OFFICE OF THE
City Auditor

Follow-up of Recommendations

For the Period May 2012 through December 2012

March 26, 2013

THE CITY OF
Edmonton

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

Follow-up of Recommendations

For the Period May 2012 through December 2012

1.   Introduction

The follow-up of recommendations is included in the Office of the City Auditor's (OCA) annual work plan. We provide a report at least annually to the Audit Committee on the adequacy, effectiveness, and timeliness of the Administration's actions on our recommendations.

Our follow-up process and report on the status of implementation fulfills the following requirements:

- International audit standards state: "The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action."

- The Audit Committee Bylaw section 14 states: "The Committee will review all reports from the City Auditor which will include reports from the City Auditor dealing with:

   (a) status of audits;

   (c) implementation of audit recommendations;"

The current follow-up process was implemented in 2008. The OCA manages the process and is responsible for determining the adequacy of the Administration's actions in addressing recommendations, closing recommendations and reporting results to the Audit Committee. The Office of the City Manager is responsible for ensuring that actions to address recommendations are being taken in a timely manner and that supporting documentation is provided to the OCA.

In some cases, we may choose to conduct a full follow-up review to assess the efficiency and effectiveness gained from the actions taken to address the recommendations or plan the follow-up assessment as part of a future audit of the area or process.

2.   Analysis

2.1.   Closed Recommendations

In 2008, the Administration closed less than 10% of outstanding recommendations. In 2009, the percentage of recommendations closed increased to 35%. For the reporting periods ending November 2010, July 2011, and April 2012 we reported that 60%, 65%, and 60% of outstanding recommendations were closed in each reporting period respectively.

For this reporting period, we were able to close 74% of all outstanding recommendations. A summary of recommendations by department is provided in Appendix 1 and a summary by project in Appendix 2.

2.2.   Outstanding Recommendations

The Administration's efforts to implement recommendations in a timelier manner have resulted in a significant reduction in the number of outstanding recommendations over the past three years. Chart 1 illustrates the positive impact on the number of outstanding recommendations.

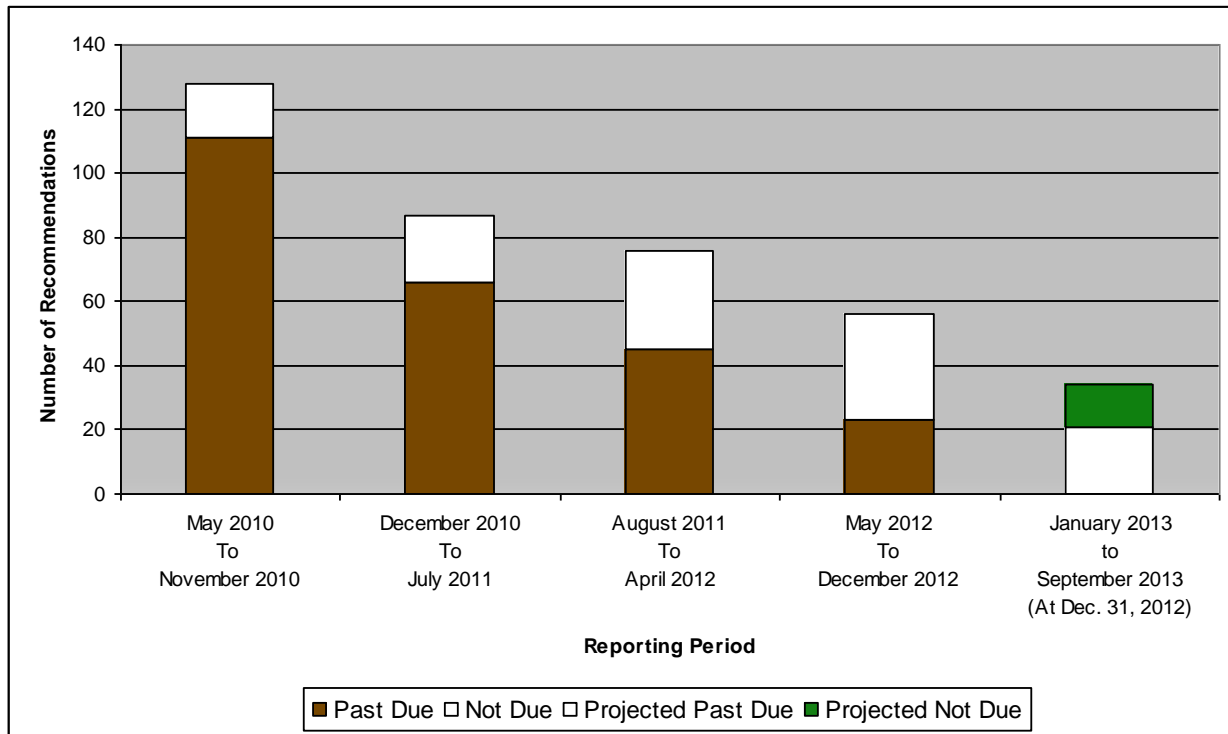**Chart 1 – Outstanding Recommendations** (Past Due and Not Due)

Chart 1 shows the number of recommendations not implemented by the date provided in the Administration's response to the original audit (past due) decreased from 111 in 2010 to 23 in 2012. Our preliminary analysis of recommendations that remain open at December 31, 2012 indicates there will be 21 recommendations past due in the next reporting period (January 2013 through September 2013).

Chart 1 also shows that as of December 31, 2012 there were 13 recommendations with implementation dates at or later than the end of the reporting period. This number will increase throughout the reporting period as audit reports containing recommendations are issued.

2.3.   Aging of Recommendations

The focus of the Administration's efforts has been to close recommendations that have been outstanding for the longest period of time. Chart 2 illustrates the aging of recommendations that are past due.

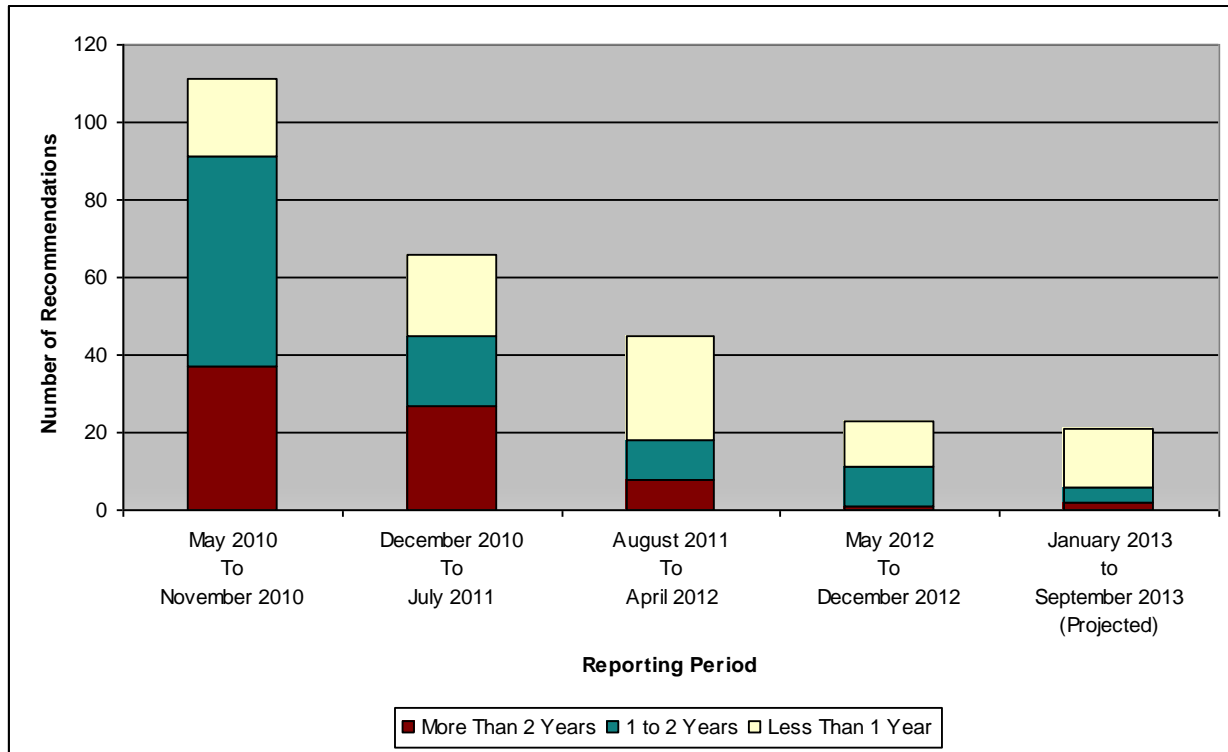**Chart 2 – Aging of Recommendations Past Due**

Chart 2 shows that the number of recommendations more than 2 years past due have decreased from 37 in 2010 to 1 in 2012. For the next reporting period, there will be 2 recommendations outstanding for more than 2 years.

Recommendations outstanding for 1 to 2 years decreased from 54 in 2010 to 10 in 2012. This number will decrease to 4 for the next reporting period. Over the same period, recommendations outstanding for less than 2 year decreased from 20 in 2010 to 12 in 2012 but will increase to 15 for the next reporting period.

3.   Recommendations Past Due for More Than Two Years

During this reporting period, we were able to close the one recommendation that had been outstanding for more than two years past the original expected completion date. For the next reporting period ending September 30,2013 two recommendations will move from being one to two years past due to more than two years past due if implementation of action plans are not complete.

The Administration provided the following status and revised completion dates for these recommendations.

3.1.   Implementation Complete for Next Reporting Period

Capital Construction/RD& C Branch Audit (11325) Report issued June 1, 2011

Recommendation 7, Managing Consulting Costs
Original implementation date June 2011. Revised implementation date February 2013.

The Transportation Department has had more than the 16 people originally identified take the Materials Management Branch training to be Professional Service Agreement (PSA) Specialists and Contracting Managers.

The Corporate Centre for Project Management has developed a change management process for large capital projects as part of the Project Management Reference Guide. The process documents and identifies an internal review process, a change request process to obtain quotations from contractors and a documented approval process for changes to the project. The draft process is included in the pilot version of Project Management Reference Guide

Modifications to the change management process are expected to be on-going as the process is reviewed by a larger audience within the city. The OCA was advised that a new version of the change management process was published on the Project Management Reference Guide SharePoint site February 28, 2013. The OCA will review the modifications and expects to close this recommendation in the next reporting period.

3.2.   Implementation Not Complete for Next Reporting Period

Capital Construction/RD& C Branch Audit (11325) Report issued June 1, 2011

Recommendation 4, PMO Governance Role and Performance Measures
Original implementation date June 2011. Revised implementation date December 2013.

The Corporate Centre for Project Management has drafted an Administrative Directive and Procedures titled Project Management for Construction Projects. The procedures include a process for monitoring and reporting on compliance with the directive. The directive and procedures will be presented to the Corporate Leadership Team for review and approval in the first quarter of 2013.

The Corporate Centre for Project Management is working with subject matter experts from Finance, Transportation, Sustainable Development, and Community Services to develop a Project Management Reference Guide which addresses most of the audit concerns.

A pilot version of the Project Management Reference Guide has been released to a selected audience for use and testing. This version includes guidance on three of thirteen project management knowledge areas:

- Risk management – a set of processes used to deal with potential risks on a project.

- Cost estimating – includes three processes: cost estimation, cost baseline development, and cost control.

- Scope management – the process needed to ensure that the project includes all the work required and only the work required to complete the project successfully.

The first full version is scheduled for release and use across the corporation by December 31, 2013.

4.   Impact of Recommendations Closed in the Reporting Period

During this reporting period, we closed 22 recommendations based on our review of supporting documentation provided by the Administration. The actions taken to address these recommendations benefit the City in a number of ways. We grouped the benefits into three categories:

1. Enhanced governance framework, which includes oversight of various processes or operations,

2. Improved efficiency and effectiveness of service delivery, and

3. Strengthened controls to safeguard City assets and improve compliance with policies, directives and guidelines.

The following are examples of the benefits that have been gained from the actions taken by the Administration:

4.1.   Enhanced Governance Framework:

- **Land and Buildings Branch Audit (Corporate Properties) (07206)**

  Recommendation 11, Enhance The Reporting Related To The Land Development Policy – Enhanced reporting on land development activities provides stakeholders with information that can be used to assess the effectiveness of land development strategies.

- **Non-Profit Housing Corp. Governance Review (09298)**

  Recommendation 3, Document And Regularly Evaluate Its Operational Policies – Operational policies have been developed that provide a framework for decision making and desired actions by staff. Staff members have been made aware of the policies and a system is in place to ensure that new policies are reviewed with staff.

- **Waste Management Services Audit (10321)**

  Recommendation 1, Adequacy Of Regulating Documents – Cost-based performance measures now form part of the Waste Management Services' formal reporting structure. This facilitates monitoring and increases accountability for the efficient use of resources.

Recommendation 2, Residential Waste Diversion Rate – Documentation of existing structured approach to collect, verify and report relevant data increases assurance that rates are reported accurately and consistently.

Recommendation 6, Market Share – Processes that support potential revenue opportunities have been documented and implemented. This minimizes the risk that revenue opportunities will be missed.

- **Capital Construction Audit (RD&C Branch) (11325)**

  Recommendation 5, Review And Monitor Capacity To Meet Workload Expectations – Consultation with industry representatives, monitoring of project progress, and post project evaluations provide information that facilitate more accurate scheduling and delivery of road construction projects.

4.2.   Improved Efficiency and Effectiveness:

- **2010 Municipal Election (10302)**

  Recommendation 5, Develop Contingency Plans To Manage Petitions – Detailed processes and procedures have been defined for effectively managing incoming petitions that are received close to a municipal election date. This will minimize the risk that an incoming petition could interfere with election planning processes in future elections.

- **Fleet Services Tools Audit (10320)**

  Recommendation 1, Purchasing Function Service Levels – The customer survey that has been implemented provides a means of periodically surveying Buildings and Shop Equipment customers to gauge satisfaction with service levels being delivered. The first survey has been completed and provides a baseline against which to monitor progress against goals.

  Recommendation 4, Review, Revise, And Communicate Purchasing Process – A new standard operating procedure with associated forms has been established and implemented to ensure process consistency and data reliability.

- **Waste Management Services Audit (10321)**

  Recommendation 5, Collection Productivity – Waste Management Services reviewed opportunities to reduce non-collectable hours, including replacement of collection equipment, route deployment technology, and new collection schedules. The resulting change can lead to more efficient services and operating cost savings.

- **South LRT Insurance and Damage Claims Process Review (11339)**

  Recommendation 1, Enhanced Communications, and Recommendation 2, Access To Claims Process Information – Enhanced communication and easy access to

information increases the transparency of the City's claims process and reduces the risk of negative publicity and erosion of public trust.

4.3.   Strengthen Controls to Safeguard Assets

- **Development Permit & Cornerstone Funding (09294)**

Recommendation 1, Review And Update The Edmonton Zoning Bylaw 12800 – The amendment to the Zoning Bylaw will provide clarity among definitions and Land Use Classes. It will also provide consistency among regulations for Single Detached Housing, Group Homes, Limited Group Homes, Boarding and Lodging Houses and other related areas. This will assist in the Zoning Bylaw's alignment with the City's desired outcomes for regulating the future use and development of parcels of land.

- **Edmonton Public Library (EPL) Custodial Services Review (10308)**

Recommendation 1, EPL Work With Corporate Properties When Tendering Custodial Services – 2013 Custodial Services costs for EPL increased at a lesser rate than industry rates indicating cost savings were achieved by leveraging the City's buying power.

Recommendation 2, Define Role Of Corporate Properties Custodial Services Inspector – EPL and City representatives have met to define roles which has improved effectiveness and efficiency of custodial services.

- **Non-Profit Housing Corporation (homeEd) Financial Review (10313)**

Recommendation 2, Review Processes/Procedures To Ensure Alignment With Agreements – homeEd has made its funding bodies aware of current tenant income verification and rent calculation processes. This ensures there is agreement and support for homeEd's interpretation of agreements.

- **10320 – Fleet Services Tools Audit (10320)**

Recommendation 6, Implement a Process to Enhance Accountability over Small Tools – Tool crib inventory maintenance and security processes have been developed and implemented to ensure that all tools are tracked appropriately. By maintaining complete records of tool locations and dispositions, six-month inventory audits, and annual combination lock resets, security of the tools will be enhanced.

Recommendation 7, Evaluate Inventory Management Practices and Resolve Inefficiencies – Tracking each tool on the inventory system and periodically printing inventory lists to monitor tool assets helps to ensure that the City is reasonably protected against loss. Maintaining the new tool sign-out forms will ensure that all tool locations will be tracked and monitored to address process inefficiencies that used to result from tools being checked out with no record of who removed them or where they went.

- **10321 – Waste Management Services Audit (10321)**

  Recommendation 3, Review of Billing Agreement – The review of the Utility Billing Services and exploration of alternative billing options can lead to potential cost savings.

  Recommendation 4, Bad Debt Strategy – As part of the City's year-end accounting process, a review of bad debt as a percentage of revenues will be added to the working papers. Where an unexplained or significant rise is observed, follow-up analyses will be performed to ensure that the existing policy remains appropriate.

- **Information Technology Security Review (11332)**

  Recommendation 1, Inventory of Third-Party Hosted Applications – A complete and up-to-date inventory of third-party hosted applications will enable the City to determine where its data resides. It will serve as a starting point to determine whether the City is adequately protected in its agreements with these third parties and facilitate decision-making when planning for future penetration tests of the City's IT environment.

  Recommendation 3, Minimize Risk Of Physical And Electronic Social Engineering – The continued action taken by Corporate Security and IT Security through education and awareness sessions, enhancing the content of employee Orientation and Code of Conduct training, as well as addressing the findings of penetration tests, will minimize the risk of physical and electronic social engineering and help protect the City's information from external attacks.

Conclusion

The Administration continues to show its commitment to taking action to close recommendations that remain outstanding beyond the dates committed to in the original audit reports. These actions have resulted in a significant decrease in the number of outstanding recommendations that are past due.

For this reporting period, we tracked the status of 56 recommendations, 23 of which were past due. Through our review of supporting information, we closed 17 of the past due recommendations and 5 that were not yet due.

We acknowledge the Administration's commitment and thank them for their cooperation and efforts to clear the backlog of recommendations that are past due.

Recommendation Follow-up
For the Period May 2012 through December 2012
Status by Department

	More than 2 Years Past Due		1 to 2 Years Past Due		Less than 1 Year Past Due		Total Outstanding Recommendations		Not Yet Due		Total Recommendations		
	Total	Closed	Total	Closed	Total	Closed	Total	Closed	Total	Closed	Total	Closed	In Progress
Office of the City Manager	--	--	--	--	--	--	--	--	--	--	--	--	--
Community Services	--	--	1	--	--	--	1	--	1	--	2	--	2
Corporate Services	--	--	1	1	6	6	7	7	12	1	19	8	11
Financial Services & Utilities	--	--	2	1	2	1	4	2	11	4	15	6	9
Sustainable Development	1	1	1	1	1	--	3	2	5	--	8	2	6
Transportation Services	--	--	2	1	1	1	3	2	--	--	3	2	1
Subtotal	**1**	**1**	**7**	**4**	**10**	**8**	**18**	**13**	**29**	**5**	**47**	**18**	**29**
Percent Closed		*100.0%*		*57.1%*		*80.0%*		*72.2%*		*17.2%*		*38.3%*	
Edmonton Public Library	--	--	2	2	--	--	2	2	--	--	2	2	--
Edmonton Police Service	--	--	--	--	--	--	--	--	4	--	4	--	4
Non-Profit Housing	--	--	1	1	2	1	3	2	--	--	3	2	1
Total	**1**	**1**	**10**	**7**	**12**	**9**	**23**	**17**	**33**	**5**	**56**	**22**	**34**
Percent Closed		*100.0%*		*70.0%*		*75.0%*		*73.9%*		*15.2%*		*39.3%*	

APPENDIX 2

Recommendation Follow-up
For the Period May 2012 through December 2012
Status of Audit Recommendations by Project

Audit Number and Title		Original Report		Closed in				Still In Progress			
		Report Date	Total Recs	Prior Periods	This Period	In Progress		>2 Years	1-2 Years	<1 Year	Not Yet Due
PROJECTS CLOSED THIS PERIOD											
07206	Corporate Properties Branch Audit (Land and Buildings)	January 21, 2008	11	10	1	--		--	--	--	--
09294	Development Permit & Cornerstones Funding	May 26, 2010	6	5	1	--		--	--	--	--
09298	CoE Non-Profit Housing Corp. Governance Review	July 5, 2010	3	2	1	--		--	--	--	--
10308	EPL Custodial Services Review	March 1, 2011	2	--	2	--		--	--	--	--
10320	Fleet Services Tools Audit	August 31, 2011	8	4	4	--		--	--	--	--
10321	Waste Management Services Audit	September 29, 2011	6	--	6	--		--	--	--	--
11339	South LRT Insurance and Damage Claims Process Review	March 26, 2012	2	--	2	--		--	--	--	--
PROJECTS WITH RECOMMENDATIONS MORE THAN 2 YEARS PAST DUE											
	None										
PROJECTS WITH RECOMMENDATIONS LESS THAN 2 YEARS PAST DUE OR NOT DUE											
10302	2010 Municipal Election	February 1, 2011	5	--	1	4		--	--	--	4
10313	Non-Profit Housing Corporation (homeEd) Financial Review	January 5, 2011	3	1	1	1		--	--	1	

	Audit Number and Title	Original Report		Closed in				Still In Progress			
		Report Date	Total Recs	Prior Periods	This Period	In Progress		>2 Years	1-2 Years	<1 Year	Not Yet Due
11325	Capital Construction Audit (RD&C Branch)	June 1, 2011	7	--	1	6		--	3	--	3
11327	Software License and Hardware Use	October 3, 2011	2	--	--	2		--	--	--	2
11331	Grant Administration Audit	January 16, 2012	2	--	--	2		--	--	1	1
11332	Information Technology Security Review	April 16, 2012	3	--	2	1		--	--	--	1
11334	Edmonton Police Service Payroll Audit	April 4, 2012	4	--	--	4		--	--	--	4
11337	Development Permit Fee Collection Review	February 1, 2012	6	--	--	6		--	--	1	5
11330	Contract Tendering Process Review	May 29, 2012	4	--	--	4		--	--	--	4
12345	Private Vehicle Reimbursement Audit	August 27, 2012	4	--	--	4		--	--	--	4
TOTAL			78	22	22	34		0	3	3	28