



**Office of the City Auditor
Activity Report for the period
November 1, 2007 – March 31, 2008**

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1. Introduction

Section 10(4) of Bylaw 12424, *City Auditor Bylaw*, requires the City Auditor to submit reports summarizing the status of projects and the budget performance of the Office of the City Auditor (OCA). Our practice is to issue all formal audit reports to each member of Council upon completion. We present Branch audit reports and other projects of special interest as standalone reports for discussion at Audit Committee. For all other reports that we have previously submitted to Audit Committee for discussion, we aggregate them into a periodic *OCA Activity Report*. This activity report provides the Audit Committee with the following information:

- An overview of the OCA's activities from November 1, 2007 to March 31, 2008.
- Five summarized reports that we have previously submitted to Councillors.
- A brief status report of audits in progress.
- A highlight of the advisory services we provided in this time period.
- A budget update.

2. Report Summaries

This section of the report includes summaries of reports that have been released during the reporting period and status reports for projects that are underway, but for which a report has not yet been released during this reporting period.

2.1. Completed Projects

We issued 12 reports in the last quarter of 2007 and the first quarter of 2008. Three of these, the Mobile Equipment Services Branch Audit, the Land and Buildings Branch Audit, and the MAIN-LINK Post Implementation Review were discussed at previous Audit Committee meetings. The Human Resources Branch audit report is being presented as a separate item at the April 15, 2008 Audit Committee meeting. We also completed three follow-up reports in this time period. As discussed in Section 2.1.6, these follow-up reports will be discussed at a future Audit Committee. The remaining five reports completed during this reporting period are summarized below and are also being presented for discussion purposes on this Audit Committee agenda.

2.1.1. North Eco Station Cash Handling Review (Report issued November 27, 2007)

Edmonton has two Eco Stations¹ where citizens can bring their household hazardous waste and a range of other items, including electronics, 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, and fluorescent tubes. The Station accepts most clean recyclable items at no charge and charges a fee for other waste items. The North Eco

¹ 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.

This review had 3 objectives. The first objective was to assess the level of compliance for cash handling processes to established City policies and procedures. The second objective was to evaluate the adequacy and effectiveness of controls over cash handling processes practiced at the North Eco Station with the intent of minimizing potential lost revenues resulting from theft or error. Our last objective was to perform a high-level assessment of the efficiency and safe operation of the Eco Station Facilities.

We provided seven recommendations to the Administration to further strengthen controls. At the time of our review, cashiers recorded all transactions in a stand-alone manual cash register. We recommended that cashiers record all transactions in the electronic Point of Sale System. We made four recommendations to strengthen compliance with various sections of the City of Edmonton *Handbook for the Handling of City Money*. We also made a recommendation directed at improving the Eco Station Attendants Operation Manual. Finally, we recommended that the Eco Stations evaluate the appropriateness and usefulness of its performance measures and the operational data that they collect. The Administration accepted all seven recommendations.

2.1.2. Mitchell Transit Garage Cash Handling Review (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.

We provided 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. Three recommendations focused around mitigating the risk of transferring cash deposits to unauthorized persons. We also made a recommendation that was aimed at strengthening the robbery prevention awareness training for employees.

2.1.3. 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. Two of our recommendations focused on further enhancing the training process for election employees. We also recommended that the OCC evaluate opportunities to combine voting stations to both increase voter accessibility and to increase staffing efficiencies. Finally, we had a recommendation aimed at strengthening the supply management process for the 2010 Municipal Election.

2.1.4. Edmonton Police Service Overtime Review Follow-up (Report issued February 22, 2008)

In 2004, as part of the Edmonton Police Commission's renewed efforts to improve accountability and fiscal effectiveness within the Edmonton Police Service (EPS), the Commission asked us to conduct a review of overtime usage within EPS. On September 9, 2004, we released the Edmonton Police Service Overtime Review report which contained 11 recommendations.

On May 4, 2006 we reported the results of our first follow-up review, concluding that the EPS had completed three of our original eleven recommendations. In the 2006 follow-up report, we committed to a second follow-up review at a later date to follow the progress of the remaining eight recommendations.

Based on our review of the actions taken on the remaining eight recommendations we concluded that the EPS has satisfactorily completed all 11 recommendations made in our original audit report. We believe that the actions taken by EPS will assist them with planning, monitoring, and controlling their overtime expenditures.

2.1.5. Ice Allocation and Booking Process Review (Report issued March 31, 2008)

The City of Edmonton (COE) currently owns 20 ice arenas with a total of 25 sheets of ice. Arenas deliver benefits that enhance the quality of life of Edmonton residents and provide growth and development opportunities for all age groups. The responsibility for managing the City's arenas lies with Recreational Facility Services, one of six branches within the Community Services Department.

We conducted a review of the ice allocation and booking processes to ensure that these processes operate effectively and efficiently. Our overall conclusion is that the ice allocation and booking processes are operating as intended, providing fair and equitable access to ice and maintaining cooperative relationships with user groups. The City's ice

allocation process is based on a user-managed model whereby the City facilitates the process, but the process itself is run by the volunteer user groups.

Overall, user groups are satisfied with the current processes and their involvement in planning and decision-making. We therefore made no recommendations to fundamentally change the current processes or its organizational structure. However, we did make 10 recommendations that will improve the effectiveness and efficiency of the ice allocation and booking processes and reduce the City's risk exposures.

We made five recommendations aimed at improving the efficiency of the ice allocation and booking processes and strengthening the internal controls related to these processes. Five additional recommendations were made to improve the effectiveness of the ice allocation process in meeting its intended objective of providing fair and equitable access to ice to City residents. Some of our recommendations will have an impact on user groups. Because of the positive and cooperative working relationship that exists between the COE and these groups, we presented our report to the Arena User Committee, which represents the arena user groups on issues that relate to or potentially impact arenas. We also advised City Administration to discuss potential action plans in response to our recommendations with the Arena User Committee.

2.1.6. Follow-up Reports

Follow-up reviews determine whether (and to what extent) management has taken appropriate and timely corrective actions to implement our audit recommendations. These reports allow the Audit Committee to evaluate and explore the degree to which the Administration has implemented our recommendations. We completed three follow-up reports² in this time period. We will summarize these three follow-up audit reports and any additional follow-up audits we complete in the next quarter at the June 17, 2008 Audit Committee meeting.

2.2. In Progress Status Reports

We have a number of projects in various stages of completion. By the end of 2008, we will issue a formal report to Council for each of the following projects.

2.2.1. P3 Framework

At the December 18, 2007 City Council meeting, Council passed the following motion: "That the Office of the City Auditor, in conjunction with the City Manager, assess the use of P3s by municipalities and provide a report to Council advising of the benefits and risks that should be considered as part of P3 arrangements." The planning stage of this project has commenced with research on practices implemented in other jurisdictions. We are planning to release the report in the second quarter of 2008.

² Follow-up reports completed in this time period included: South Eco Station Cash Handling (October 29, 2007); ETS Fare Evasion Review (November 1, 2007); and Transit Information Centre (November 20, 2007).

2.2.2. Waste Collection – Cost Allocation Review

The primary objective of this review is to assess the City of Edmonton's methodologies to allocate costs for the residential curb-side waste collection services program, with an emphasis on the examination of contract management costs. We have completed the planning for this project. We are targeting the release of the report in the second quarter of 2008.

2.2.3. 23rd Avenue and Gateway Boulevard Interchange Review

The primary objectives of this review are to evaluate the effectiveness of the project management process including the interaction with other corporate processes, determine the reasons for cost increases and any project delays, and identify learnings and areas of improvement for future projects. We issued the Terms of Reference for this project to Senior Management Team and City Council on February 8, 2008. We plan to release the final report in the late second quarter or early in the third quarter of 2008.

2.2.4. Privacy Controls

The primary objective of this audit is to provide assurances that appropriate safeguards (consistent with best practices) are in place to protect personal information on City laptop and tablet computers. We have completed the planning phase of this audit. We have temporarily suspended the fieldwork for this project. Based on our current commitments and project priorities, we expect to resume audit field work on this project in May or June 2008 and release the report in the third or fourth quarter of 2008.

2.2.5. Coin Processing Centre Cash Handling Review

We last reviewed the Coin Processing Centre in 1999. Cash handling reviews determine whether cash resources are handled in a manner consistent with established City policies and procedures and are adequately safeguarded against loss. We have initiated the planning phase of this review. We are targeting the release of the final report in the third quarter of 2008.

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.

In our agent of change role, we conduct proactive, forward-looking projects focused primarily on provision of 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*.

3.1. In Progress Advisory Services

During this past quarter, we continue to be involved in an advisory role with the Administration by providing proactive control-related and governance input during policy, process, and/or system development. We are currently involved in two initiatives.

3.1.1. Identity Management

The Information Technology Branch has commenced a multi-year Identity Management initiative with the goal of providing the ability for citizens and employees to access City information and services using a single identifier for authorized access to critical systems. Identity Management develops the technology environment for identifying and authenticating individuals and managing access to resources by association to user rights and restrictions. We are providing proactive risk and control-related advice to the governance committee(s) consisting of staff from the Information Technology Branch, with future involvement of business areas and other corporate groups. Our overall objective is to ensure that all potential risks are identified, and automated and procedural controls are implemented to minimize the risk of unauthorized access to City information and services.

3.1.2. Bylaw Community Standards Grant

On August 28, 2007, City Council approved Administration's report (Bylaw Consolidation Phase 2 – Public and Community Standards) recommending that bylaw enforcement criteria be changed from a reactive to more proactive bylaw enforcement. This followed from Council's direction at the November 29, 2005 meeting, when Council approved the Office of the City Auditor's (OCA) Development Compliance Branch Audit recommendations to rewrite and consolidate bylaws, review the current bylaw service delivery model, and develop a more formalized public education program on bylaws. Bylaw 14600, *Community Standards Bylaw* consolidated ten existing bylaws into one modern foundational piece of legislation which received Council approval. This initiative also included the preparation and submission of a service and program enhancement package for Council's approval.

A Bylaw Community Standards Fund was approved by City Council as part of the 2008 operating budget exercise. Its purpose is to establish a yearly grant fund that approves 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.

The Director of Complaints and Investigation, Planning and Development Department requested our office to provide proactive control-related feedback on the grant allocation process and assist in safeguarding the \$150,000 annual fund. Our overall objective is to ensure that all potential risks are identified and controls are implemented to ensure that the Community Bylaw Grant Fund is safeguarded, fairly distributed and accounted for.

4. Activities and Initiatives

In addition to projects that are identified on our 2008 Annual Work Plan, other activities arise during the year. This section summarizes the additional significant activities and initiatives we are involved in.

4.1. First Quarter Initiatives

In the first quarter of 2008, we were active in a number of additional activities and initiatives.

4.1.1. External Auditor Support

We support the external auditor's attest audit engagement indirectly through sharing our annual work plan and providing access to selected working paper files, and directly by providing staff to complete specific audit tests designed by Deloitte.

4.1.2. City Council Executive Assistants' Orientation

On February 21, 2008, we made a presentation to Council's Executive Assistants (EAs) on the role of the Office of the City Auditor. As part of the presentation, we also discussed ways which our office can better assist Councillors' EAs in supporting their respective Councillors on preparation for audit matters that are to be discussed at Audit Committee.

4.1.3. 2007 Annual Report

Bylaw 12424, *City Auditor Bylaw*, states that the "City Auditor will submit to Council an Annual Report." We issued the City Auditor's 2007 Annual Report on March 31. The report summarizes the activities of the OCA for the calendar year 2007. In addition, the 2007 Annual Report highlights how recommendations from reviews, investigations and audits conducted in previous years have benefited the City of Edmonton in 2007. The 2007 Annual Report also contains our first Annual Fraud and Misconduct Hotline Report.

4.1.4. Budget Reporting

We closely monitor our expenditures. Our budget is on track for the year to date.