

**Office of the City Auditor 2003 Annual Report****Office of the City Auditor  
2003 Annual Report****Introduction**

The Office of the City Auditor (OCA) is pleased to present a summary of its activities during the year 2003. The OCA's continuing efforts to enhance its productivity by focussing on healthy relationships with City Council, the Administration, and the External Auditor continue to produce results. By striving to identify workable solutions to opportunities for operational or management control system improvements, the OCA has often seen project recommendations being adopted prior to or shortly following completion of audit fieldwork. The OCA's continuing commitment to providing value-added recommendations to its clients has resulted in both tangible and intangible benefits to the City. During 2003, all audit recommendations were accepted or accepted with modification and either implemented or scheduled for implementation by the Administration. Follow-up reviews of previously completed projects indicated that recommendations have either been completed, no longer applicable, or reasonable progress is being made.

The OCA's effectiveness has again been confirmed by increasing numbers of requests from Council and the Administration for assistance with operational analysis and identification of cost-effective operational and system controls, operational policies and directives, and design and delivery of corporate training initiatives. The number of proposed projects for 2004 exceeded available resources by approximately 22,000 hours, necessitating a change in the project management philosophy adopted by the OCA. For the first time, the OCA consolidated potential projects and planned projects (in addition to cash-handling reviews) that would extend over multiple years.

**Issues and Observations*****Program Reviews***

During the City Council 2004 Budget Meetings, a motion to increase the size of the OCA to enable planned cyclical reviews of every Branch operation in the City was passed. One of the anticipated benefits of this initiative is that the program and service level review issue that was raised in the OCA's 2002 Annual Report and again in the OCA's June 2003 Quarterly Report (in a discussion of Corporate Budget Challenges) will be addressed in an effective manner. This initiative is expected to directly impact both the number of requests for audit projects from Council and the Administration and the resources available for responding to emerging issues during the course of the year.

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As an independent audit function, the Office of the City Auditor plays an integral role in the oversight process. Comprehensive reviews of City departments are but one step in the process of establishing City programs, evaluating their performance, providing City Council and City Administration with needed information, and facilitating operational changes to ensure that City programs are as efficient and effective as possible. Comprehensive reviews of each City program on a six to eight-year cycle will produce audit observations and constructive recommendations for improvement. These reviews will help improve the City's resource utilization, increase productivity by making programs more effective and efficient, ensure that program goals and objectives are being met, and test for compliance with applicable laws and regulations.

A comprehensive risk and organizational review of each branch would include determining answers to questions such as:

- How do the objectives of this program contribute to the overall objectives of the City of Edmonton?
- How do you know that this program is providing good value to citizens in relation to its cost?
- Has the program established appropriate goals, objectives, and performance measures?
- To what extent is the program achieving the desired results or benefits as identified in its approved business objectives?
- How does this program compare to similar programs in other cities?
- What operational and strategic risks have potential to impact delivery of this program's services?
- What opportunities exist to improve the effectiveness, efficiency, or economy of this program?

The OCA's intent is to fill the three positions as quickly as possible. These positions will complement existing staff and are expected to enable the OCA to go beyond its 2004 Annual Work Plan by adding at least one major program review in addition to conducting the Business Objectives Review that was scheduled for 2004.

The Edmonton Police Commission has asked the OCA to conduct an operational review of the Edmonton Police Service in 2004. Since EPS has four Bureaus that are at the same level as Branch operations in the City, this activity would be the same as conducting four branch reviews in the Administration. In a 1998 report to the Police Commission, KPMG stated that "we cannot afford the current model of policing." On September 17, 2003, the Police Commission passed the following motion:

That the Edmonton Police Commission, led by the Finance Committee, undertake an operational review of the Edmonton Police Service within the next six-month period.

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On January 15, the Police Commission extended a formal invitation to the OCA to lead the operational review of EPS. The OCA intends to initiate this review by the end of February 2004.

### ***Issues and Observations Presented During 2003***

The OCA presented a variety of issues and observations during the course of 2003 that are listed below. More information on each of them may be accessed through the OCA's website at <http://www.edmonton.ca/auditor>.

- Audit Committee Training and Awareness (March)
- Code of Conduct (June)
- Corporate Budget Challenges (June)
- Follow-up Process (September)
- Audit Best Practices (September)
- City's Emergency Preparedness (November)

The OCA has been actively promoting and investigating audit best practices in a variety of forums throughout the course of this year:

- At the annual conference for users of SAP (the City's financial system), an OCA staff member presented a session dealing with the use of ACL (the audit data extraction and analysis tool used by the OCA in investigations and other projects) in continuous auditing applications. The OCA is currently exploring the possibility of using ACL to facilitate some continuous auditing initiatives.
- An OCA staff member participated as an instructor in three auditing courses sponsored by the Institute for Internal Auditors (*Operational Auditing, Assessing Business Risk, and Writing High-impact Audit Reports*).
- An OCA staff member participated in two presentations to students at NAIT regarding the role and changing expectations of internal auditors. One group of students was from Pakistan, taking a course at NAIT.
- One staff member attended the ICE Conference organized by the Canadian Information Processing Society to maintain awareness of current developments in information technology.
- Four staff members attended a one-day seminar to enhance their leadership skills.
- Four OCA staff members attended courses offered by the Institute of Internal Auditors to enhance their abilities to carry out effective audit projects.
- An OCA staff member participated in the National Association of Local Government Auditors' Annual Conference, presenting a report on the process being jointly

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sponsored by the OCA and Management to implement Enterprise-wide Risk Management.

- An OCA staff member attended the NALGA Peer Review Workshop to better prepare for a peer review evaluation of the OCA and to permit participation on peer review teams at other organizations.
- Two OCA staff members met with representatives from the City of Calgary to share the OCA's experience and to assist them as they begin the process of adapting Enterprise-wide Risk Management to their environment.

These activities help ensure that staff members remain current in their knowledge of audit best practices by participating in these events and by presenting their best practice experiences for the benefit of others in the audit industry.

## Ongoing Initiatives

### *Development and Assistance*

The OCA continues to be involved in a consultative role with the Administration by providing control, process, and governance input during policy, process, and/or system development. During 2003, the OCA was involved in four ongoing initiatives:

- Corporate business planning and budget process review (continuing into 2004)
- Corporate Business Risk Planning (continuing into 2005)
- Maintenance management system development (MAIN-LINK – continuing into 2004)
- FOIP Steering Committee

The OCA also serves as a best practice research resource for the corporation.

## Completed Projects

During 2003, the OCA completed 34 projects (22 reviews, 7 investigations, and 5 follow-up reviews). A summary and the full text of each report listed below is on the OCA's website at <http://www.edmonton.ca/auditor>.

### *March 2003 Quarterly Report*

- Skyreach Centre
- Drainage Operations Work Analysis
  - Potential for \$300,000 annual savings (\$100,000 realized in 2002)
- Cash-handling – Community Services Bookings and Information
- Cash-handling – ERD Public Safety and Education

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- Cash-handling – Planning and Development Animal Control Pound Section Follow-up
- Cash-handling – Commonwealth Stadium
- Cash-handling – Office of the City Clerk
- Fraud Investigation – Valley Zoo
  - \$17,116.12 identified for recovery
- Telecommunications Review – Phase 2
- Assessment Operations – Productivity and Quality Improvement
- Grant Allocation Process Review
- Two investigations (no reports issued)
- Delegation of Authority Follow-up
- Corporate Overtime

### ***June 2003 Quarterly Report***

- Investment Review
- EPS Property and Exhibit Unit and Drug Exhibit Detail Audit
- Natural Areas
- Fraud Investigation – OSC Facility X

### ***September 2003 Quarterly Report***

- Edmonton Composter Facility Review
  - Potentially synergistic projects identified with the potential to contribute to complete waste diversion and significant operating profits (several million dollars)
- Budget Process Review (2003)
- General Ledger Accounting Procedures – Journal Entry Review
- Cash-handling Review – Planning and Development 2003
- Three Investigations (no reports issued)
- Snow and Ice Control Audit (Operational Improvements) Follow-up
- Protection of Employee Personal Information Follow-up

### ***November 2003 Quarterly Report***

- Edmonton City Centre Airport
- Cash-handling Review – Police Seized Vehicle Lot
- Valley Zoo Cash-handling (2001) Follow-up
- Golf Course Cash-handling (2001) Follow-up
- Corporate Printing Strategy
  - Projected: \$910,000 annual savings by 2007

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- CLASS Implementation

### 2004 Annual Work Plan

The OCA developed its 2004 Annual Work Plan using risk-based evaluation criteria and balancing its two roles (guardian and agent of change). Of the 28 projects planned for 2004, 16 are guardian-type projects, 9 are agent of change, and 3 are mixed. In addition to a variety of more specific projects, this plan incorporates a City-wide business objectives review (project #12) and a review of Shared Services (project #14) that are designed to provide foundations from which performance (value-for-money) audits can be effectively designed for future years. These projects are expected to add value through assessment of current state and identification of operational areas and/or processes that pose higher risk to the City.

### Performance

The table on page 8 presents a summary of the OCA's performance during 2003. The OCA has chosen customer relationships, internal measures, training, and budget performance as the most significant indicators of overall performance. Those measures are presented for the past four years to allow trend analysis.

The OCA is committed to continuous improvement. One means of accomplishing continuous improvement is to periodically participate in a peer review of our audit processes (tentatively planned for 2005). The OCA sent a representative to the peer review workshop held at the National Association of Local Government Auditors conference in Toronto in June 2003. The workshop provided significant insight to the methodologies that need to be considered in preparation for a peer review.

The OCA continues to promote involvement of its staff in professional development activities with their professional associations and other organizations. In 2003, some of those activities included attendance and participation in conferences, seminars, and courses in such subjects as fraud investigation, project management, auditing, ethics, engineering, and leadership. In the table on page 8, the Learning category includes not just formal training, but also attendance at and participation in other professional development activities.

### Conclusion

The OCA continued to make significant productivity and relationship gains during 2003 as a result of the redesign of its fundamental methodology and philosophy regarding scoping, performance, and reporting of audit projects that took place in 2001. The OCA's greatest effectiveness comes from those areas in which it can contribute toward

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process improvement in response to medium to high operational and strategic risks. Focussing on areas of highest risk has helped to ensure that productivity gains are enhanced and that the OCA continues to provide value-added services to the corporation.

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Performance Indicator	Target	1999	2000	2001	2002	2003
<b>Customer Relationships</b>	<b>(1 - 5)</b>					
<b>Communication</b> How well the client was informed of objectives, process, timeframe, and emerging findings.	<b>4.5</b>	4.4	4.4	4.4	4.8	<b>4.8</b>
<b>Understanding of client's business</b> How well the audit staff demonstrated their understanding of the issues and challenges faced by the client.	<b>4.5</b>	3.9	4.0	4.3	4.7	<b>4.7</b>
<b>Professionalism</b> How well the audit staff demonstrated professional behaviours and attitudes in their dealings with clients.	<b>4.5</b>	4.4	4.4	4.7	4.8	<b>4.9</b>
<b>Quality of findings</b> How practical and thorough the audit findings were and how openly the audit staff communicated with the clients	<b>4.5</b>	4.0	4.3	4.3	4.7	<b>4.6</b>
<b>Overall average</b> Overall judgement by the client of the value received.	<b>4.5</b>	4.2	4.3	4.5	4.7	<b>4.8</b>
<b>Internal Measures</b>	<b>(% or #)</b>					
<b>% Recommendations accepted</b> Best audit practices will result in the majority of recommendations being accepted by the client.	<b>90%</b>	82%	76%	86%	95%	<b>95%</b>
<b>% Recommendations accepted with modification</b> Some recommendations may require minor adjustments to be operationally practical.	<b>10%</b>	9%	24%	14%	5%	<b>5%</b>
<b>% Recommendations Implemented or Satisfactory Progress Observed During Follow-up (new in 2003)</b> A measure of the feasibility of recommendations.	<b>95%</b>	n/a	n/a	n/a	n/a	<b>97%</b>
<b>% Administration &amp; training hours vs. available time</b> Administration activities include strategic planning, training, library time, office meetings, informal consultation with clients, maintenance of the OCA web site and time accounting system, etc.	<b>20%</b>	18%	23%	16%	28%	<b>25%</b>
<b>% Chargeable time vs. available time<sup>1</sup> (target decrease)</b> A measure of the available time worked on projects.	<b>75%<sup>2</sup></b>	82%	77%	84%	72%	<b>73%</b>
<b>Projects completed per staff auditor (target increase)</b> A measure of office productivity.	<b>3.5</b>	1.1	1.5	2.6	3.6	<b>3.8</b>
<b>Learning</b>	<b>(days)</b>					
<b>Days of City-funded training &amp; development/employee<sup>3</sup></b>	<b>8 - 10</b>	8.4	7.8	7.4	8.0	<b>8.9</b>
<b>Financial</b>	<b>(%)</b>					
<b>% Actual vs. budgeted expenditures</b>	<b>90% to 110%</b>	95%	89%	81%	87%	<b>93%</b>

<sup>1</sup> This percentage was reduced from normal levels in 2003 because of time required to set up the new OCA website, substantial effort to revise procedural guidelines to better satisfy new audit standards, etc.

<sup>2</sup> The chargeable time target was reduced in 2003 to adjust for additional work required to incorporate more detailed operational audit methodologies required by recent changes to auditing standards and audit best practice developments.

<sup>3</sup> This category includes not only attendance at professional development courses but also attendance at and participation in other professional development activities offered by professional associations (IIA, CMA, APEGGA, ISACA, CICA, etc.). During 2003, OCA staff members were also involved in delivering courses and seminars in a variety of settings including internationally-recognized auditing courses delivered in the US and Canada and presentations to international organizations.