this review was to ensure that appropriate actions are being undertaken to maximize the value of the City's ownership of the composter. We observed that management was pursuing several options to improve the value of the composter and its economics. Other possible synergistic projects were identified that could significantly enhance the value of the Edmonton Composting Facility and Edmonton Waste Management Centre. These were presented to management for further evaluation.

**2007 Outcomes:** Since our original audit, management has been actively pursuing ways to increase revenue and reduce operating and maintenance expenses and will continue to do both, using techniques as we suggested. A follow-up audit completed in 2007 confirmed that since 2003, the annual operating expenses have decreased from \$16 million to about \$13 million per year.

#### 4.11. Increased monitoring of cash handling irregularities

In 2004, we investigated a cash handling fraud at a City Leisure Centre. Our transactional analyses confirmed cash handling irregularities at this Leisure Centre. At the time of our investigation, the business was not using system-generated reports to monitor cashiers' patterns of cash register use. We made this same observation again in a 2005 cash handling audit at another Leisure Centre. We concluded in our 2005 report that the business unit needs to review and analyze its cashiers patterns of cash register use. We believed that using these reports would help assess inappropriate cash register usage and provide indicators of cash handling problems or potential fraud.

**2007 Outcomes:** In 2007, Community Services personnel responsible for cash handling at their facilities requested that we assist them in performing an analysis of 2007 Point-of-Sale transactions to look for indications of cash handling irregularities, such as excess numbers of refunds or cancelled transactions. We use specialized audit software to analyze entire populations of data, rather than small samples. Using this technology, we will provide further reports in 2008 to Community Services so that they can assess abnormalities.

#### 4.12. Updated Standards for Handling City Money

Cash Handling Reviews determine whether cash resources are handled in a manner consistent with established City requirements and are adequately safeguarded against loss. They also assess the general operational effectiveness and efficiency of cash handling locations. Cash Handling Reviews consist of an objective review and evaluation of the cash handling practices and procedures relating to the receiving, transporting, storing, depositing, recording and safeguarding of City money. During the past two years, we have completed five cash handling reviews. These reviews have resulted in a number of recommendations to improve the effectiveness of controls.

**2007 Outcomes:** In 2007, Administrative Directive A1200B, *Handling of City Money* was updated. The purpose of this Administrative Directive is to establish corporate standards for the handling of City money. Because of the number of recommendations made in our previous cash handling audits and our role in conducting cash handling reviews, we were consulted during the update of this directive. The directive's goal is to minimize the risk of loss or theft of City money. It outlines activities relating to receiving, recording, transporting, safeguarding and depositing City money and ensures these activities are performed on a consistent basis throughout the Corporation. The directive contains the statement that "any unusual or recurring shortages must be reported immediately to Corporate Security and/or the Office of the City Auditor, in accordance with the Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection Policy C522." In addition to the new Directive, the City of Edmonton now has in place a "*Handbook for the Handling of City Money.*" The Handbook provides detailed standards and procedures for City of Edmonton employees involved in money handling operations. The OCA reviewed the *Handbook for the Handling of City Money* and provided six suggestions for improvement to the Finance Branch. Five suggestions were incorporated into the Handbook and one suggestion was incorporated into a separate working procedure.

#### 4.13. More Proactive Bylaw Enforcement

In a 2005 branch audit of the Development Compliance Branch, we made a number of recommendations, accepted by management, which would help the municipal enforcement business unit become more proactive by increasing public communications regarding municipal bylaws and increasing bylaw enforcement service coverage. We provided an opinion that the current state of the municipal bylaws was an issue. The large number of municipal bylaws and overlaps among them made it difficult for the Branch to communicate expectations to staff and to the public. The audit report concluded that "being proactive in bylaw enforcement is about actively working to change citizens' behaviors." We recommended that management make the rewrite and consolidation of the eighteen bylaws in the general enforcement area a high priority. The audit report also concluded that the hours of service for municipal bylaw enforcement in Edmonton contribute to the enforcement challenges. At the time of the audit, enforcement officers worked 8:00 am to 4:30 pm Monday through Friday, which limits the amount of direct contact with citizens who are working outside the home. We recommended that management review the current service delivery model to determine



whether some staff resources could be reassigned to expand hours of operation for municipal enforcement services.

**2007 Outcomes:** On May 23, 2007, City Council passed the *Community Standards* Bylaw 14600 and the *Public Places* Bylaw 14614, presenting two modern, functional and foundational bylaws for community neighbourliness. The Bylaw Consolidation Project simplified and consolidated thirteen bylaws intended to enhance property standards and maintain the quality of our public places. In addition, on August 28, 2007, City Council approved “Bylaw Consolidation Phase 2 – Public and Community Standards” recommending that bylaw enforcement criteria be changed from a reactive stance to more proactive bylaw enforcement. This built on City Council’s direction from the November 29, 2005 meeting when Council approved our recommendations to rewrite and consolidate bylaws, review the current bylaw service delivery model, and develop a more formalized public education program on bylaws. In 2008, there will be a restructuring of the existing operational schedule to provide extended hours of service in evenings and on weekends.

#### 4.14. Reduced Cycle Time for Issuing Uninsured Property Claims Invoices

We conducted an Accounts Receivable Process Review in 2005. This review focused on the Corporation’s Corporate Billing & Accounts Receivable unit which provides a centralized billing service to business units (with the exception of Assessment and Taxation, Police, and Library) throughout the Corporation. Accounts receivable represent monies owed to the Corporation for a variety of services rendered to citizens and others. A significant portion of the receivable billings represent cost recovery for the benefit of the Corporation. We focused specific testing for receivables in the Transportation and Streets Risk - Uninsured Property account (uninsured damages to street lights, signals, signage and other traffic control assets). As part of the 2005 audit, we made recommendations designed to enhance “the business processes for billings, invoices, and accounts receivable in order to significantly reduce the cycle time required to generate a customer invoice after an incident.”

**2007 Outcomes:** Since our original audit, the work processes between Transportation and the Corporate Billing & Accounts Receivable unit in relation to the “Risk – Uninsured Property” account have improved and their joint role and responsibilities related to accounts receivable billing is more clearly defined. Our follow-up audit completed in 2007 confirmed that the average turnaround time required to issue an uninsured property claims invoice has gone down from 142 days in 2004 to 84 days. In 2007, the Corporate Billing & Accounts Receivable unit continued to work with Transportation to improve the work processes with the goal of reducing the typical incident-to-invoicing cycle time to 30 days.

## 5. Projects Completed in 2007

This section highlights audit activity for the 2007 year. Our audit projects covered a diverse range of the City's operations and were consistent with our guardian and agent of change roles. Our recommendations addressed efficiency, effectiveness and economy in all City departments. Copies of our public audit reports are on our website: <http://edmonton.ca/auditor>.

In 2007, we completed 24 audit projects including three branch audits; five prioritized projects; five emerging requests; three cash-handling reviews; and eight follow-up reviews. We also participated in a number of investigations, which are highlighted in Section 6 – Annual Fraud and Misconduct Hotline Report.

The following sections highlight the major projects completed during 2007.

### 5.1. Branch Audits

We completed three branch audits in 2007. We schedule these audits to ensure that every branch operation in the City is audited at least once every eight years. Branch audits are initiated by creating a risk and strategic profile of the branch and assessing risk exposures, allowing us to focus our attention during the project on those operational units or processes that present the greatest risk or opportunity for improvement to the City.

#### 5.1.1. Assessment and Taxation Branch – Report issued March 12, 2007

The Assessment and Taxation Branch is one of three branches within the Planning and Development Department. Its mission is to provide a quality assessment base, which complies with the *Municipal Government Act* and ensure that the relative share of the tax base of residential and non-residential property remains stable and meets the approved funding of the Corporation and the required Provincial Education Requisitions.

In 2006, the Branch budgeted \$612 million in property and business tax revenue for the City with an operating budget of \$13.3 million and 170 full time equivalent (FTE) positions.

Property and business taxes are a primary source of revenue, representing 49 percent of the City's total budgeted revenue for 2006. The Alberta *Municipal Government Act* and the *Assessment Complaints and Appeals Regulation* set out the primary rules that the City must follow to collect property, business or other taxes. All activities that are associated with assessment and taxation of property, business or other systems are governed by this legislation.

Because of the highly legislated requirements and the amount of revenue generated by this Branch, a high degree of assurance is also provided by third parties such as the external auditor, Alberta Municipal Affairs (conducts annual reviews with detailed audits scheduled every five years), and through other studies such as those completed by the Property and Business Tax Structure Review Committee.

Based on our review, we believe that, overall, the Assessment and Taxation Branch is delivering assessment and taxation services in an effective, efficient, and economical manner. However, there are opportunities to:

- Improve workplace issues through leadership development and workplace improvement initiatives,
- Assign a position with sufficient authority to provide oversight to the annual assessment cycle to ensure that operations are being scheduled in an efficient manner and timelines continue to be met, and
- Develop performance measures to ensure that assessment and taxation services are delivered in a cost-effective manner.

The Assessment and Taxation Branch uses the Tax Assessment and Collection (TACS) software platform which is a fully integrated assessment and taxation software that assists in the building and completing of the municipal tax assessment and appraisals as well as the collection and billing of business and property taxes. This software is used and supported solely by the City of Edmonton. The OCA conducted a scan to determine if there were potential alternative software products on the market. Our scan determined that a number of integrated assessment software packages are used within Canada and the USA. In addition, there is software that focuses on subsets of the municipal taxation process such as tax billing and collection, and mass appraisal. The cost to develop and maintain the TACS application for the 2006-2007 annual cycle was estimated at approximately \$1.8 million. In order to ensure that the City is maximizing its value for money, we believe that a more detailed analysis comparing features, determining compatibility, and associated advantages and disadvantages should be completed. We recommended that the Assessment and Taxation Branch perform a detailed comparison of the TACS software platform versus other commercially available software.

At the commencement of the audit, the Assessment and Taxation Branch was behind in the data submission of its assessment revisions and supplementary assessments into the provincial software system. The initial cause for the delay was that the Province introduced a new software system that required changes by the City in how it relayed its information to the Province. The Information Technology Branch was not able to complete the changes within the timelines resulting in the City not meeting the deadlines. The Information Technology Branch has since implemented a revised TACS resources plan and has completed changes that allow the City and Provincial systems to exchange information. The TACS system is a pivotal tool used to prepare and declare the tax roll, print the tax notices and collect taxes. Effective ongoing TACS support and maintenance is required. We recommended that the Assessment and Taxation Branch ensure that the TACS software is adequately supported through regular monitoring and communication with the Information Technology Branch.

We conducted a work environment survey with 71% of Branch staff. Results from this survey, as well as exit interviews performed by the Human Resources Branch and the Assessment and Taxation Branch Employee Engagement Survey compiled by an external consultant, identified a number of work environment issues raised by Branch employees. Some of these issues have contributed to the high turnover within the

Branch (at 10.8% whereas the City average was 4.5%). It is important that on-going monitoring be performed to ensure that the Assessment and Taxation Branch remains a competitive and attractive place to work. Maintaining strong leadership and an experienced workforce within the Branch is important to ensure that the tax revenue (in excess of \$600 million) that is generated by the Branch is not at risk. We recommended that the new Branch Manager make it a priority to develop actions plans dealing with staff perceptions/concerns that have been identified by work environment surveys.

Results from the OCA work environment survey, HR exit interviews and the employee engagement survey show that employees believe they are over-worked. One issue in particular stood out: workload relating to Assessment Review Board (ARB) and Municipal Government Board (MGB) appeals. There is a potential risk of increased numbers of appeals as occurred in the past (1998/1999). An increased ARB/MGB appeal load places additional work pressure on Branch employees and could impact both employee morale and the Branch's ability to manage/defend the appeals. As a result it could translate into higher appeal losses, which could negatively affect the City's finances. We commend the Branch on their work toward ensuring that the assessment base is sound, defensible, and that stakeholders have a proactive voice. Their success is highlighted by actual appeal losses for 2005 and 2006 of 0.70% and 0.75% respectively. As a comparison, Calgary faces a greater number of appeals than Edmonton, the impact of which is reflected in the amount of dollars budgeted for losses. In 2006, Edmonton budgeted \$6.8 million for both 2005 and 2006, whereas Calgary budgeted \$28.5 million in 2006, up from \$19 million budgeted in 2005. Based on Calgary's experience, it is estimated that a potential increase in the number of appeals could have implications of appeals losses greater than \$10 million if appropriate planning and resourcing of appeals does not take place.

Despite the Branch's work and practices, the decision whether to appeal and the decision to reward an adjustment to taxpayers is beyond the control of the Branch and thus still presents significant risk of increased appeals and losses. Therefore, we believe that given the large potential financial implications, that contingency planning is required. We recommended that the Assessment and Taxation Branch prepare a contingency plan to ensure that the potential for significant tax loss is mitigated should a significant portion of the assessment base come under appeal.

A survey of Canadian assessment jurisdictions shows that from an economical perspective, the City of Edmonton's investment in Assessment and Taxation resources is in line with costs incurred by other assessment jurisdictions in Canada. Successful and timely completion of the annual assessment cycle is critical in order to meet deadlines that are required by legislation and timelines expected by the taxpayers. The annual assessment cycle includes all the processes performed by the Assessment and Taxation Branch to prepare and declare the tax roll, print the tax notices and collect taxes. These processes include coordinating duties performed by the Information Technology Branch, including the Digital Print Centre. The declaration of the tax roll and the printing of the assessment and tax notices are managed by several people in different organizational units. This has resulted in each unit/section focusing on its own activities rather than incorporating a comprehensive process view. This diluted focus could lead to a greater risk of missing the statutory deadlines and possibly missing

opportunities for efficiencies by coordinating activities. In addition, unexpected deviations from the required timelines could jeopardize compliance to legislative requirements, cause significant confusion and media attention, and delay collection of taxes. We recommended that the Assessment and Taxation Branch assign a project leader with sufficient authority to manage the annual assessment cycle.

A number of meetings were held with the new Branch Manager of the Assessment and Taxation Branch. In the latter half of 2007, the new Branch Manager consulted us numerous times and spent considerable time and effort in understanding the challenges with respect to work place issues within the Branch. The Branch is committed to addressing these concerns on an ongoing basis.

### **5.1.2. Mobile Equipment Services – Report issued October 17, 2007**

Mobile Equipment Services Branch (MES) provides comprehensive city-owned equipment services for all City departments, EPCOR and Edmonton Police Services. In 2007, MES provided equipment services for 3,858 equipment units at 11 different maintenance facilities with 520 budgeted positions. The MES 2007 expenditure budget was \$107 million. This budget includes \$23 million for City fuel purchases and \$21 million for municipal fleet equipment replacement costs. MES is a centralized organization with three main business areas: Municipal Fleet Maintenance, Transit Fleet Maintenance, and Fleet Support.

The primary objective of this branch audit was to provide assurance that services provided by Mobile Equipment Services are economical, efficient, and effective. To meet this objective we assessed operational performance, policy compliance, and analyzed and tested many of its key processes. We also gauged MES's performance against industry best practice criteria.

MES achieves optimal economic life of equipment through ongoing measurement of equipment costs and performance. In 2006, MES achieved over \$3.7 million in savings through bulk fuel purchasing. Our analysis showed that the 2006 MES shop rate was less than 2006 Edmonton area industry shop rates. We believe this demonstrates that MES provides an economical service. To facilitate future comparisons, we recommended that MES adopt American Public Works Association (APWA) standards to compare shop rates to industry rates.

We analyzed mechanic productivity in order to assess efficiency of services. MES has been unsuccessful in its attempts to measure mechanic productivity using the current maintenance management system. Previous system data from 2002 to 2004 shows a minor decline in overall productivity. We analyzed a limited sample of service tasks and determined that mechanic productivity has likely continued to decline. We recommended that MES work with IT system support staff to implement system reporting capabilities in order to monitor and improve mechanic productivity levels.

We reviewed equipment downtime performance to assess effectiveness of services. The MES customers that we surveyed indicated that equipment downtime needs to be measured and monitored because of the major impact it has on delivering programs. We recommended that MES work with system support staff to find ways to monitor and improve equipment downtime levels.

We observed multiple vehicle makes and models within the City's fleet and recommended that MES develop a business case to evaluate consolidation of vehicle makes and models to achieve cost savings.

We compared MES's recent customer survey of equipment operators to our own survey of department vehicle coordinators, which yielded contrasting results. We recommended that MES broaden the audience and questions in future customer satisfaction surveys in order to more effectively assess how well customer needs are being met.

During this audit, we surveyed the majority of MES customers in order to understand how well MES is meeting customer service expectations. The survey results suggest that service expectations need to be defined better. We recommended that MES work with its customers to develop and set service delivery targets such as equipment service turnaround times, service overdue rates, and spare equipment inventory ratios.

We also reviewed MES's process for planning for new equipment. Many of MES's customers expressed dissatisfaction with how long it takes to get replacement and growth equipment. We recommended that MES work with customers to communicate planning requirements and timelines in order to better meet equipment replacement and growth needs.

We reviewed the MES warranty program and observed that processes for to identify and recover warranty work were not well defined. We recommended that MES revamp this program and establish warranty recovery targets.

We reviewed the MES Enterprise fiscal policy requirements and were satisfied with MES's compliance to this policy. MES currently uses three pricing models as part of its chargeback system, which we believe should be simplified. We recommended that MES adopt a single pricing approach of fixed and variable rates for its entire customer base.

We reviewed MES's long range financial forecasting of operating and capital needs and believe MES needs to improve its planning processes. We recommended that MES work with the Finance Branch to develop a rolling 10-year cash flow statement of financial needs and funding sources.

We also reviewed and tested the MES equipment inventory records and controls and observed inconsistencies in electronic data records. We recommended that MES work with its customers to periodically conduct a physical inventory of vehicles and equipment.

Interviews with MES customers indicated that engineering support services seem strained. We recommended that MES review service levels within the Fleet Support area in order to ensure customer needs are being met effectively.

As a result of our review of alternate business models for service delivery, we believe that the current enterprise model works reasonably well, but MES could benefit from establishing a steering committee of senior customer representatives to enable client driven shared services delivery by MES. We reviewed the current centralized approach to delivery of equipment services and believe that it provides the corporation good value.

An immediate impact of this audit occurred during the 2008 City of Edmonton Operating Budget deliberations when the following motion was passed:

That the overall tax levy be reduced by \$2,000,000 to be found through efficiencies in MES, and that the branch report to Council by June 2008 regarding progress made in achieving improvements in mechanic productivity, system efficiencies, and tracking of equipment downtime; also indicate how dollars savings will be included in the 2009 budget.

### **5.1.3. Land and Buildings Branch – Report issued January 21, 2008**

The Land and Buildings Branch provides a number of services that are required to support civic operations and capital projects. These services include building maintenance, accommodation planning, land acquisition and sales, property management, and land planning and development.

The primary objectives of this branch audit were to determine whether services are being delivered in an effective, efficient and economical manner; and whether risks are being managed to an acceptable level.

Council is the governing body providing overall direction for the delivery of services. Responsibility for delivering services in an effective, efficient and economical manner and for meeting Council expectations is delegated to the Administration through the City Manager.

Overall, Branch management is aware of and understands their operational risks and the Branch day to day operations appear to be well managed. Based on our assessment of services delivered by the Branch the greatest potential for improvements in the efficient, effective and economic delivery of service can be achieved in the following areas:

- Conservation of Building and Facility Infrastructure – to maximize the useful life of facilities and to optimize annual investments in maintenance and repair activities.
- Determining Building and Facility Need and Usage – to ensure civic accommodations are planned and utilized effectively and efficiently.
- Land Need Identification and Acquisition – to ensure that land for capital projects and development is acquired within established timeframes and at optimal cost.

#### **Conservation of Building and Facility Infrastructure**

In a 1996 audit, we made a number of recommendations related to responsible building ownership and life cycle planning. While some actions were taken to address the recommendations, the fact that most work orders are created for unplanned maintenance activities indicates that the recommendations have not been fully addressed. Unplanned activities result in work schedule disruptions, higher replacement costs, potential for building closure and occupant dissatisfaction. We observed four key factors impacting the Branch's ability to implement a comprehensive planned maintenance process.

First, roles and responsibilities for life cycle planning, including budgeting, managing and reporting on the conservation activities, reside in a number of areas and have not

been formally defined. This has resulted in the Branch's inability to effectively coordinate maintenance and rehabilitation activities and less than optimal allocation of available funding. We have recommended that roles and responsibilities be defined for more effective coordination of resources and funding to optimize investment in maintenance, repair and rehabilitation activities.

Second, the replacement value listed on the building and facility inventory report are not complete for some buildings and the values for other buildings do not reflect current construction costs. In addition, information regarding actual expenditures on maintenance activities resides in several locations in the City's financial records and is not readily available. The City cannot demonstrate whether its investment in maintenance and conservation of buildings and facilities is in line with industry standards. We have recommended that processes be developed to ensure inventory information is complete and accurate and that the investment level in building and facilities be reported annually relative to industry benchmarks.

Third, since the mid-1990s the City has developed and discontinued use of a number of maintenance management systems to assist with the implementation of life cycle planning. Testing of a new system was completed in September 2007. The requirements for ongoing support agreements, user documentation and a formal implementation plan were not identified and are not yet in place. This will limit the Branch's ability to maximize the benefits from the investment in the system. We have recommended that support agreements for the Decision Support System be put in place and a comprehensive implementation plan be developed.

Fourth, limited performance data is currently available for maintenance activities. The lack of performance data leaves the Branch unable to demonstrate the effectiveness and efficiency of maintenance activities. Efforts to obtain more meaningful data are currently underway. We have recommended that changes to reporting be implemented to facilitate meaningful performance reporting.

### **Determining Building and Facility Need and Usage**

A long-term accommodation plan is not in place and documents guiding the delivery of accommodation services do not reflect the current environment. Planning is undertaken on a project by project basis utilizing traditional practices with projects typical taking up to 18 months to complete. As a result, the annual budget process does not provide adequate lead time to acquire, plan and construct additional accommodations approved by Council.

The Branch is currently developing a long-term accommodation plan. However, the information contained in current forecasts and business plans will not provide the information the Branch requires to effectively implement long-term planning.

We have recommended that:

- A comprehensive framework, that defines information requirements and processes, be developed and reviewed on a regular basis.
- The Branch work with Corporate Business Planning to gather information for accommodation planning through existing business planning and budget processes.



## Land Need Identification and Acquisition

Processes addressing the short-term land needs of the City are generally working well. Longer-term land requirements are not being identified consistently and planning for the City's long-term needs is not taking place. We observed three factors that are impacting the Branch's ability to increase the effectiveness and efficiency of its service delivery.

First, a comprehensive long-term land strategy is not in place and roles and responsibilities are not clearly defined and understood. This can result in delays in capital projects, higher costs, and lost opportunities such as the ability to consolidate public service delivery in a common location. We have recommended that a long-term strategy be developed that includes clearly defined roles and responsibilities.

Second, spending authority limits were last reviewed in 2002 and do not reflect current economic conditions. This has resulted in a higher percentage of transactions now requiring Council approval. We have recommended that:

- Delegated spending authority limits be reviewed on a regular basis to ensure they remain in line with market conditions.
- The process for obtaining Council approval be reviewed to determine if changes can be made to reduce the risk of higher cost and lost opportunities.

Third, the Branch's land development processes generally address the requirements of approved policy and strategy; however, limited reporting of outcomes takes place. This limits Council's ability to assess the effectiveness of the policy and strategy. We have recommended that the reporting of land development outcomes be enhanced to increase Council's awareness of land development activities.

The recommendations contained in this report provide direction that will increase the Branch's ability to improve the effectiveness, efficiency and economy of its service delivery through better role definition, longer-term planning and improved monitoring and reporting. The Administration has accepted the eleven recommendations and provided management responses and action plans to each of the recommendations. We believe that the administration has the tools and experience to improve the effectiveness, efficiency and economy of its service delivery.

The Branch is currently preparing a long term strategy to address the corporation's long term land needs based on 10 and 20-year planning horizons. Roles and responsibilities are being defined which include:

- Departmental responsibilities and information requirements.
- An annual updating mechanism from each of the City's departments pertaining to land requirements for the ensuing 20 years.
- Development of an information sharing process that enables departments and Land and Buildings to better identify emerging land needs and enhance decision making relative to opportunity purchases. These will be identified through consideration of planning, development, subdivision and rezoning applications submitted to the City.

The Branch will provide a report to City Council in early 2008 seeking Council's approval of the Strategy.

## 5.2. Prioritized Projects

Prioritized Projects are areas where we have determined that there are strategic, operational, governance, and project risks faced by the City that would benefit from an audit. These projects begin with identification of risks that could hinder the organization to reach its goals. The five prioritized projects completed as part of the 2007 Annual Plan are summarized below.

### 5.2.1. Employee Internet Usage – Report issued February 15, 2007

Use of the Internet enables employees to access a wide variety of information sources relevant to their official duties. However, along with tremendous advantages, the Internet also provides access to a wide variety of information that is not related to business needs and is harmful or inappropriate for the work place.

The OCA conducted this review to determine whether City of Edmonton employees' use of the Internet is appropriate and in compliance with Administrative Directive A1429B, *Acceptable Use of Communication Technology*.

Based on Internet activity over the 3-month period ended February 28, 2006, we discovered inappropriate and non-work related internet usage by some staff. Inappropriate personal internet use that interferes with employees' work, in addition to being non-productive, can also slow information transfer from the internet, affecting the ability of others to use the internet for business purposes. It also increases the risk associated with spyware programs and viruses. In some cases, users were found to have accessed inappropriate websites. Accessing inappropriate websites poses an additional risk because the site contents may be offensive to others and could foster a hostile work environment.

We made four recommendations to the Corporate Services Department (in cooperation with all departments), to enhance the reporting capabilities of the City's internet filtering software application, to perform additional, periodic monitoring of employee usage, to investigate the activities of employees involved in inappropriate internet usage and to reinforce, through ongoing and periodic communication, the appropriate use of internet access for business purposes and to remind employees that usage is being monitored as part of regular business management practices.

At the conclusion of the internet usage audit, the Administration implemented "pop-up" messaging that appears as employees sign-on to their computer. The message reminds staff of the City's Code of Conduct and the Computer Use Policy. In addition, the Administration completed two scans of internet usage patterns during 2007. The scans focused on examining internet usage patterns of individuals with high amounts of work time spent accessing non-work related sites and accessing inappropriate sites, and addressing such behavior.

### 5.2.2. City of Edmonton Governance Review – Report issued February 28, 2007

Edmonton is governed by an elected City Council comprised of a Mayor and twelve Councillors. Council serves the citizens of Edmonton by fulfilling their responsibilities as set out in the Municipal Government Act (MGA); being responsible for developing and evaluating the policies and programs of the city; and making sure that the powers, duties and functions of the municipality are appropriately carried out.

The workload of Council and its Committees has steadily increased the past few years as the number of agenda items, issues discussed and number of hours spent in Council and Committee meetings has risen. In addition to these meetings, members of Council are required to fulfill responsibilities related to other agencies and community events that are often held during the evening and on weekends.

To better understand how well the City's governance model is operating, we conducted individual interviews with members of City Council and Senior Members of the Administration using the 15 attributes of good governance that are incorporated into the *Governance Effectiveness 'Quick Check'* survey tool<sup>1</sup> as our interview guide.

Overall, the results of the individual Councillors' assessments indicated that Councillors believe they are doing most things well, but could improve in some areas to fulfill their governance responsibilities. The strongest areas were identified as Council's Compliance with Legislation and the Management of Meetings.

The survey results identified three areas with potential to improve Council's effectiveness: 1) Commitment to Mission & Guiding Principles; 2) Roles and Responsibilities; and 3) Decision-Making Process. In addition to these, we also undertook a review of the Councillor Orientation and Training program since this program is a critical enabler, helping incoming Councillors to establish a solid foundation to understand and fulfill their governing responsibilities.

#### **Mission and Guiding Principles**

Members of Council told us that collectively Council did not have a common understanding of its Mission or Guiding Principles. Although there was clear commitment from each individual to the City of Edmonton, there was no cohesive view on what Council, as a whole, wanted to achieve.

#### **Council Vision & Strategic Planning**

Early in their term, Council participated in a series of planning meetings and documented their focus areas. The result was *Edmonton City Council Special Initiatives 2005-07*. That Council was commended for recognizing the need to develop a plan to accomplish their priorities. In our opinion, the Council Initiatives have helped Council communicate its priority focus areas to the Administration.

---

<sup>1</sup> A learning tool published by the Institute on Governance, Ottawa, ON and accessible at <http://www.iog.ca/boardgovernance/html/ass.html>.

Leveraging on the success of the Initiatives, we believe it is vital that future Councils identify what is important to them by developing and maintaining a comprehensive Strategic Plan for the City of Edmonton. A comprehensive Strategic Plan should include not only special initiatives, but also strategic guidance regarding priorities and levels of service for all core programs offered by the City of Edmonton.

### **Roles and Responsibilities**

Members of Council told us that there are times when Council moves from a governing role to micro-managing the Administration. Committee work was identified as duplicate work at times, especially when Committee recommendations are challenged and not accepted by Council. Councillors also expressed frustration that, in their view, their ability to give direction is restricted.

### **Council Responsibilities**

The MGA identifies one of Council's principle duties as participating in development and evaluation of the municipality's policies and programs. To facilitate this, the MGA authorizes Council to establish and delegate responsibilities to Committees. This delegation is critical to distribute the workload of Council so that it may fulfill its responsibilities. Standing Committees should be charged with the role and responsibility of policy development, review and interpretation. Council's role is to approve policies.

Another critical role of Council is to establish the priorities of the municipality, including monitoring the organization's performance. This requires Council to provide clear direction to the City Manager and to hold him and the Committees responsible for achieving their identified priorities. Council should concentrate on the higher-level governance responsibilities such as:

- Identifying priority areas for the City of Edmonton
- Providing clear direction to the Council Committees and the Administration
- Hiring and monitoring the performance of the Chief Administrative Officer (City Manager). The organization's performance is a primary contributor to the City Manager's performance
- Monitoring the performance of Council Committees and itself to ensure the City's priorities and goals are achieved
- Appointing members and monitoring the activities of Council created Civic Agencies

### **Council Committees**

The roles and responsibilities of Council's Committees are documented in Bylaw 12300, *Procedures and Committees Bylaw*. In our opinion, the duties of each Council Committee should be clearly identified and specific terms of reference for each Committee should be required. Each Committee's relationship to Council should be fully explained and understood by all parties.

Council as a whole should retain the role of policy-approver and place considerable reliance on the assigned Council Committee to bring forward policy recommendations that consider input from the Administration and other stakeholders. Standing Committees should be charged with the role and responsibility of policy development,

review and interpretation. The benefits of dealing with a matter at the committee level include the in-depth discussion allowed by the more flexible procedural rules and the opportunity to hear from all stakeholders. Members of Council should be encouraged to participate at the Committee level even when not a member of the Committee to gain insight into the issues and minimize duplicate discussion at Council when a policy is brought forward for approval.

### **Annual Self-evaluation**

Once Council has clarified the roles and responsibilities of Council and its Committees to achieve its vision and strategic plan, it is important to develop a mechanism to monitor progress. In addition to monitoring the performance of the Administration, Council and its Committees should also monitor their own achievements.

### **Audit Committee**

Audit Committees present a unique challenge for municipalities and Council should be commended for establishing a Standing Audit Committee. Typical Audit Committee responsibilities include overseeing the processes around: a) the preparation of the Financial Statements, b) Risk Management and Internal Control, c) Compliance and Ethics, and d) Oversight of Management and Internal and External Audit. To fulfill these responsibilities, financial expertise is required. This can be particularly challenging in a municipal environment since there is no guarantee that elected Councillors have the level of financial expertise required of public company audit committee members. The Committee should address this challenge by engaging an independent Financial Expert to provide financial advice as needed.

### **Decision-making**

Members of Council told us that improvements could be made to the decision-making process. Their comments recognized that, in certain instances, the work completed by the Committees causes duplication of time and effort for the Administration and Councillors. Councillors conveyed that an open and transparent political process takes time and sometimes inefficiencies must be endured. We have identified four areas to improve the process to support Council's decision-making.

### **Committee Structure**

As stated earlier, the MGA provides Council the ability to establish and delegate responsibilities to Committees. In our opinion, each Council, following their initial Strategic Planning Session, should assess the established Council Committees and determine if they are sufficient or still needed to help them achieve their objectives. This should also include reviewing whether the terms and membership of the committees meet Council's needs.

### **Agenda Management**

We attended Agenda Review Committee (ARC) meetings held in the fall of 2006 and found them to be very informal with a short term focus. In our opinion, the function of the

ARC is critical to the effectiveness of Council and Committee meetings since it manages the priority and coordination of issues dealt with by Council and its Committees. This requires an understanding and alignment of the strategic priorities of Council to ensure that the most important issues are brought forward to the appropriate body, considering Council's delegation to the Committees, and ensuring all available information is considered at one time.

We believe that a 3-year calendar should be prepared that proactively forecasts the timing of issues that are determined to be significant to Council. The ARC could then meet less frequently, possibly monthly or even quarterly, and determine what is appropriate to be before Council or Committee during the next set of meetings. Individual Councillors should be provided the ability to bring an item forward, with a clear Policy context, for ARC scheduling. This would provide individual Councillors with an efficient way to bring issues forward. The risk of creating a "power committee" is mitigated by the ARC mandate limiting its role to organizing agendas to support Council's strategic vision and priorities.

### **Reports**

Reports are used to provide information for decision making, to answer inquiries, to obtain authority and to establish policy. In reviewing Council and Committee minutes and attached reports, we identified opportunities to redesign the report template to facilitate a governance perspective by including a clear linkage to policy, providing a complete history of the issue, and ensuring an appropriate level of detail.

### **Orientation & Training**

Orientation and Training is critical to any individual participating on a governing body so that they understand and can fulfill their responsibilities. With minimal requirements to be a Councillor (18 years old, Canadian citizen, and a 6-month resident of Edmonton) the orientation and training program must be designed to meet the separate needs of very inexperienced Councillors as well as those with years of experience in municipal governance.

In addition to the changes in governance practices discussed in this report, additional enhancements to the Council Orientation and Training program should include establishment of an Orientation and Training Policy and ensure that the 'department overview' presentations better serve Council's strategic knowledge needs.

### **Recommendations**

We directed seven recommendations to the Administration and they have provided a Management Response and Action Plan for each, with the understanding that their commitment is dependent on Council's acceptance of the recommended action and their subsequent direction to have the recommendations acted upon. In our opinion, these changes will enhance the City of Edmonton's governance structure so that citizens' expectations of open, transparent and responsive leadership from future Councils and Administrations will continue to be met.

Based on the direction given to Administration resulting from the Governance Review, the Office of the City Clerk prepared City Policy C530, *Council Orientation and Training* that commits the City to provide an orientation and training plan to Members of Council after every general municipal election and by-election. We were consulted during the development of the City Policy and during the development of the 2007 Orientation and Training Plan used after the 2007 Municipal Election.

Edmonton's *2007-08 Strategic Direction: Focus Areas and Priorities* document was approved by City Council on March 6, 2007. This was one of the first steps in building a corporation-wide strategic plan. Once the strategic plan is completed, there will be a framework to guide the City's planning and service delivery, integrate the city's work, develop a positive partnership between Council and Administration, as well as communicate progress and successes to the plan. For 2008, a community-based vision for the City of Edmonton is to be developed and approved by City Council.

### **5.2.3. Continuous Monitoring – Report issued July 4, 2007**

Historically, we have tested controls on a retrospective and cyclical basis, often many months after business activities have occurred. The testing procedures were often based on a sampling approach and included activities such as reviews of policies, procedures, approvals, and reconciliations. This approach only affords internal auditors a narrow scope of evaluation of past rather than current activities. Continuous monitoring is a method used to automatically perform control and risk assessments on a more frequent and current basis. Technology is the key that has enabled such an approach. Continuous monitoring changes the audit approach from periodic reviews of a sample of transactions to ongoing audit testing of 100 percent of transactions.

Continuous monitoring can become an integral part of modern auditing at many levels. It should also be closely tied to management activities such as performance monitoring, benchmarking, and enterprise risk management. By using continuous monitoring, we are able to perform control and risk assessments in real time or near real time. We can analyze key business systems for both anomalies at the transaction level and for indications of control system deficiencies and emerging risks. Finally, continuous auditing allows us to integrate the analysis results into all aspects of the audit process, from the development and maintenance of the annual audit plan to the conduct and follow-up of specific audits.

Since the beginning of 2005, the OCA has developed three continuous monitoring applications. The first application monitors low-value purchase orders for compliance with City purchasing guidelines and policies. The second application involves monitoring journal vouchers, which are used by accountants to make adjustments to the City's main financial accounting system. The third application compares records contained in the City's Human Resources System (PeopleSoft) to records stored by the City's Health and Dental Plan provider (Blue Cross).

Implementation of these three continuous monitoring applications has provided us with an opportunity to provide leading edge, real-time information to the affected business areas to assist them with their management responsibilities. The OCA will continue to

work with various business units to continue using current applications and develop new ones as required.

We directed two recommendations to the Administration. We recommended that the Finance Branch finalize and implement the proposed new Journal Voucher Entry Procedure. The Procedure must address the approval and documentation requirements for journal vouchers. We also recommended that Materials Management reinforce appropriate use of L-orders to all employees who create purchase orders, including additional guidance to determine restricted items and consequences for continued guideline violations.

At the conclusion of the audit, the Administration identified a number of areas where revisions to the Journal Voucher Entry Procedure needed to be made. The procedure will be updated and provided to the Finance Management Team and Finance Branch Manager for approval in 2008.

Throughout 2007, we increased the frequency of our L-order monitoring and found that usage and non-compliance with guidelines have been better managed through education. In addition there was further enforcement related to non-compliance by escalating incidences of significant non-compliance to the applicable supervisor/manager.

#### **5.2.4. Post-implementation review – MAIN-LINK – Report issued January 21, 2008**

MAIN-LINK was a capital project undertaken by the City from 2002 to 2005 to implement a “linked” or common system using SAP software to track and manage the maintenance of City assets. The City’s infrastructure assets, which have a replacement value of over \$20 billion, include roads, sewer lines, light rail transit, buildings, vehicles, equipment, parks, information technology and more. The City’s “linked” maintenance management solution provides a common system for planning, scheduling and managing the required tasks, recording and reporting the maintenance activities, and providing a history of such activities for future decisions. There are in excess of 1,100 users of this system in eleven business areas across four City departments.

We conducted a post implementation review of the MAIN-LINK project. A post implementation review is a formal assessment of a completed program/project to ascertain its degree of success, determine if further improvements can be made and whether lessons learned can be applied to improve future programs/projects.

Council is the City’s governing body and approves funding for capital projects such as MAIN-LINK. The City Manager is responsible for recommending initiatives and managing approved capital programs in an efficient, effective and economical manner. Funding for MAIN-LINK was approved by Council as a composite program within the context of the City’s Enterprise Resource Planning (ERP) strategy. We were able to identify that expenditures amounting to \$13.1 million were incurred to implement MAIN-LINK, which was initiated as the first ERP project.

Our objective was to assess whether MAIN-LINK’s objectives were accomplished, and business processes and controls were implemented as planned. Our overall conclusion



is that the MAIN-LINK project was partially successful in meeting its objectives. Further improvements are needed to achieve the planned benefits of this capital investment and be more responsive to business area needs. We have made five recommendations for the Administration to achieve this and strengthen controls for future ERP projects.

### **Realization of MAIN-LINK Objectives**

Our review indicated that although the City has implemented a common system for its diverse maintenance activities, business processes have not been reengineered to the extent of achieving a standardized maintenance management process and fully utilizing the capabilities of the system. Standard reports from MAIN-LINK are not fully meeting the operational needs of business areas. Further, the governance process and support model for the system have not been fully developed to effectively respond to the needs of MAIN-LINK users. This has hindered the City's ability to achieve many of the business benefits perceived at the time the project was conceptualized and approved.

We recommended that:

- A strategy for achieving continuous improvement and planned business benefits associated with MAIN-LINK be developed and implemented.
- Assistance, support and training be provided to all business areas in extracting and using meaningful reports from MAIN-LINK for better decision-making.

### **MAIN-LINK Controls**

The general controls pertaining to availability, reliability, and data recovery of the system are operating as intended. However, two project specific controls that require attention to increase user acceptance of the system are provision of training and up-to-date documentation to users. An ongoing training strategy was not in place and users received minimal corporate support after the system was implemented.

We have recommended that the training and documentation needs of all business areas be reviewed and that they be provided with the required support to enable them to take advantage of the new tools and technology and use the system as intended.

### **Cost/Benefit Analysis**

One of our objective was to establish whether the MAIN-LINK project's cost/benefit targets were achieved, and variances if any, were justified and approved. In ideal circumstances, the Administration would establish formal cost/benefit targets prior to funding approval, track costs as they are incurred, collect data on benefits as they are achieved and report on their achievements. The OCA would in turn review the reported costs and benefits as part of a post implementation review.

With respect to the MAIN-LINK project, no cost/benefit targets were formally established at the start of the project. The key driver for initiating this project was the replacement of obsolete legacy systems. Executive Committee asked for a cost/benefit analysis on the ERP program as part of the 2004 budget cycle. The Administration provided some information to Council on costs, benefits and a pay-back analysis, but this information was not updated. Once the project ended, there was no governance model in place to require formal reporting on whether cost and benefit targets had been achieved, and if

not, how they would be achieved and reported. Since formal targets were not established and there was no consistent mechanism of tracking and reporting on the final outcomes of the project, the City cannot demonstrate whether MAIN-LINK's cost/benefit targets were achieved or not.

In our opinion, a major capital project such as MAIN-LINK requires more rigor in establishing cost targets and defining how costs were to be captured and reported. In order to provide consistent reporting, it is also essential that all costs associated with ERP projects be reconciled to the City's Corporate Financial System (SAP) and all sources of funding be identified.

Actual savings from the elimination of legacy systems have not been determined and formally reported by the Administration. Benefit registers initiated during the project to record business benefits were not kept up to date. Further, until business areas receive the required direction and support to reengineer their processes and use the system as intended, the City cannot harvest many of the business benefits that were projected.

We have recommended that:

- The City's ERP Project Management methodology comply with Administrative Directive A1424A, *Project Management For Projects*, and set out basic expectations/standards on how costs will be captured and reported for ERP projects.
- Consistent reporting be undertaken on the outcomes of ERP projects in relation to the cost and benefit targets, and that the costs should be reconciled with the City's Corporate Financial System (SAP).

#### **5.2.5. 2007 Municipal Election – Report issued January 15, 2008**

Municipal elections are the most public of the Office of the City Clerk's (OCC) responsibilities. Election planning is a complex process, requiring about two years of intensive effort by the Election Planning Team to ensure that Election Day proceeds as smoothly as possible. For the past seven elections, the OCC has asked us to participate on the Election Planning Team and to conduct field observations during Election Day. As part of the Election Planning Team, we provide control and process-related input throughout the election planning process.

During Election Day (October 15, 2007), 10 auditors visited 89 of the 289 voting stations (31%) to observe the voting process and provide feedback to the OCC on the overall integrity of the election process. In addition, we also observed the consolidation of results at the end of Election Day at 3 Remote Accumulation Sites and at Election Central.

Overall, the 2007 Municipal Election ran very smoothly. The most significant process changes in the 2007 Municipal Election were the requirement for voter identification and the use of mail-in ballots. In order to vote, voters had to provide identification that confirmed their age and identity. For the first time, the City of Edmonton also offered mail-in ballots to individuals who were unable to vote at an advance voting station or at their voting station on Election Day. There were no significant issues with the implementation of voter identification or mail-in ballots. Our audit report provided four recommendations to further improve election processes.

### 5.3. Emerging Requests

Emerging Requests are audits or studies that are not listed in the OCA's Annual Audit Plan. These projects are undertaken at the discretion of the City Auditor and may be identified by OCA staff during a scheduled audit, by City Council, by the Administration, or by a member of the public. The following emerging requests were completed in 2007.

#### 5.3.1. Street Light Poles – Powder Coating Investigation – Report issued May 28, 2007

We conducted an investigation of powder-coated streetlight poles installed in newer subdivisions to determine whether or not the City had approved installations of streetlight poles that were not compliant with City specifications. We found that approximately 2,000 non-compliant powder-coated streetlight poles had been installed and 91 unapproved concrete streetlight poles were being installed by the development industry. The cost to remove and replace those poles with compliant poles could be as high as \$8 million.

Since the City does not release the developer's letters of credit until all deficiencies are corrected and the Final Acceptance Certificates are approved, the City's risk exposure even if the developers defaulted would be significantly less than \$8 million.

Our observations and recommendations addressed three strategies that the Traffic Operations Branch needed to implement in order to reduce the City's risk exposure and improve its working relationships with the development industry. These three strategies were: 1) go-forward strategies designed to systematically lower the City's risk exposure and dealings with the industry, 2) short-term risk reduction strategies, and 3) a process improvement strategy. The Branch accepted all three recommendations and provided action plans (some had already been initiated; the others with short timeframes) to resolve each of them.

We also met with a representative of the Urban Development Institute Edmonton to discuss the findings and recommendations. The Urban Development Institute believed that the identified issues could all be resolved by working with the City to find mutually satisfactory solutions. We encouraged Traffic Operations to continue to work closely with the industry to resolve the issues to their mutual benefit.

The Transportation Department has been working with the industry to implement all of our recommendations. The audit identified a potential risk exposure of approximately \$8 million if the City had to replace all noncompliant streetlight poles. The Department has been in regular contact with us to discuss their go-forward strategies, including life-cycle testing of compliant and noncompliant streetlight poles to determine the actual liability associated with the noncompliant poles. The testing will be completed early in 2008, allowing the department to work with the industry to ensure that the City does not incur unplanned maintenance costs.

### **5.3.2. Heritage Grant and Downtown Housing Grant Investigation – Report issued October 23, 2007**

We received a series of allegations regarding the manner in which Heritage Grant and Downtown Housing Reinvestment Grant funding was awarded to a developer of a particular building. The materials submitted identified potential issues regarding the propriety of grants made to the developer under the terms of the City's Heritage Grant and Downtown Housing Reinvestment Grant programs, both of which were administered by the Planning and Development Department.

Our review concluded that the Heritage Grant was properly awarded to the developer for its historic building restoration. We identified two opportunities to improve the department's grant administration processes: 1) ensuring that each process step specified by the policy and procedures is supported by complete documentation and 2) ensuring that sufficient portions of the allocated grant funding are held back to make sure that restoration work is completed in a timely manner. Through further review of current practices, we determined that the City's heritage planning group had already implemented a checklist and new contract wording to address these deficiencies.

For the Downtown Housing Reinvestment Grant program, program funds of \$4.5 million were to be distributed to the first projects satisfying all the program criteria. Ultimately, the program received 30 applications. Of those 30 potential housing projects, 15 were subsidized by the Downtown Housing Reinvestment Grant program. We found that the Downtown Housing Reinvestment Grant program was not administered in strict accordance with the program criteria because four projects did not satisfy the program criteria at the time of payment. The City paid out a total of \$2.3 million to these four projects that did not satisfy the construction timeline performance criteria. There were five other projects that did satisfy the program criteria, however the funding was exhausted prior to the completion of these projects.

We recommended tighter controls on future subsidy program expenditures to help ensure that future grant programs are administered in a manner that ensures adequate segregation of duties and complete and accurate record-keeping. In this instance, Council established a program that was designed to provide subsidies to developers to add 1,000 units of new downtown housing. The program goal was satisfied, however the anomalies noted in the report did not provide assurance that the program funds were distributed in strict accordance with the program criteria.

The Department implemented our recommendations to ensure that current and future programs, including the ongoing Heritage Grant program, are conducted in a manner that ensures appropriate administrative checks and balances are in place. We believe that these control systems will ensure that future grants will be disbursed in accordance with Council's directives.

### **5.3.3. External Audit Assistance – Report issued May 8, 2007**

We assisted the City of Edmonton's external auditors, Deloitte & Touche, with their audit of the City's 2006 financial statements. Coordinating our audit efforts with the external auditor provides benefits to the City, including avoiding duplicate work.

In 2007, on behalf of Deloitte & Touche, we tested controls related to departmental use of three computer applications (TACS, PeopleSoft and POSSE) to assess the operational effectiveness of those controls. In addition, we also provided Deloitte & Touche with copies of our audit reports to help them plan their financial statement audit.

### **5.3.4. Hotline Implementation – Hotline operational as of January 2, 2007**

City Policy C522, *Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection* incorporates a hotline as an additional channel for City employees to report suspected fraud and misconduct. City Council appointed the OCA as the independent body to lead the implementation and operation of a hotline to ensure the required independence and objectivity.

In collaboration with the Communications Branch, we developed and executed a Communication Plan to promote the Fraud and Misconduct Hotline to City employees and provided relevant information. Communication products included a joint letter from the Mayor, City Manager and City Auditor to all City employees, with answers to frequently asked questions on the reverse side; a poster; an information kit for supervisors; City Link articles; and information on e-City and the OCA's web site.

The promised date for employees to start using the hotline was met and on January 2, 2007 the hotline became operational. The hotline is available 24 hours a day, seven days a week, all year round, by phone or via Internet. A summary of hotline activity for 2007 is provided in Section 6 of this report.

### **5.3.5. Audit Committee Orientation – Report issued November 15, 2007**

Municipal governments are entrusted with providing services within approved budget amounts in an environment of transparency, accountability, and responsibility. Moreover, every citizen wants high-quality services from public sector organizations. In today's environment, Audit Committees play a critical role in organizational oversight. Their role includes oversight of financial reporting, risk management, management's internal controls, organizational values and ethics as well as overseeing the activities of external and internal audit. When functioning well, Audit Committees provide assurance that the organization's financial, risk management, governance, and operational systems are operating with a reasonable degree of effectiveness, efficiency, and economy and that the organization is operating in compliance with applicable laws, regulations, and policies.

In 2007, we provided a document to Audit Committee members and other members of Council to serve as a reference source when considering Audit Committee issues. A well-informed, responsible Audit Committee provides accountability and helps instill public confidence in an organization.

## 5.4. Cash Handling Reviews

We perform cash handling reviews to determine whether staff at the City's cash handling sites are handling their cash resources in a manner consistent with established City requirements and to ensure they are adequately safeguarded against loss. These reviews also assess the adequacy and effectiveness of internal controls within the cash handling location. These reviews consist of an objective review and evaluation of the cash handling practices and procedures relating to the receiving, transporting, storing, depositing, recording and safeguarding of City money (including cash, cheques, credit cards and debit cards). Projects are selected based on a number of criteria including estimated revenue, volume of transactions processed, cash handling risk, date of any previous audit(s) undertaken in the area, and history of problems and control weaknesses identified. We completed three cash handling reviews in 2007.

### 5.4.1. Eastglen Leisure Centre – Report issued February 13, 2007

The Eastglen Leisure Centre is a swimming facility operated by the Recreation Facilities Services Branch of the Community Services Department. This facility offers a wide range of swimming-related activities and programs. Users of the facility can purchase one-time, multi-use or seasonal passes to access the facilities and drop-in programs.

Our review objectives were to assess the adequacy of controls for ensuring that all facility revenues are recorded accurately and deposited in a safe and timely manner. Cashier activities were also assessed for compliance with prescribed City and Department policies and regulations.

Cashiers are located in the main lobby of the Eastglen Leisure Centre. They collect monies from customers for drop-ins, passes, transit tickets and registered programs. Payment for facility usage may be made by cash, cheque, credit card, or debit card. Each cashier has separate log-in identification into the cash Point of Sale (POS) system. Each cash register transaction is recorded in the POS system, including opening the cash register for no-sales. All monies are deposited into the City's bank and the deposit information is sent to the Finance Branch for follow-up and reconciliation with the POS system and SAP (the City's financial information system).

Our procedures indicated that overall control over cash handling at the Eastglen Leisure Centre is satisfactory. We identified one additional control technique which could help to further strengthen controls at the Leisure Centre by regularly reviewing security tapes.

### 5.4.2. North Eco Station – Report issued November 27, 2007

Edmonton has two Eco Stations<sup>2</sup>, where citizens can bring their household hazardous waste for recycling or safe disposal. Household hazardous waste commonly brought to the Eco Stations include used oil and oil filters, waste paint, flammable materials, poisons (such as garden chemicals), partially full aerosol containers, fluorescent tubes, and a range of other items, including electronic waste. The Station accepts most clean recyclable items at no charge and charges a fee for other waste items. The North Eco

<sup>2</sup> A third Eco Station is expected to be operational in 2008 in Southwest Edmonton.

Station is operated by the Waste Management Branch of the Asset Management and Public Works Department.

The objective of this review was to assess the level of compliance with established City policies and procedures for cash handling and to evaluate the adequacy and effectiveness of controls over cash handling at the North Eco Station with the intent to minimize loss of revenue resulting from theft or error. In addition, this review included a high-level assessment of the efficiency and safe operation of the Eco Station Facilities.

Facility cashiers at the Eco Station are located in a booth at the entrance to the facility. Payment for services can be made by cash, debit card and credit card. Each cashier has a separate float/drawer for each shift and a balancing and deposit preparation procedure is performed at the end of each shift. All monies deposited are reconciled to the cash register summary tape prior to deposit. Deposit information is forwarded to Finance Branch personnel for posting into the City's accounting system.

We provided seven recommendations to the Administration to further strengthen controls. The Administration accepted all seven recommendations.

#### **5.4.3. Mitchell Transit Garage – Report issued January 7, 2008**

The Mitchell Garage provides a range of bus fleet services including repairs, servicing, dispatch and booking out buses for operators.

The objectives of this review were to assess the level of compliance with established City policies and procedures for cash handling and to evaluate the adequacy and effectiveness of controls over cash handling at the Mitchell Garage.

Each day transit dispatchers are responsible for removing fare boxes from buses, depositing the cash into the cash room vaults, moving the cash from the vaults into cash bags and transferring the cash bags to the armoured car service. Cash collected at the Mitchell Garage is processed at the Coin Processing Centre. Once the deposit is processed, a Memorandum of Deposit form is sent to Finance to record in the accounting system.

Based on our observations and tests, we concluded that overall Mitchell Garage possesses a number of strengths with respect to their cash handling controls.

We directed four recommendations to the Administration to improve the cash-handling controls at the Mitchell Garage and further reduce the City's risk of losing cash revenue. We are satisfied with the Administration's action plans for these four recommendations and they should be fully implemented by July 2008.

## **5.5. Follow-up Audits**

Following-up on audit recommendations and management's action plans are essential for an effective audit process. Only by having an effective follow-up process can Council, Management, and the OCA be assured that prior recommendations have had the desired impact. We schedule follow-up reviews as part of the Annual Work Plan development. Follow-up reviews are normally scheduled six months to two years after the date of the last planned recommendation implementation in each audit report. We completed the following eight follow-up reviews in 2007:

### **5.5.1. Accounts Receivable Process – Report issued February 12, 2007**

We issued the original report to the Finance Branch in February 2005 with eight recommendations. Our follow-up concluded that all of the recommendations have been implemented in a satisfactory manner.

### **5.5.2. Surplus Sales Cash Handling – Report issued February 14, 2007**

We issued the original report to the Finance Branch in December 2005 with three recommendations. Our follow-up concluded that all of the recommendations have been implemented in a satisfactory manner.

### **5.5.3. Edmonton Police Governance – Report issued March 9, 2007**

We issued the original report jointly to the Edmonton Police Commission (Commission) and the City of Edmonton (the City) in April 2005. The original report directed 14 recommendations to the City and 17 to the Commission. Our follow-up concluded that the City had implemented all 14 recommendations and the Commission implemented 11 of the recommendations in a satisfactory manner. The Commission committed to addressing the remaining six recommendations prior to the end of 2007. We will schedule another follow-up of these outstanding recommendations in 2008. Some of the outcomes from our original report are discussed in Section 4.7.

### **5.5.4. Business Licensing Revenue – Report issued March 30, 2007**

We issued the original report to the Development Compliance Branch in November 2002 with three recommendations. Our follow-up concluded that one recommendation has been implemented and two are in progress. The Branch has committed to addressing these recommendations during 2008. We will work with the Business License Unit in 2008 to assist with implementation of one of the outstanding recommendations. We will use our specialized audit software to compare information from two databases to identify businesses that may require business licenses.

### **5.5.5. Debenture Servicing – Report issued June 28, 2007**

We issued the original report to the Finance Branch in February 2006 with two recommendations. Our follow-up concluded that both recommendations contained in the original report have been implemented in a satisfactory manner.



**5.5.6. South Eco Station – Report issued October 23, 2007**

We issued the original report to the Waste Management Branch in November 2005 with five recommendations. Through the completion of the follow-up review, we concluded that one of the recommendations was implemented in a satisfactory manner and four recommendations are in various stages of implementation but require further action. We will continue to monitor the Eco Station's progress in addressing the outstanding recommendations. A second follow-up review to determine the status of the outstanding recommendations will be scheduled for 2009.

**5.5.7. ETS Fare Evasion – Report issued November 1, 2007**

We issued the original report to Edmonton Transit in May 2005 with six recommendations. Our follow-up concluded that all of the recommendations have been implemented in a satisfactory manner. The outcome of the recommendations from the original report is further highlighted in Section 4.3.

**5.5.8. Transit Information Centre – Report issued November 9, 2007**

We issued the original report to Edmonton Transit in May 2005 with three recommendations. Our follow concluded that the Transit Information Centre has made reasonable progress in addressing the recommendations contained in our original report. As a result, controls over cash handling have improved, but further enhancements are still necessary. During this follow up, we also noted an additional opportunity to strengthen controls that was not noted in the original review. We will follow up on all of these recommendations again in 2008.

## 6. Annual Fraud and Misconduct Hotline Report

The City's Fraud and Misconduct Hotline was implemented 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. This report summarizes the hotline activity from January 2 to December 31, 2007.

### 6.1. Background

The renewed interest in corporate governance, spurred by major corporate scandals and the resulting US Sarbanes-Oxley Act in 2002, has inspired many organizations to implement a confidential and anonymous employee hotline to report misconduct. The Sarbanes-Oxley Act requires the Board of Directors of publicly traded corporations to provide an anonymous mechanism for reporting financial irregularities. As of 2004, Canadian securities legislation requires all publicly-listed companies to provide an anonymous reporting service to employees. A key defence against management override of internal controls is a whistle-blowing process that typically incorporates a hotline. There is increasing pressure on Audit Committees and Chief Executive Officers of non-regulated companies to also provide enhanced reporting systems. Many organizations are responding proactively to include anonymous hotline reporting of misconduct. This is seen as a logical and important step toward protecting a whistle-blower from retaliation.

As of December 2007, four other Canadian municipalities (Toronto, Ottawa, Windsor, and Calgary) have a hotline to report fraud and misconduct. The audit offices lead the hotline operation in all of these municipalities. This is consistent with leading practice organizations that provide a level of independence in the oversight role.

### 6.2. Hotline Operation

In collaboration with the Law, Information Technology, and Communications Branches of Corporate Services, we identified the requirements of a hotline intake service contract, and worked with Materials Management to acquire an external service provider for the hotline intake function. An appropriate contract/agreement that protects the City's interests was executed. The service provider is responsible for providing, operating, and maintaining a hotline intake service and case management system that allows City employees to report suspicions of fraud and/or misconduct to the City. The service provider is not responsible to investigate hotline reports submitted by employees. These are investigated by our office or the Administration, depending on the nature of the complaint.

The City's Fraud and Misconduct Hotline has been promoted 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 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 the OCA 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 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 we receive through all methods are tracked, monitored and reported using a common system, we input reports received 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 our Hotline Activity Report to provide comprehensive information on our 2007 fraud and misconduct activity.

### **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 2008. 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 2009 and future Annual Plans that are approved by Council. A one-time set up cost of \$8,000 was incurred to execute the Communication Plan and complete a Privacy Impact Assessment on the hotline intake system. The annual operating cost of the hotline will be approximately \$20,000 for 2008. We have been able to absorb this cost in our current budget.

## 6.4. Hotline Activity

From January 2 to December 31, 2007 we received 52 reports through the hotline, of which 24 (46%) were through live agents, 26 (50%) were through the online web service, and two (4%) were through the hotline voice mail service. In addition eight reports/complaints were received directly by us, four via e-mails to our web site, two through anonymous letters, one through a voice mail message and one through a phone call.

A total of 60 reports/complaints were received and reviewed for 2007. Of these, 59 (98%) have been closed and one (2%) is pending investigation. The table below summarizes the reports received by the Hotline and the OCA for 2007 by report category.

### Reports received by the Hotline and the OCA – January 2 to December 31, 2007

| Report Category                                      | Number    |
|--|-----------|
| Financial Reporting and Accounting                   | 0         |
| Health and Safety, Environment                       | 1         |
| Unethical Conduct and Conflict of Interest           | 9         |
| Manipulation or Falsification of Data                | 3         |
| Harm to People or Property                           | 1         |
| Theft, Embezzlement, Fraud                           | 12        |
| Violation of Laws, Regulations, Policies, Procedures | 12        |
| Miscellaneous  | 22        |
| <b>Total</b>   | <b>60</b> |

#### 6.4.1. Disposition of Reports/Complaints

All 60 reports were screened by us to determine their disposition in accordance with the Protocol document and appropriate City Policies and Administrative Directives. No action was taken on some reports due to insufficient information despite our attempts to obtain additional information through the hotline system. 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.

Some reports provided tips that we can use on future audits. These reports, as well as those that did not have sufficient information to conduct an immediate investigation, will be used in future audits to design tests that may lead to improved controls within City operations.

Three reports pertained to outside Boards or Agencies. These reports were referred to the appropriate Manager within the outside Board or Agency for resolution in accordance with the Protocol document, and the individuals who submitted the reports were informed accordingly.

Some reports that pertained to operational matters were referred to the Administration for investigation through the City Manager due to the nature of the complaints and the knowledge and expertise required. In these cases, departmental management was asked 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.

The remaining reports on fraud and misconduct were investigated by us in accordance with internal procedures and guidelines, as well as professional standards. These cases were reviewed in detail and evidence gathered 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.

A number of reports received pertained to workplace issues that fall within the jurisdiction of the City Manager. In accordance with City Policy C522 and the Protocol document, these were referred to the City Manager for resolution, closed on the hotline system, and the employees who submitted the reports were informed accordingly. Our research indicates that when hotlines are implemented, employees who feel that their complaints to management have not resulted in appropriate action use it as an additional avenue to elevate their complaint. This goal has been achieved since we were able to refer them to the City Manager for resolution. We are also making continuous efforts to educate City employees to report workplace issues to their supervisors and other City resources. A hotline card was sent to all City employees providing the contact information for the hotline on one side and key messages such as what to report, how to report and what not to report on the reverse side.

We also have regular meetings with the City Manager and the Director of Corporate Security to evaluate the nature of the complaints received and 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 a trend analysis of all complaints received. We also plan to use the Senior Management Team (SMT) Meetings as a forum to help achieve this objective.

The following table summarizes the disposition of the 60 reports/complaints we received in 2007:

### Disposition of Reports/Complaints – January 2 to December 31, 2007

| Description   | Number    |
|---|-----------|
| No action taken (insufficient information, comments and inquiries on the hotline, follow-up on previously submitted report, etc.) | 8         |
| Tips provided that will be used in future audits  | 6         |
| Referred to appropriate Outside Board or Authority  | 3         |
| Referred to the City Manager (workplace issues, retaliation complaints, etc. that are outside the scope of the OCA)               | 21        |
| Reports/Complaints Investigated   |           |
| • by the OCA  | 14        |
| • by the Administration   | 8         |
| <b>Total</b>  | <b>60</b> |

#### 6.4.2. Investigation of Reports/Complaints

22 reports/complaints were investigated during 2007, 14 by the OCA and eight by the Administration. 21 investigations have been closed. One investigation was still in progress at year-end. For investigations conducted by the Administration, the protocol in place requires the individuals conducting the investigations to consult with the OCA to ensure appropriate investigative steps are followed. All findings from reports investigated by the Administration were also reviewed by the OCA 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 (FOIP)*. 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 21 complaints that were investigated and closed, nine allegations could not be substantiated and confirmed based on the information available. For seven of these reports, no further action was taken. For the other two allegations that could not be substantiated or confirmed, we:

- Provided a response to citizen clarifying the City's process regarding the issuance of a business licence and
- Provided advice to a supervisor to periodically remind her staff to adhere to the Code of Conduct regarding personal use of City materials.

The remaining 12 allegations were substantiated and confirmed and resulted in the following outcomes.

**Unfair treatment and privacy breach**

As a result of our investigation, we made five recommendations to the Administration. Three recommendations related to improving the processing of FOIP information requests received from employees. Two recommendations related to improving documentation standards in relation to harassment and public safety issues. All five recommendations were accepted by the Administration.

**Non-compliance with City Bylaw**

Action was taken by the Administration to ensure compliance with the Bylaw and a response was provided to the citizen who provided the tip.

**Excessive overtime recorded**

Our investigation did uncover that overpayments totaling \$202.37 over a three month period in 2007 were made due to improper time recording and existing control weaknesses. As a result of our investigation, we made 3 recommendations to the Branch. Our recommendations focused on improving processes relating to time recording, monitoring of work performed, and strengthening of accountability relating to overtime approval.

**Public tip on unauthorized solicitation of funds**

Direct action could not be taken on the complaint due to lack of evidence at the time of investigation, but the tip was forwarded to the appropriate organizational unit for information.

**Personal business during office hours**

The employee in question was counseled on what was appropriate behaviour and what was not.

**Recruitment file misplaced**

As a result of the review of the incident, two opportunities for improvements to the process for handing recruitment files were identified. The first one involved the introduction of a process to capture applicant contact information. The second one involved the introduction of a formal privacy breach process.

**Irregularities in grant payments**

The outcome of the Heritage Grant and Downtown Housing Reinvestment Grant Investigation is discussed in Section 5.4.2 of this report.

**Theft of cash from a parkade**

It was determined that cash deposits for three days (\$4,227.50, \$4,951.50, and \$4,683.50 respectively) were not deposited into the City's bank account on a timely basis by the third party that is contracted by the City to operate a parkade. The deposits were taken from the safe prior to being deposited by an employee of the contractor.

Within two weeks of the first incident, the missing funds were subsequently reimbursed by the employee and the contractor deposited the full amount of each missing deposit to the City's bank account. As a result of this incident, new procedures were put in place that restricts access to the deposits from the safe to the armoured car company that collects the deposits. The employee of the contractor was immediately released of his job duties.

### **Compost taken from City yard**

It was determined that an employee had taken approximately ½-yard of compost. The compost was not going to be used by the City. However, the employee in question was counseled on what was appropriate behaviour and what was not in accordance with the City's Code of Conduct.

### **Theft of City equipment from back of City-owned truck**

A brush cutter was confirmed stolen from the back of a City vehicle while the vehicle was parked at a City yard. Due to the absence of video evidence, it is unlikely that the brush cutter will be recovered. A police report was filed on this incident.

### **Overcharging of a customer at a parkade**

This related to an incident of a customer being overcharged by an attendant at a parkade. The parkade is operated by a third party contractor on behalf of the City. After reviewing the information provided with this tip and performing a walkthrough of the parkade procedures, we made four recommendations designed to prevent similar incidents from occurring in the future. Actions were implemented by the third-party contractor to improve cashier procedures and tighten the financial controls involving the issuance of prepay 3-part tickets. In addition, the parking attendant was dismissed by the contractor.

### **Theft of cash at City-owned library**

It was determined that there was a shortage of \$228.70 at the circulation desk at a City-owned library. As a result of the incident, nine recommendations were provided to library management to reduce the possibility of future occurrences.

## **6.6. Sharing with Other Organizations**

We have been approached by a number of private and public sector organizations to share our experience on an integrated fraud and whistleblower policy and the operation of the hotline. Our reports on the City's *Ethics Framework Evaluation, Hotline Evaluation – Leading Practice Review, City Policy C522 (Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection)* and *Hotline Implementation* are available on the City's website. We have received positive feedback from both private and public sector organizations on the accessibility of this information so that organizations can learn from our efforts.



In 2006 and 2007, we shared our experience and discussed the integrated fraud and whistleblower policy and the operation of our hotline with staff from the City of Calgary, the City of Vancouver, and the City of Kitchener. In addition, we participated in a panel discussion on Ethics in the Public Sector organized by the Edmonton chapter of The Institute of Public Administration of Canada (IPAC). The objective was to explore ethical challenges of public sector areas that deal with high profile and controversial issues, and we provided a City of Edmonton perspective. We were also invited to make a presentation to the CSU 52 Union Steward Seminar. This forum provided an opportunity to outline how the hotline system operates, provide clarification and answer questions on the hotline process.

## **6.7. Summary**

The City's Fraud and Misconduct Hotline was implemented on January 2, 2007. Thus, 2007 was the first full year in which the Hotline has been operating. The hotline is available 24 hours a day, seven days a week, all year round. Through City Policy C522, the City has been able to offer more formal protection to employees who make disclosures. The hotline has provided an additional channel for employees to report allegations of fraud and misconduct for investigation. Although it comes with additional cost and some level of nuisance calls since employees using the hotline are allowed to remain anonymous, the benefits outweigh the costs and risks involved. The most cost-effective way to deal with fraud and misconduct involving City resources is to prevent it. The hotline's biggest benefit is that it serves as a deterrent. 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 behaviour and preventing instances of fraud and misconduct.

## 7. Leadership and Professional Development

We are very proud of the audit team we bring to the City of Edmonton and consider our office to be a leader in the internal audit profession. To stay current in the industry, our staff undertakes a number of activities that promote the profession and our audit practices within the City. These activities include:

- We continued to work with the Administration throughout 2007 on projects with mutual benefits. By participating on a variety of corporate teams, we have been able to contribute to the overall enhancement of control, process, and governance systems within the City. During 2007, we were involved in the following corporate initiatives:
  - ✦ Freedom of Information and Protection of Privacy Steering Committee
  - ✦ Environmental Management System Steering Committee
  - ✦ 311 Project Steering Committee
  - ✦ Election Planning Committee
  - ✦ E-Records Steering Committee
- Collaboration with the Auditor General of Alberta – we meet with the Auditor General to discuss the evolving public audit environment and have leveraged their size to participate in training opportunities. In 2008/09, we will also be partnering with the Auditor General of Alberta in a new program established by the Canadian Comprehensive Auditing Foundation. *The International Legislative Audit Assistance Program – for improved governance and accountability* invites senior auditors from a targeted country's Supreme Audit Institution (SAI) to acquire knowledge and experience in audit methodologies, techniques and practices for the purpose of transferring these to their colleagues upon their return home. The Program's aim is to train a sufficient number of employees from a SAI so that they can provide a "core" or "critical mass" of expertise within their institution. Two participants from Vietnam are scheduled to participate in this program with the Office of the Auditor General of Alberta and the Office of the City Auditor during 2008 and 2009.
- Participation in City Hall School during 2007 – we developed a presentation on the role of the OCA and used a case study to engage the class and reinforce the curriculum topic, using graphs and charts.
- OCA audit staff actively supported the auditing profession throughout 2007 by chairing or serving on boards of directors or committees of professional audit-related organizations, including the Institute of Internal Auditors (IIA) Canadian Council, IIA Edmonton Chapter, and the Association of Local Government Auditors (ALGA).
- OCA audit staff participated in peer reviews of audit offices in Tulsa, Oklahoma and New York City.
- OCA audit staff were presenters at various conferences and trainings sponsored by the IIA, ALGA, and IPAC.
- Audit staff enhanced credentials by earning one additional certification in internal auditing (CIA). 93% of the professional staff members possess one or more certifications or advanced degrees.

## 8. Measuring our Performance

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 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   | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|------------|------|------|------|------|------|
| <b>Customer Relationships (client surveys)</b>  | (out of 5) |      |      |      |      |      |
| <b>Communication</b><br>How well the client was informed of objectives, process, timeframe, and emerging findings.                            | N/A        | 4.8  | 4.4  | 4.4  | 4.4  | 4.6  |
| <b>Understanding of client's business</b><br>How well the audit staff demonstrated their understanding of the client's issues and challenges. | N/A        | 4.7  | 4.3  | 4.3  | 4.4  | 4.6  |
| <b>Professionalism</b><br>How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients.             | N/A        | 4.9  | 4.7  | 4.6  | 4.6  | 4.6  |
| <b>Quality of findings</b><br>Practicality, adequacy, and openness of communication with the clients  | N/A        | 4.6  | 4.2  | 4.2  | 4.4  | 4.6  |
| <b>Overall average</b><br>Client's overall assessment of the value received.  | 4.3        | 4.8  | 4.5  | 4.4  | 4.5  | 4.6  |

| Performance Indicator   | Industry | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|----------|------|------|------|------|------|
| <b>Internal Measures</b>  |          |      |      |      |      |      |
| <b>% Recommendations accepted</b><br>Best audit practices will result in the majority of recommendations being accepted by the client.      | 92%      | 95%  | 95%  | 92%  | 100% | 100% |
| <b>% Recommendations Implemented or Satisfactory Progress Observed During Follow-up</b><br>A measure of the feasibility of recommendations. | 83%      | 97%  | 96%  | 97%  | 94%  | 90%  |
| <b>% chargeable time vs. available time</b><br>A measure of the available time worked on projects.  | 78%      | 73%  | 76%  | 79%  | 83%  | 78%  |
| <b>% of completed engagements to number scheduled</b><br>A measure of office productivity.  | 80%      | N/A  | N/A  | N/A  | 95%  | 91%  |

| Performance Indicator   | Industry | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|----------|------|------|------|------|------|
| <b>Human Resources</b>  |          |      |      |      |      |      |
| <b>Days of City-funded training &amp; development/employee</b><br>A measure of staff commitment to maintaining awareness of professional certifications and skills. | 8 – 12   | 8.9  | 12.5 | 9.3  | 10.9 | 8.9  |
| <b>Percent staff certified or with advanced designations</b><br>A measure of staff qualifications   | 64%      | n/a  | 93%  | 93%  | 93%  | 93%  |
| <b>Average years of audit experience</b><br>A measure of staff commitment to the audit profession.  | 10 to 15 | n/a  | 13.8 | 14.8 | 15.7 | 14.4 |

### Office of the City Auditor Budget Performance – Year Ending 2007 – (\$000)

|                       | Ytd Budget | Ytd Actual | Variance | Variance % |
|-----------------------|------------|------------|----------|------------|
| <b>Total Expenses</b> | \$1,841    | \$1,640    | \$201    | 10.9%      |
| <b>Total Revenues</b> | 0          | 0          | 0        | 0.0        |
| <b>Net Position</b>   | \$1,841    | \$1,640    | \$201    | 10.9%      |

| Expenditure            | (\$ 000)     | Variance Explanation  |
|------------------------|--------------|---|
| Personnel              | 96           | Two vacancies for part of year.   |
| Material and Equipment | 9            | Due to savings on stationery, computer hardware purchases, and computer software maintenance. |
| Services               | 65           | Under expenditure in consulting fees.   |
| Other/General Costs    | 31           | Due to savings on telephone charges, travel and training, memberships, and professional fees. |
| <b>Total</b>           | <b>\$201</b> |   |

| Performance Indicator                     | Industry   | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|------------|------|------|------|------|------|
| <b>Financial</b>                          |            |      |      |      |      |      |
| <b>% Actual vs. budgeted expenditures</b> | 90 to 110% | 93%  | 92%  | 93%  | 90%  | 90%  |

## 9. Conclusion

We are proud of our contributions to the City of Edmonton in 2007. Council approved our 2007 Annual Work Plan, which defined the projects we would conduct during the year. We believe that our work has resulted in significant contributions to City operations. Our audit reports have contained recommendations that will improve resource utilization, reduce the risk of loss or abuse of assets through improved internal controls, increase productivity, and improve services to the public by making programs more effective and efficient.

We select areas to audit based on several factors. We look for areas that provide services to the citizens, which we believe may have potential for improvement in the areas of efficiency, effectiveness and economy. Areas at risk for the misuse of assets and resources are also more likely to be selected as areas for audits. Within our Annual Work Plan, I have some discretionary flexibility to undertake projects that address important unforeseen or emerging issues that arise throughout the year.

Our work requires professionals with high standards of integrity, independence, and conduct. We have established guidelines for further development and improvement of employees' professionalism. We also adhere to very rigorous and demanding professional auditing standards.

As I conclude, I acknowledge the tremendous dedication and effort of my staff during the past year. I believe the quality of work we performed in 2007 demonstrates that we have an outstanding group of professionals in the OCA.

### **2007 Staff of the Office of the City Auditor**

Gordon M. Babey  
Chrisy Burton  
Bill Cook  
Leslie Glasbeek  
Todd Horbasenko  
Marcel Labbe  
Larry Laver  
Rhonda Minchau  
Beata Montgomery  
Janine Mryglod  
Kevin Mulcair  
Almas Murji  
Vincent Rykes  
Edwin Ryl  
David Wiun