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# **Office of the City Auditor**

## **2009 First Quarter**

### **Activity Report**

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## 1. Introduction

Section 10(4) of Bylaw 12424, *City Auditor Bylaw*, requires the City Auditor to submit regular reports summarizing a) the status of projects, and b) City Auditor budget performance. Year to date 2009, no significant budget variances exist. This Activity Report summarizes five reports. All members of City Council have received full copies of the reports that are summarized in this Activity Report.

## 2. Report Summaries

We have issued seven reports in 2009. Two of these, Edmonton Transit Shift Trades and Fire Prevention were discussed at the February 3, 2009 Audit Committee meeting.

The remaining five reports completed during this reporting period are summarized below and are being presented for discussion purposes on the April 17 Audit Committee agenda.

### 2.1. Planning and Policy Audit

Through this review we assessed the strategic alignment of the Corporate Strategic Plan, Master Plans, and Land Use Supporting Policy and Plans. The overall result is that, while we believe strategic goal alignment exists, it is not possible through these plans to measure and demonstrate progress.

We observed that strategic alignment does exist between the City's master plans and the City's Vision. However, we also observed inconsistent terminology and structure within the City's planning framework. We also believe that a significant gap in the City's strategic planning framework exists because of the lack of defined outcomes, targets, and timelines within these documents.

The monitoring and reporting of results towards the achievement of the strategic goals must be an integral part of this framework. We have directed a recommendation to the Deputy City Manager's Office to address this issue.

This review also focused on the Planning and Policy Branch, within the Planning and Development Department, which is responsible for the development of city-wide land use policies and plans. We observed that similar gaps exist in Land Use policies and plans in that there are no defined outcomes and targets, and an overall lack of consistency in terminology and structure. However, we believe this gap is best addressed at a corporate level, led by the Deputy City Manager's Office.

Another key strategic gap within the City's planning framework is the need for a corporate long-term growth coordination strategy. This strategic gap is identified in the draft Municipal Development Plan which also includes a growth strategy to address this need.

We also considered the need to update the Zoning Bylaw at this time and concluded that the work on the Master Plans and supporting policies and plans should be completed prior to a major review and update of the Zoning Bylaw.

## 2.2. Stolen Fare Product Investigation

On October 17, 2008, the Edmonton Transit System Branch Manager advised the City Auditor that some Transit Fare Product had been stolen. In two separate instances, individuals were apprehended for selling Edmonton Transit System tickets. The Branch determined that the confiscated ticket strips being sold by those individuals were from the same batch of tickets they had sent to the Corporate Records Centre for confidential shredding.

Prior to June 2008, Edmonton Transit System management decided to shred some transit tickets as this particular product was no longer required. The volume of tickets sent to the Corporate Records Centre for shredding contained a total of 6,630,000 tickets. All of the tickets that were sent for shredding in June 2008 had a December 31, 2008 expiry date, giving the tickets a "marketable currency" value of \$16,438,500. Given the significant volume of material to be shredded, the Corporate Records Centre's vendor conducted the shredding of these tickets over a period of three consecutive weeks. The estimated value of the admitted theft or thefts that took place on June 11, 18 and/or 25, 2008 is approximately \$250,000. However, the actual amount of tickets stolen is unknown.

We provided three recommendations to strengthen internal controls and help avoid a recurrence. They covered the following components:

**Process Ownership:** The ongoing development and strengthening of internal controls for Transit Fare Product over the past 6 years is not working effectively. The primary cause is that there is not a single process owner to assume overall responsibility, accountability, and ensure effective integration between the different business units. Over the past six years, a variety of consultants (both internal and external) have reviewed the elements of the control frameworks related to Transit Fare Product processes. Many of the recommendations from the various reviews and studies are split among Transit Business Development, Finance & Treasury, Materials Management, Information Technology, Corporate Services Business Systems Support and Corporate Records.

**Strategy for Confidential Records Destruction:** Key stakeholders need to develop, implement, and coordinate an appropriate strategy for dealing with the City's requirements for confidential records destruction. This strategy may include assessing / considering options such as: (a) requiring client departments to shred their own documents, (b) purchasing a shredder for the Corporate Records Centre, (c) consider shredding documents off-site, (d) pulping documents, and (e) incinerating documents. All feasible options should be analyzed to understand the challenges and risks associated with each, prior to making a cost-effective decision.

**Recovery:** As the theft was conducted by an employee of a vendor, we believe that the Law Branch (working in partnership with Edmonton Transit System and others as required) should evaluate the feasibility of seeking some form of recovery.

Edmonton Police Service has completed its investigation. Three individuals have been charged under the Criminal Code of Canada.

### 2.3. Employee Business Expense Review

The objectives of the Employee Business Expense Review were to:

- Assess the adequacy of the Administrative Directives, Procedures and Guidelines.
- Assess the level of compliance to City Administrative Directives, Procedures and Guidelines.
- Assess whether adequate controls exist to prevent or detect inappropriate employee expense payment.
- Assess the overall efficiency of the employee business expense process.

In order to gather audit evidence and form our observations we interviewed and surveyed staff, reviewed internal and external procedures and directives, and performed testing on 300 completed employee business expense payments made between January 1, 2007 and June 30, 2008.

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

Our payment testing revealed the following main exceptions:

- Expenditure coded to wrong cost element – 80 incidents
- Inadequate documentation – 58 incidents
- Inappropriate item purchased – 14 incidents
- Uneconomical amount – 44 incidents
- Purchase Splitting – 1 incident
- Inadequate Approval – 24 incidents

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

To strengthen the control environment, the City must define roles and responsibilities of all parties involved in the process; require original documentation to support all payments; develop a consistent corporate expenditure coding methodology; and update the applicable Administrative Directives so that guidance to employees is clear and complete. Consideration should also be given to an electronic expense process to eliminate control weaknesses related to the manual completion of expense forms and increase the efficiency of the process.

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

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

Our review of 2005 through 2007 performance indicators for comparable Canadian transit systems indicates that relative to those systems, ETS performance has improved slightly but its relative ranking remains unchanged. Two key performance indicators where ETS ranks the lowest are ridership per service hour and the revenue/cost (R/C) ratio.

The 2009 budget suggests ETS will experience an improvement in these performance indicators with ridership increasing at a greater rate than service hours and revenues increasing at a greater rate than expenditures. The approved Transit Fare Policy forecasts continue improvement through to 2013 based on maintaining the current growth pattern. However, the ETS Ridership Growth Strategy shows service hours increasing at a greater rate than ridership, suggesting performance will decrease between 2009 and 2013 if the strategy is fully implemented.

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

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

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

We will monitor the progress towards full implementation of these three recommendations and will schedule a second follow-up review at an appropriate time and report the results to Council.

## 2.5. Operating Budget Process Review

Our objective in this review was to assess the City's operating budget process to identify improvements that could assist Council and the Administration make informed choices about the provision of services and the utilization of assets. Our overall conclusion is that while positive steps have been taken already in 2009, with more planned, the tough decisions around service levels, priorities, and funding allocations will not disappear. Improved information flow and additional opportunities to discuss these issues should result in closer alignment between the Administration's budget submission and Council's expectations.

### **Role of the Chief Financial Officer**

Currently, departments prepare reports that have capital and operating budget implications and present them to Council, often without the Chief Financial Officer's (CFO) review and approval. This practice does not allow the Finance and Treasury Department to provide assurance that such decisions will not put the City at risk. The City needs to move from a decentralized responsibility for financial stewardship to that of effectively utilizing the CFO and his finance team as intended. This will assist in providing Council and the City Manager the assurance that a corporate group with fiscal responsibility has reviewed the information, and provided a perspective on major risks and impacts. We directed one recommendation to the City Manager to address this gap.

### **Information to Support Operating Budget Submissions**

On March 26, 2009 City Council approved the budget principles presented by the Administration. With all future budget information being based on these principles, City Council should expect improvements in the information they are provided and the Administration should become more efficient in the preparation of that information.

To support the 2010 budget submission, the Administration initiated a Service and Budget Review to consider the long-term budget and the services the City plans to offer. We support this initiative in that its results will enable the Administration to ensure that the services currently offered to Edmontonians are better aligned with achieving Council's priorities. This exercise should provide Council with assurance that the Administration has undertaken a rigorous review of its budget proposals prior to budget deliberations.

It is also essential that the CFO include the projected operating impact of approved capital investment decisions as part of the budget proposals as well as the potential funding timelines. Council requires full lifecycle operating impact information when considering capital projects that require new operating funds.

We have observed a heightened level of communication between Council and the Administration in the first quarter of 2009. Timely financial updates along with more frequent, meaningful discussions about Edmonton's financial picture are positive and critical steps in this time of economic volatility.