



Office of the City Auditor 2009 Second Quarter Activity Report

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1. Introduction

Section 10(4) of Bylaw 12424, *City Auditor Bylaw*, requires the City Auditor to submit periodic reports summarizing the status of projects and the budget performance of the Office of the City Auditor (OCA). We report the status of projects in two different ways. In order to provide adequate time for Audit Committee discussions, we table our reports for Branch audits and projects of special interest individually at Audit Committee meetings. All other reports are aggregated into a periodic *OCA Activity Report* for general discussion at Audit Committee. Each member of Council and Audit Committee also receives the full copy of each final audit report.

This *OCA Activity Report* provides the Audit Committee with the following information:

- Section 2 Progress Monitoring - an update of our progress toward completion of our Annual Work Plan
- Section 3 Semi-annual Recommendation Follow-up – summaries of the effectiveness of management's actions to address previous audit recommendations
- Section 4 Summary of Completed Projects - summaries of completed projects that we have previously submitted to Audit Committee Members and Members of Council
- Section 5 In Progress Status Reports - a brief status report of audits in progress
- Section 6 OCA Knowledge/Leadership Sharing - a summary of recent activities and initiatives that we have been involved in

2. Progress Monitoring

This section provides an update of our progress toward completion of our Annual Work Plan. The purpose of this section is to assist Audit Committee and Council in their governance role by enabling them to effectively monitor the OCA's progress towards completing the approved Annual Work Plan.

Table 1 highlights our audit activity for 2009 up to the end of June. It is divided into project categories to provide a better understanding of the type of work that is associated with each project. It also indicates the reports that we presented at the two previous Audit Committee meetings in 2009. Our audit projects have covered a diverse range of the City's operations and are consistent with our guardian and agent of change roles.

This *OCA Activity Report* includes summaries of three projects (Section 4) that we have completed since the last Activity Report presented at the April 17, 2009 Audit Committee meeting. We have also completed two other projects: Snow and Ice Control Cost Effectiveness and the Information Technology Corporate Audit that we will present as standalone reports for discussion at the June 29, 2009 Audit Committee meeting.

Budget Performance

We closely monitor our expenditures. Our May 31, 2009 year-to-date budget is showing a 10% positive variance.

Table 1 – 2009 Annual Plan Progress Monitoring

#	Project Title	Project Status	
		Completed Audit Committee Discussion Date	In Progress
OCA Governance Reporting			
1	Office of the City Auditor 2008 Annual Report	April 17, 2009	
2	Office of the City Auditor First Quarter Activity Report	April 17, 2009	
3	Office of the City Auditor Second Quarter Activity Report	June 29, 2009	
4	Audit Committee Orientation	June 18, 2009	
Branch Audits			
5	Planning and Policy Audit	April 17, 2009	
6	Edmonton Transit Branch Follow-up to the 2006 Audit	April 17, 2009	
7	Information Technology Corporate Audit	June 29, 2009	
Prioritized Projects			
8	Fire Prevention	February 3, 2009	
9	Operating Budget Process Review	April 17, 2009	
10	Employee Business Expense Review	April 17, 2009	
11	Snow and Ice Control Cost Effectiveness	June 29, 2009	
12	Semi-annual Recommendation Follow-up	June 29, 2009	
13	U-Pass Review		✓
14	Environmental Activities and Commitments Audit		✓
15	Consulting Services Review		✓
16	Privacy Controls Audit		✓
Information Technology Audits			
17	IT Control Framework (COBIT) Reassessment	June 29, 2009	
18	Integrated Identity Management		✓
Investigations			
19	Stolen Fare Product Investigation	April 17, 2009	
20	Cash Theft Investigation – Facility X	June 29, 2009	
21	Fraud and Misconduct Hotline Administration – Ongoing		✓
22	Fraud Prevention Training & Awareness Program		✓
Emerging Requests			
23	Edmonton Transit Shift Trades	February 3, 2009	
24	Review of Payment Controls	June 29, 2009	
25	Tender Conflict of Interest	June 29, 2009	
26	Bylaw Community Standards Grant – Pilot Program	June 29, 2009	
OCA Knowledge/Leadership Sharing			
27	International Fellowship Program	June 29, 2009	
28	Chinese Delegation Presentation	June 29, 2009	
29	Police Commission Self Assessment	June 29, 2009	

3. Semi-annual Recommendation Follow-up

Our audit reports provide recommendations to the Administration that identify opportunities for improvement. When the Administration implements these recommendations the City obtains notable improvements to operations. Certain audits result in tangible cost savings while others result in 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.

We maintain a database of audit recommendations to facilitate the recommendation follow-up process. After an audit report is issued, we track audit recommendations, including the related management action plans, the position responsible for taking corrective action, and the estimated completion date for corrective action. Beginning in 2008, we agreed with the City Manager that we would provide him with semi-annual reports of outstanding recommendations. As part of this new follow-up process, the City Manager requests updates from the areas responsible and after review, provides us with status updates and supporting information for each recommendation. We then perform the necessary follow-up review to assess the adequacy, effectiveness, and timeliness of the action taken by management on the recommendations, and update the recommendation database as appropriate. Supplemental to this process, we also conduct full follow-up reviews of special interest audits such as branch reviews.

During this quarter, we also facilitated the reassessment of 34 action plans and initiatives by the Information Technology Branch. In this case, the IT staff undertook a direct role in the reassessment because the 34 action plans were developed by them with the OCA as a facilitator.

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

Following are some examples of the actions taken by the Administration to address our recommendations and improve the City's risk and control framework.

3.1. Improved management information for Assessment and Short Term Counselling

In 2005, we reviewed the Assessment and Short Term Counselling (ASTC) services provided by the Community Services Department (Social and Recreation Services Audit report). Our review determined that the City is not required to provide ASTC services, but rather chooses to offer these services to address societal needs not addressed otherwise. At the time of our review, the section had limited performance measurement data to support the city's expenditures for this service. We included six recommendations for the section to strengthen its performance information.

Outcomes: Due to the actions taken by ASTC, we have closed all six recommendations. ASTC is now gathering client volume, satisfaction and demographic information to guide service delivery decisions. For example they are now using POSSE to track and adjust the types of services provided (by neighborhood). ASTC, with the assistance of Finance, has also completed a high level cost-benefit analysis to rationalize the provision of the service by the City. They have also worked with other counselling services in the City to coordinate service provision and minimize duplication of services. Internally, the section has staff assigned throughout the city so communication between areas has been formalized and is part of regular ASTC business meetings.

3.2. Improved City Governance

In 2006, we reviewed the City's Governance practices. While City Council believed they were doing most things well, our review discussed areas of improvement relating to Strategic Planning and Direction; Council and Committee Roles and Responsibilities; Decision-making process; and Orientation and training.

Outcomes: City Council and the Administration have embraced the recommended changes. Actions taken by the Administration to support City Council in fulfilling their governing responsibilities include:

- Supporting the development of City Council's Strategic Plan
- Developing a process to align the Administration's priorities and business plans with the Strategic Plan
- Developing an Issue Calendar to assist City Council's Agenda Review Committee to track and manage the coordination and timing of issues
- Revising the Council/Committee Report Templates so that they require policy information to be included in all Council/Committee reports
- Developing a policy to ensure every new City Council receives an effective Orientation and Training program.

3.3. Improved process to award Heritage & Housing Grants

In 2007, we reviewed the process and controls the City followed to consider and award Heritage and Housing Grant funding. We recommended that the program administration functions be separated from the payment authorization functions, and that they improve their record-keeping practices related to grant applications and awards.

Outcomes: The City has created grant application checklists to ensure all necessary records have been submitted and retained. They have also added the requirement that a specific Director be responsible to review and authorize grant payments.

3.4. Quality of City Streetlight Poles improved

In 2007, we completed an investigation of powder-coated streetlight poles. Our investigation confirmed that approximately 2,000 non-compliant streetlight poles had been installed. We recommended that the City adopt three strategies to reduce the City's risk exposure and improve its working relationship with the development industry.

Outcomes: The City has since had a sample of poles from different suppliers tested and, based on those results, the City has obtained a 7-year warranty on one supplier's poles, and ordered the replacement of poles from another supplier. The city has also increased their inspection staff to address the inspection backlog and is gathering better information to ensure quality control procedures are in place.

3.5. Control Reassessment by the IT Branch

In 2004, we facilitated and reported on a risk and control self-assessment by the IT Branch (ITB). The assessment was based on the third edition of COBIT, an international set of generally accepted Control Objectives for Information and Related Technology published by the Information Systems Audit and Control Association (ISACA). They enable organizations to benchmark their existing information technology practices and define objectives that should be in place for responding to environmental and technology changes. ITB prepared 34 action plans and initiatives with varying implementation dates to implement leading practices and better achieve international standards.

We facilitated ITB's review of the implementation status of the 34 action plans and initiatives by outlining the OCA's methodology for conducting Follow-up Reviews and providing control-related feedback on their reassessment results. ITB staff assessed the status of the action plans and categorized them as implemented and partially implemented. For those action plans that were categorized as partially implemented, ITB staff outlined steps to complete the implementation.

Outcomes: The reassessment determined that of the 34 action plans, 29 have been implemented and five are outstanding. By implementing the 29 action plans, ITB has strengthened controls in areas such as software purchases and licenses, hardware tracking and monitoring, as well as business continuity and disaster recovery. The Manager of ITB has formalized steps required to complete the outstanding five action plans and assigned them to specific positions with target completion dates. Completion of these action plans will assist in formalizing ITB's guidance and direction; strengthen communication with departments; improve compliance with security and archival requirements; and encourage user education and training.

4. Report Summaries

In 2009 to date, we have issued 12 audit reports, two Activity Reports and our 2008 Annual Report. Two of these audit reports, Edmonton Transit Shift Trades and Fire Prevention were discussed at the February 3, 2009 Audit Committee meeting.

Five audit reports were summarized in our First Quarter Activity Report (Planning and Policy Audit, Stolen Fare Product Investigation, Employee Business Expense Review, Edmonton Transit Branch Follow-up, and Operating Budget Process Review) and were discussed at the April 17, 2009 Audit Committee meeting.

Two audit reports (Snow and Ice Control Cost Effectiveness and Information Technology Corporate Review) are being presented as stand-alone reports at the June 29, 2009 Audit Committee meeting.

The remaining three reports completed during this reporting period are summarized below and are also being presented for discussion purposes as part of this Activity Report.

4.1. Cash Theft Investigation – Facility X

On February 17, 2009, a Security Advisor in Corporate Security contacted the City Auditor to inform us of a series of thefts by a cashier (Cashier A) at Community Services Facility X¹ in accordance with the provisions of City Policy C522, *Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection*. As defined in the policy, the City Auditor is responsible for coordinating fraud investigations, including providing reports on why control failures occurred and recommendations to prevent reoccurrence.

Our objectives were to analyze the Facility X sales records for Cashier A's term of employment to estimate the amount of revenue loss and to identify any control weaknesses that would expose City assets to fraud and misconduct. The City terminated Cashier A's employment on February 19, 2009.

Our high-level analyses, including calculations based on information provided during Cashier A's termination interview, indicated that the range of loss was between \$8,200 and \$18,000. Our detailed analysis produced an estimated loss of \$13,700, which is near the midpoint of the probable range.

At the time of this report, Cashier A had been charged with theft under \$5,000 and the City had initiated processes to recover \$13,700 from the ex-employee. A representative from our office and one from Corporate Security attended the court proceedings on June 12, 2009 to speak regarding the City's restitution claim, but the plea was put over to a later date.

We made recommendations to strengthen enforcement of existing City Policies and to minimize the risk of misappropriation of funds from cash drawers.

4.2. Tender Conflict of Interest Investigation

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

We found no evidence that the ex-employee or the Consultant breached any legislation or applicable codes of conduct. We did determine, however, that there may be opportunities for the City to strengthen its employment and contracting standards to reduce the risk of both real and perceived conflicts of interest. Such conflicts or apparent conflicts can arise when an employee with decision-making authority or

¹ We have identified the facility in which the theft occurred as Facility X because the investigation is currently before the courts.

procurement influence resigns and goes to work for a company that provides services to the City that encompass the ex-employee's area of responsibility. We made one recommendation to help the City limit the impact of similar situations in the future.

4.3. Review of Payment Controls

At the request of the Director of Treasury Management, Finance and Treasury Department, we completed an assessment of two unrelated incidents in SAP, the City's corporate financial system. The first incident pertained to an Information Technology Branch (ITB) employee erroneously using SAP's "live" production environment to complete a test transaction that should have been undertaken in the test environment. This resulted in a \$21 million cheque being prepared in the name of a legitimate vendor. A Portfolio Manager in the Finance and Treasury Department discovered this error and the Accounts Payable employees were able to cancel and pull the cheque prior to its release.

We found that the ITB employee used an authorized higher access privilege to process the transaction. This provided unrestricted access to all functions in SAP and resulted in the employee bypassing all roles and restrictions that could have prevented the error. In collaboration with ITB, we assessed the access privileges of all ITB and contract employees who perform support and maintenance functions on SAP and other corporate systems. We made six recommendations to strengthen access controls in the corporate and high-risk departmental systems. ITB has implemented five of the six recommendations and has action plans in place to address the remaining one.

The second incident was also a human error by an ITB Manager during a pilot project, which resulted in an erroneous payment of \$19,895.40 to an incorrect vendor. The pilot project pertained to the automation of ITB's selection of consultants and the receipt of timesheets for electronic approval and processing in SAP. The consultant who received the erroneous cheque contacted ITB and this error was later reversed and the correct vendor was paid. ITB has taken steps to facilitate a more complete review and accurate processing of such transactions. They have also provided training and an Administrative Guide to all Portfolio Managers that are involved in the pilot, and the same process will be used for all ITB staff when the automated pilot implementation is rolled out. Therefore, we have made no further recommendations.

5. Projects In Progress

We have a number of projects in various stages of completion. By the end of 2009, we will issue a formal report to Council for each of the following projects.

5.1. U-Pass Review

The Universal Transit Pass (U-Pass) provides eligible students enrolled at the University of Alberta and Grant MacEwan College unlimited access to regular Edmonton, St. Albert and Strathcona County transit services. The program is funded through mandatory fees that eligible students pay in each term they are registered.

Fees collected from students are transferred from the post secondary institutions to the local transit authorities to help fund the required transit service.

The U-Pass program was instituted as a three-year pilot program in September 2007 after a student referendum and approval by Edmonton City Council, St. Albert City Council and Strathcona County Council.

The main objectives of this review are to:

- Identify the revenues and costs of the U-Pass program and the impact of the program on ETS' overall revenues and costs.
- Provide assurance that the U-Pass program has been carried out as per the U-Pass Transit Agreements.

We will be presenting the results of our review to the U-Pass Advisory Committee in late June. The Committee is made up of representatives from Edmonton Transit Services, St. Albert Transit, Strathcona County Transit, University of Alberta and Grant MacEwan Students' Association. Following this presentation, the report will then be issued to City Council in July.

5.2. Environmental Activities and Commitments

The City of Edmonton's Environmental Policy states that the City, through its planning, decision making, and leadership, will promote the development of an environmentally sustainable community that functions in harmony with the natural environment. To comply with this Policy and meet its environmental objectives the City has many different environmental programs and initiatives.

The primary objectives of this audit are to determine if the City has the proper Environmental Management Governance Framework in place to ensure its' environmental strategic objectives are met. The audit report will also provide readers with the results of key indicators used to measure achievement of the environmental objectives. As well, it will show the environmental objectives and indicators other cities and levels of government are reporting on.

We have completed the planning phase of this review and are targeting the release of the final report in October of 2009.

5.3. Privacy Controls Audit

The Freedom of Information and Protection of Privacy (FOIP) Act provides individuals the right to request access to information in the custody and control of public bodies (e.g., The City). It also provides a framework within which public bodies must conduct the collection, use, and disclosure of personal information.

A privacy breach occurs when personal information is collected, used or disclosed in ways that are contrary to the provisions of the FOIP Act. A common breach of personal privacy is the unauthorized disclosure of personal information, contrary to the FOIP Act. For example, if a laptop with personal information stored on it is reported missing or stolen, a breach of privacy under the FOIP Act may have occurred.

The primary objective of this audit is to provide assurance that appropriate safeguards are in place to protect personal information on laptop and tablet computers. These devices are at high risk of being stolen and any personal information employees store on them presents the risk of a privacy breach in violation of the FOIP Act.

We are targeting the release of the final report in October of 2009.

5.4. Consulting Services Review

Consulting services, when used correctly and in the appropriate circumstances, can provide significant benefit. However, to achieve the greatest benefit, risks such as loss of control over the quality of output, lost opportunities to develop skills and knowledge in-house, increased exposure of confidential and personal information, and increased costs must be managed effectively.

The City hires consultant services for a variety of reasons, including; lack of specific skills or resources internally; lack of knowledge on how to approach the task; desire for an independent or objective point of view on an issue; or meeting requirements set out in cost-sharing agreements with other levels of government.

The objectives of this review are to assess the value the City receives from the use of consultants and to determine whether the City's procurement and accounting practices effectively support monitoring and accurate, consistent reporting on consulting service expenditures.

We have completed the planning phase of this review and are targeting the release of the final report in November of 2009.

6. OCA Knowledge/Leadership Sharing

We strive to provide national leadership in the government auditing profession. A number of private and public sector organizations have approached us to share our performance audit experiences.

The following section summarizes some of the recent significant activities and initiatives that we have been involved in.

6.1. Knighton Award

In May 2009, the Association of Local Government Auditors (ALGA) awarded our office its prestigious 2008 Knighton Bronze award for our 2008 report on the 23rd Avenue and Gateway Boulevard Interchange Project in the Medium Audit Shop category (6 to 15 auditors).

ALGA is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education and training, while upholding the highest standards of professional ethics. ALGA currently lists more than 2,000 members representing a wide diversity of local government audit organizations.

The Knighton Awards are given each year to the offices producing the top-rated performance (value-for-money) audit reports. Knighton Award winners are selected by a team of judges from peer organizations. Audits are evaluated using selection criteria including: scope and the potential for significant impact, persuasiveness of conclusions, focus of the recommendations on effective and efficient government, clarity and conciseness of communication style, and innovation.

6.2. International Fellowship Program

We are pleased to report that the two Auditors from the State Audit Office of Vietnam who joined our office for three weeks in November 2008 successfully graduated in May 2009 from the Canadian Comprehensive Auditing Foundation's (CCAF) International Fellowship Program. As part of this program, we partnered with the Auditor General of Alberta to assist the auditors from Vietnam to learn about all aspects of value-for-money auditing.

In February 2009, the Executive Director of the CCAF, in a letter to our office, indicated that the activities and knowledge we provided to the two fellows were "quite varied and thus beneficial to many components of their professional development." Based on this experience, the CCAF has asked us to again partner with the Officer of the Auditor General of Alberta in hosting two more auditors from Vietnam for the 2009-2010 International Fellowship session. In the fall of 2009, we will be providing the two visiting auditors with an opportunity to understand and become familiar with the City of Edmonton and our audit practices.

6.3. Chinese Delegation Presentation

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

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

The China National Audit Office designated Ningxia as one of the pilot provinces to be introduced to the methodologies and ideology of economy, efficiency, and effectiveness measures in performance audit practices from a Canadian perspective. The National Audit Office is working to upgrade the comprehensive capacity of Chinese auditing staff; promote government leadership and decision-making capability; improve public fund utilization efficiency; and minimize and prevent corruption. Our office was honoured to be selected as part of the study tour that also included audit offices in Ottawa and Toronto.

6.4. Police Commission Self Assessment

The Edmonton Police Commission (Commission) has adopted the practice of completing self-evaluations since 2007. The 2008 self-evaluation was supported by the Office of the City Auditor (OCA) to receive, compile and report the results of the evaluation. The Commission, through the Executive Director, has requested our support for their 2009 self-evaluation.

We are pleased to support the Commission in the completion of this best practice for governing bodies. We consider the Commission's commitment to complete annual self-assessments a best practice that all City of Edmonton Agencies, Boards, and Commissions should embrace.

6.5. Bylaw Community Standards Grant – Pilot Program

City Council approved a Bylaw Community Standards Fund as part of the 2008 operating budget. Its purpose is to establish a yearly grant fund that provides money to small-scale projects organized by community groups or business associations to benefit communities by promoting safety, cleanliness and livability at a neighbourhood level.

In 2008, we provided proactive control-related feedback on a pilot program for the grant allocation process and assisted the Complaints and Investigation Section, Planning and Development Department, in ensuring that the \$150,000 annual fund is safeguarded, fairly distributed and accounted for.

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

6.6. Hotline Administration

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. The hotline is available 24 hours a day, seven days a week, all year round, by phone or via Internet. Currently, existing internal resources administer the hotline in addition to their normal duties. The annual operating cost of the hotline will be approximately \$21,000 for 2009. We have been able to absorb this cost in our current budget. Each year, as part of our Annual Report, we provide a summary of the annual overall hotline activity.