



Office of the City Auditor 2011 Third Quarter Activity Report

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1. Audit Plan Progress Monitoring

Bylaw 15310, *Audit Committee Bylaw*, Section 10(1) states that “Committee will provide oversight of the City Auditor” and Section 10(2) states that “Committee will monitor the role and functions of the City Auditor.”

This quarterly report provides Audit Committee with an update on our third quarter activities and the status of our 2011 Work Plan activities.

To date in 2011, we have provided the following 17 reports to City Council and Audit Committee members.

- Transportation Planning Branch Follow-up Review
- Semi-Annual Follow-up of Recommendations
- Corporate Procurement Card Duplicate Payments Review
- 2010 Municipal Election Review
- Non-Profit Housing Corporation (homeEd) Financial Review
- Edmonton Public Library Contracted Custodial Services Review
- Community Facility Services Branch Review
- OCA First Quarter Activity Report
- OCA External Quality Assessment
- 2010 OCA Annual Report
- Capital Construction Audit
- Repeal of Policy C522, Fraud and Misconduct
- Fleet Services Tools Audit
- Counterfeit Edmonton Transit Pass Investigation
- Contract Tendering Investigation – Private Report
- Follow-up of Recommendations – For the Period December 2010 through July 2011
- OCA Third Quarter Activity Report

Table 1 provides an update of our progress toward completion of our Annual Work Plan. The purpose of this table 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 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 Audit Committee dates that a report was discussed or when we expect to present reports for discussion.

Emerging issues and scope changes to existing projects have resulted in changing some of the projected Audit Committee report dates.

Table 1 – 2011 Annual Plan Progress Monitoring

✓ - Completed projects and Audit Committee date report discussed
 X – Projects In-Progress or Not Yet Started and expected Audit Committee Date

Project Description	Audit Committee Date				
	Feb 14	April 18	June 20	Sept 26	Nov 7
Value for Money Audits					
Community Facility Services Branch – Complete		✓			
Waste Management Utility Audit – In Progress					X
Peace Officer Program – Deferred <i>Due to the recent Consultant's report on the Peace Officer Program, this project has been deferred. It will be reevaluated as part of future Annual Audit Plans.</i>					
Contract Tendering – In Progress <i>Targeting completion for the first quarter of 2012.</i>					
Grant Administration – In Progress <i>Targeting completion for the first quarter of 2012.</i>					
Fleet Services Tools - Complete				✓	
Prioritized Projects					
Edmonton Police Service Payroll Audit – In Progress <i>Targeting completion for the first quarter of 2012.</i>					
Emerging Issues					
Capital Construction Department – Complete			✓		
homeEd Financial Review – Complete	✓				
Investigations					
Fraud Policy Update – Complete				✓	
Fraud Awareness Training – Not Yet Started <i>We will initiate this project jointly with the Administration after the implementation of the Fraud Administrative Directive.</i>					
Counterfeit Edmonton Transit Pass Investigation – Complete				✓	
Contract Tendering Investigation (Private Report) – Complete				✓	
Hotline Administration – Ongoing <i>All hotline reports are reviewed, assessed, and investigated to the extent the City Auditor deems necessary.</i>					
Cash Handling Audits					
Duplicate and Excess Payments – Complete	✓				
Information Technology Projects					
Computer Assisted Audit Technology – Ongoing					
Generic IDs Assessment – Complete				✓	
Information Technology Security Baseline Review – In Progress <i>Targeting completion for the first quarter of 2012.</i>					
Software Licensing & Hardware Use – In Progress					X

Project Description	Audit Committee Date				
	Feb 14	April 18	June 20	Sept 26	Nov 7
Follow-up Reviews					
Semi-Annual Follow-up of Recommendations – First Semi-Annual Report (For the Period April through November 2010) - Complete	✓				
Semi-Annual Follow-up of Recommendations – Second Semi-Annual Report (For the Period December 2010 through July 2011) – Complete				✓	
Transportation Planning Branch – Complete	✓				
Corporate Projects					
Enterprise Risk Management – Ongoing <i>We are providing support to the Administration in their efforts to expand the corporate role of ERM.</i>					
Capital Projects Management Oversight Committee – Ongoing <i>This Committee was formed following the Capital Construction Roads Design and Construction audit. When requested, we provide advice to the Committee as they address the specific recommendations of the audit.</i>					
Corporate Performance Measurement and Reporting System – Complete				✓	
OCA Governance Activities					
Audit Committee Bylaw Amendments– Ongoing <i>We have been providing input to the Administration as they address the April 18, 2011 Audit Committee motion regarding Section 5 of the Audit Committee Bylaw 15310.</i>					
2010 Annual Report – Complete		✓			
2012 Annual Plan Development – Ongoing					X
First Quarter Activity Report – Complete		✓			
Third Quarter Activity Report – Complete				✓	
OCA External Quality Assessment – Complete		✓			
OCA Leadership Activities					
Fellowship Program – Ongoing <i>As part of the Canadian Comprehensive Auditing Foundation's International Fellowship Program, we are scheduled to participate in this program with two auditors from the State Audit Office of Vietnam in November 2011.</i>					
Industry Sharing – Ongoing <i>We share our auditing processes with both City Departments and other auditing offices in order to help promote the internal audit profession.</i>					

2. Report Summaries

The following summarizes two reports that we completed during this reporting period. We are presenting them for discussion purposes on the September 26 Audit Committee agenda.

2.1. Counterfeit Edmonton Transit Pass Investigation

Corporate Security requested the Office of the City Auditor (OCA) for help with its investigation into the sale of counterfeit Edmonton Transit monthly passes. This report provides a description of the support we provided to Corporate Security.

We provided Edmonton Transit and Corporate Security the monthly sales histories for outlets we believe could be selling counterfeit passes. We also attempted to determine the amount of revenue lost due to the sale of counterfeit passes. We found that the sale of adult monthly passes decreased in 2010 compared to 2009. However, because there were many factors that led to this decrease we could not determine how many counterfeit passes were sold, therefore we were unable to quantify the loss in revenue due to the sale of counterfeit passes.

We do know that one person sold 351 counterfeit passes between November 2010 and February 2011. If those people had bought legitimate passes, Edmonton Transit would have earned an additional \$29,000 in revenue.

A full report outlining this investigation is attached.

2.2. Fleet Services Tools Audit

Between 2006 and 2010, Fleet Services spent an average of \$445,000 on small shop tools and equipment annually. Small shop tools and equipment are purchased centrally by the Buildings and Shop Equipment area of the Fleet and Facilities Planning Section within Fleet Services and delivered to 13 Fleet Services facilities located throughout the City.

The overall objective of this review was to assess the efficiency, effectiveness and controls over the purchasing, inventory management and disposal processes of small shop tools and equipment used by Fleet Services.

Through our site visits, interviews, and documentation review, we found that Buildings and Shop Equipment is generally meeting Fleet Services needs relating to purchasing shop tools and equipment. We also found that facilities are familiar with the proper procedures to make new tool and equipment requests, to initiate repairs on them, as well as dispose of them when they become damaged or obsolete.

However, based on our data analysis, site visits, and interviews, we did identify opportunities to improve the purchasing, inventory management, and disposal processes relating to small shop tools and equipment. We made eight recommendations to enhance the effectiveness and efficiency of the processes, strengthen controls, and improve accountability.

A full report outlining the detailed results of our review is attached.

3. Audit Advisory Services

We provide independent internal audit services to the City of Edmonton by fulfilling two primary roles: guardian and agent of change. In our guardian role, we conduct projects directed primarily toward providing assurance through review of existing operations, typically focusing on compliance, efficiency, effectiveness, economy, and controls. These projects include investigations, comprehensive reviews of Branch operations, process reviews, cash audits and post implementation reviews of systems. Two of these projects (Counterfeit Edmonton Transit Pass Investigation and Fleet Services Tools Audit) are included as part of this Activity Report.

In our agent of change role, we conduct proactive, forward-looking projects focused primarily on providing strategic, risk, and control-related advisory services to better serve the changing needs of the corporation and help bring about improvement in program performance and implementation of more efficient and effective controls. Activities carried out under this role are focused on *getting it right the first time*. We provide status reports on the outcomes of our role in these initiatives in the OCA's Quarterly Activity Reports.

Two examples (Generic IDs Assessment and Corporate Performance Measurement System) of these types of projects are included as part of this activity report.

3.1. Generic IDs Assessment

Generic (Shared) ID refers to a Windows Account, which is created and supported to facilitate multiple employees logging into the City of Edmonton computers using this common account. The risk associated with this practice is that Generic IDs do not allow identification of individual employees using such IDs. Therefore, the City cannot hold individuals accountable for any inappropriate transactions on the network and, through the network, on the applications they can access without additional sign on.

The OCA, in collaboration with the Information Technology Branch (ITB) and Customer Information Services (Inside Information), reviewed the City's existing use of Generic IDs. The overall objective was to limit or eliminate such access to minimize risk to the City, while ensuring alternate options are provided to enable business processes. The OCA participated as an advisor only, and did not make any operating decision or set direction for the implementation process.

Of the 388 Generic IDs selected for review, 258 (66%) have been deleted or disabled. Justifications have been provided by operating areas for the remaining 131 IDs (34%). These are in the process of being further reviewed by ITB to determine whether alternate methods are available and can be implemented to enable business processes. For those business needs where there are no viable options, ITB will determine if such IDs can be used with minimal risk to the City. A draft Standard Operating Procedure is in the process of being finalized by ITB to formalize processes for requesting, assessing, approving and managing the use of Generic IDs in the City.

The OCA has completed its advisory role of providing risk and control-related feedback in the Generic IDs assessment and the draft Standard Operating Procedure. The outcome of the project to date and the completion of outstanding operating tasks by ITB

will allow identification of transactions undertaken by employees who will now use individual IDs in place of the Generic IDs that have been deleted or disabled. These steps will also provide a more secure access to City systems by those employees whose use of Generic IDs has been justified and formally approved. Finalization and implementation of the Standard Operating Procedure will facilitate a formal and consistent process for requesting, assessing, approving and managing Generic IDs in the City.

3.2. Corporate Performance Measurement and Reporting System

From September 2010 to August 2011, the OCA provided proactive risk and control-related advice to the governance committee and project team responsible for implementing the Corporate Performance Measurement and Reporting (CPM) System. Our objective was to facilitate the identification of potential risks and the implementation of automated and procedural controls in the CPM system to protect the City's interests. We participated as an advisor only, and did not make decisions or set direction for the implementation process, which is Administration's responsibility. As conveyed to the Administration, this advisory role will not preclude the OCA from using other audit staff to undertake audits of the CPM system and initiative in an objective manner.

We recommended that the project team incorporate control-related deliverables in the system development methodology, and organized regular meetings with team members to enhance their understanding of the actions required to achieve these deliverables. Members of the CPM Steering Committee are also aware of the required actions.

We believe that our role of facilitating the identification of potential risks and providing control-related advice is complete. Follow-up on the status and completion of the control-related deliverables will allow the Steering Committee to ensure that all major risks are addressed prior to system implementation.