

# Office of the City Auditor



## 2004 Annual Report

March 11, 2005

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## Introduction

Over the past several years, the Office of the City Auditor (OCA) has successfully built a reputation with all stakeholders for providing value-added projects. By working with its clients to define viable, effective solutions to observed opportunities for improvement, the OCA has been able to maintain a healthy balance between oversight and promoting organizational improvement by working with its clients to define viable, effective solutions to observed opportunities for improvement.

## Services Offered

### Service Mandate

The City Auditor is responsible for all internal auditing activities within City Programs and City Agencies including: independent, objective assurance and consulting activities designed to add value and improve the City's Programs; assisting the City to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes; and coordination of fraud investigation activities within City Programs or City Agencies. The OCA has established a guardian role and an agent of change role to address this mandate.

### Guardian Role

Projects conducted in this role are directed primarily towards providing assurance through review of existing operations typically focusing on compliance, controls, efficiency, effectiveness, and economy. Types of audit projects that fit into the guardian role include:

- Comprehensive Reviews
- Governance Activities
- Cash Handling
- System Audits
- Investigations
- Special Projects
- Follow-up Reviews

**Comprehensive Reviews** determine whether a department, service or program operates efficiently, effectively and economically and whether risks are minimized. City Council added three new positions to the OCA in 2004 to permit the OCA to conduct cyclical comprehensive audits of each Branch operation in the City of Edmonton. During 2004, the OCA developed a risk profile for each Branch operation in the City and a uniform approach for performing comprehensive audits.

The comprehensive audit model developed by the OCA is comprised of three primary components: core service review, risk identification and assessment review, and performance measures review. Together, these tasks will generate information that can be used both by the Administration and by Council to assist them in improving the manner in which each Branch delivers its services as well as in helping to define budget priorities.

**Governance Activities** determine whether corporate management practices meet general ethical and performance standards, and comply with legal and regulatory requirements.

**Cash-Handling Audits** determine whether cash resources are handled in a manner consistent with established City requirements and safeguards against loss.

**System Audits** determine whether adequate controls are built into automated systems and whether they continue to operate effectively.

**Investigative Services** prove or refute alleged fraudulent or inappropriate behaviour on the part of a City employee, Council member, or other party. Evidence must meet sufficient legal requirements before being turned over to the Edmonton Police Service.

**Special Projects** are all audits, investigations or studies not listed in the OCA's Annual Audit Plan. These may be identified by the OCA during a scheduled audit, by City Council, by the Administration, or by a member of the public.

**Follow-up Reviews** are normally conducted between six months and two years following the date for projected implementation of the recommendations in an audit report. The purpose of these reviews is to ensure that management action plans are implemented. The OCA normally maintains contact with the auditee so that follow-up reviews are not conducted prematurely.

### **Agent of Change Role**

In this role, the OCA conducts proactive and forward-looking projects that are focused 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. Types of projects that are conducted in this role include:

- Governance Activities
- Corporate Steering Committees
- System Audits
- Special Projects
- Advisory Services

**Governance Activities** include providing Audit Committee awareness and training information to assist members of both Council and Audit Committee in enhancing their

governance roles and responsibilities related to corporate oversight. Proactively partnering with the Administration to select the City's external auditor is an example of a governance activity conducted in an agent of change role.

**Corporate Steering Committees** are avenues used by the OCA to provide proactive involvement in corporate initiatives such as Freedom of Information and Protection of Privacy and Environmental Management Systems. By serving on selected committees, the OCA is able to ensure that leading practice and control-related input receive appropriate attention throughout the project.

**System Audits** allow the OCA to provide proactive control-related advice and feedback during information technology systems development to ensure that appropriate safeguards are in place prior to implementation.

**Special Projects** allow the OCA to provide proactive involvement in corporate initiatives and projects such as e-business, Corporate Business Planning, Corporate Risk Planning and other initiatives that may be identified by the Administration, Council, or suggested by a member of the public.

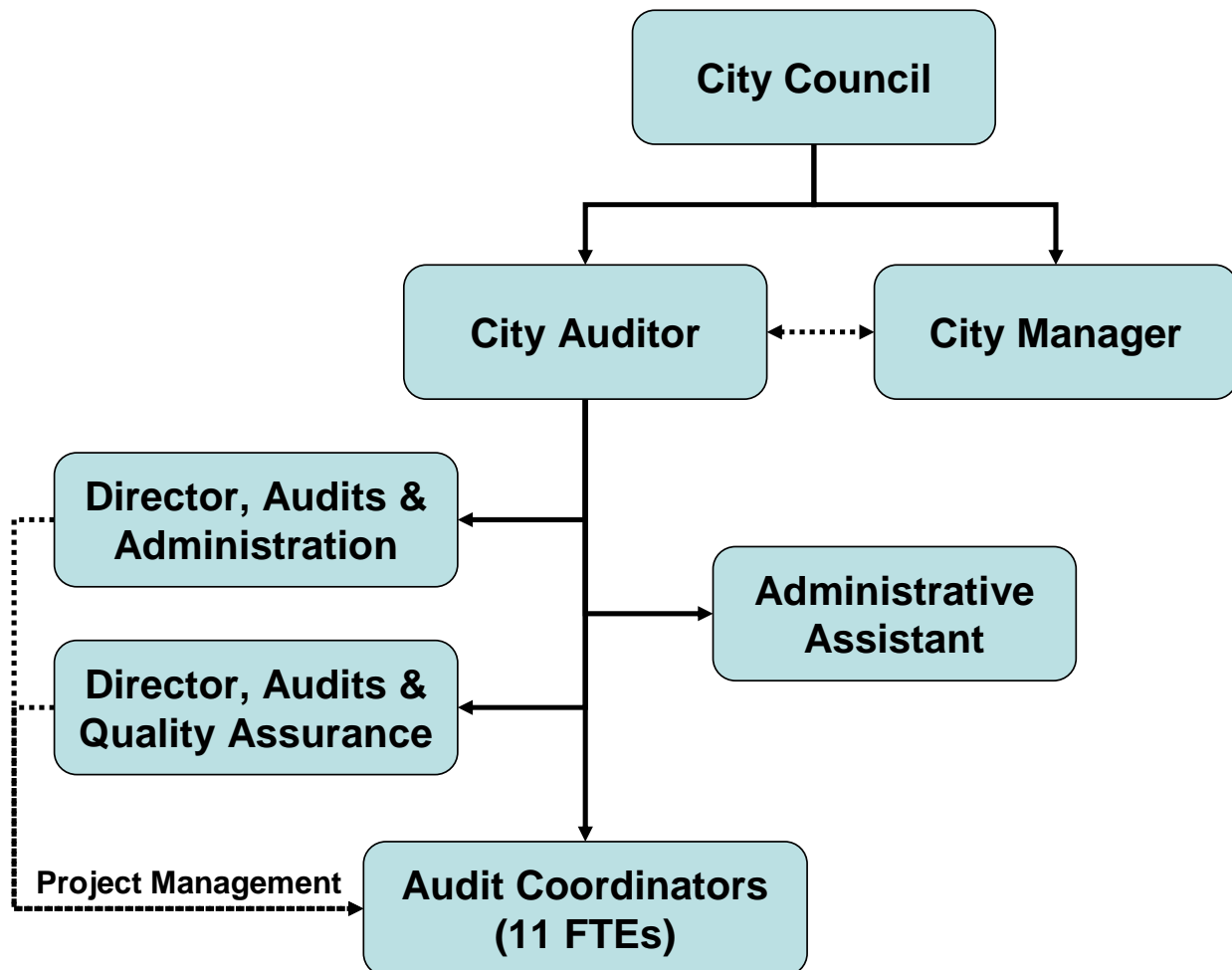
**Advisory Services** allow the OCA to assist in the development of sound business practices and strategies or the enhancement of existing initiatives. These services include facilitation through Control Self Assessments (CSA), Corporate Business Risk Planning (CBRP) process design, and training programs. These projects may or may not result in a public report depending on the nature of the project. The OCA will normally include a summary of the project in its quarterly report to Audit Committee and Council.

## Management Support

The OCA works closely with managers to develop cost-effective and feasible solutions to identified opportunities for improvement. Involving managers in designing solutions greatly enhances the organizational commitment to implement those solutions. By focusing on the common goal of making the City the best service provider it can be, the OCA avoids the traditional resistance to audit recommendations. Managers have uniformly demonstrated willingness to address difficult issues in a straightforward manner. In fact, during the past 5 years, nearly all the recommendations reported by the OCA have been implemented or are well on the way toward implementation by the time follow-up reviews are conducted. The OCA believes that this type of relationship is essential for internal auditors to optimize their contributions to the organizations that they serve.

## Office Organization

The OCA's position in the organization is appropriate given its mandate to provide independent, objective value-added services to the City of Edmonton. The City Auditor and the City Manager are directly employed by City Council, ensuring appropriate organizational independence. The OCA reports directly to City Council through Audit Committee.



Collectively, OCA staff members hold one or more of the following degrees, licenses, and certifications:

- Accreditation in Internal Quality Assessment/Validation (4)
- Bachelor of Commerce (5)
- Bachelor of Science (6)
  - Engineering (4)



- Psychology (1)
- Genetics (1)
- Bachelor of Social Work (1)
- Certified Fraud Examiner (3)
- Certified Management Accountant (5)
- Certified in Control Self Assessment (4)
- Certified Information Systems Auditor (2)
- Certified Internal Auditor (5)
- Chartered Accountant (2)
- Master of Business Administration (3)
- Master of Divinity (1)
- Master of Science (1)
- Professional Engineer (4)

The extensive variety of skill sets offered by staff members enables the OCA to conduct most of its tasks with internal resources, rather than hiring external resources on a regular basis.

OCA staff members are also involved in leadership of the local chapter of the Institute of Internal Auditors, making presentations at local and international conferences, participating in local professional organizations, and instructing both in local and international courses.

## Vision, Mission, and Values

The OCA revisited its Vision, Mission, and Values document during 2004. The updated document has been posted in each OCA office:

### OFFICE OF THE CITY AUDITOR

## OUR VISION

Committed to adding value



## OUR MISSION

To assist the City of Edmonton in achieving its business objectives by:

- Working with Management and Council in support of their corporate governance responsibilities.
- Providing independent analysis and assurance that operations are efficient, effective and economical.
- Promoting accountability to ensure responsible use of resources and to improve program performance.
- Working as agents of change by promoting continuous improvement and cost-effective, innovative solutions.
- Partnering with stakeholders to provide responsive and value-added professional audit services.

## OUR VALUES

### We Promote

- Customer Service
- Integrity
- Independence
- Teamwork
- Trust
- Employee Development
- Respect

### We Encourage

- Open Communication
- Proactive Involvement
- Candid Feedback
- Innovative Solutions

### We Strive for

- Timely Service
- Partnership with Stakeholders
- Quality Service



## Issues and Observations Presented During 2004

The OCA presented a variety of issues and observations during the course of 2004 that were designed to serve Audit Committee and Council. These issues and observations were included in the OCA's quarterly reports to provide independent identification and analysis of issues and occurrences that the OCA believes are of importance to the City of Edmonton. More information on each of them may be accessed through the OCA's website at <http://www.edmonton.ca/auditor>.

### Continuous Auditing (February)

Continuous auditing is a process that provides the City Auditor the opportunity to work with the Administration to automate selected routine audit analyses of large amounts of data. This process is not continuous in the sense that a continuous audit application runs all the time, but in the sense that it is an ongoing periodic process that provides near real time analysis of financial or other transactions of interest. The OCA has successfully teamed with the Administration to identify indicators of potential fraud by implementing a continuous audit application and is currently working to develop additional applications.

### Right to Audit Clause (May)

During the conduct of some investigations, the OCA observed that not all City agreements and/or contracts contained legal wording giving the City the right to audit those entities to which it provides funds (vendors of supplies, contractors, etc.). The OCA, working with the Law Branch, provided suggested wording that is to be incorporated into all applicable contracts and agreements.

### Economic Crimes (September)

The OCA's goal in promoting economic crime awareness is to enhance the awareness of City employees to potential indicators of fraudulent behaviours. The OCA, in conjunction with Corporate Security and the Edmonton Police Service, has developed and presented a course entitled *Economic Crime Awareness*. Over the past two years, participation in the course has declined and the OCA has observed that many employees in positions at the levels for which the course was designed have not signed up for it when it has been offered. The OCA believes that the Administration needs to reemphasize the importance of this training.

### Audit Committee Awareness (November)

One of the roles of the OCA is to ensure that developments in the audit industry are periodically communicated to members of City Council. This article provided an overview of recent developments, roles, and responsibility of audit committees in general along with some commentary about their applicability in a municipal environment.

## Institute of Internal Auditors – Western Regional Conference (November)

The OCA played a significant role in preparing for and delivering the Institute of Internal Auditors Western Regional Conference, which was held August 29 to September 1, 2004. This included participating in a panel discussion regarding challenges facing the audit profession. A session presentation entitled, *Audit Implementation of Risk Assessments* based on the OCA's experiences was presented by a staff member. The conference featured expert speakers from across North America and attracted delegates from across Canada, the United States, and as far away as Saudi Arabia.

## Completed Projects

During 2004, the OCA completed 23 projects (11 reviews, 9 investigations, and 3 follow-up reviews). The summary reports and the full text of all public reports are available on the OCA's website at <http://www.edmonton.ca/auditor>.

### February 2004 Quarterly Report

The three reports summarized for February's Audit Committee meeting focused on the OCA's involvement in initiatives to improve control systems. The OCA was involved in redesigning the processes around handling Transit fare media following an investigation that resulted in recovery of \$5,241.13 from the vendor. The OCA was also involved in assisting an organizational unit in designing additional control steps to ensure that reasonable safeguards are implemented over grants made by the City. By participating on the 2004 Election Planning Team, the OCA was able to ensure that the recommendations arising from its work on the 2001 Municipal Election were appropriately addressed.

### May 2004 Quarterly Report

The eight reports summarized for the May Audit Committee focused on cash-handling, information systems, and City investments. In addition to one cash-handling review, the OCA conducted three investigations that assessed controls associated with City assets (including cash and confidential data). One of the investigations led to a voluntary restitution to the City in the amount of \$5,000. A post-implementation review of the Human Resources Information System determined that although improvements are ongoing, user requirements are generally being met in an effective, efficient, and economic manner. The OCA participated in the Corporate Procurement Card Technology Conversion project, providing proactive, control-related feedback to the project team and steering committee that contributed to the successful implementation of the new system. The OCA also conducted a review to determine whether the controls and processes related to an unusual employee compensation issue were working effectively. A follow-up review of the OCA's 2003 Investment Process Review determined that the OCA's recommendations regarding the City's investment management processes had all been addressed in a satisfactory manner.

### September 2004 Quarterly Report

The six reports summarized for the September Audit Committee included three investigations, a joint project with the Administration, and two compliance testing projects. The three investigations resulted in a series of recommendations to the Administration that will improve the controls around fraud prevention and a recommendation that resulted in changes to the Administrative Directive that defines the processes for approving corporate travel expenses. The change in the travel administrative directive will result in greater accountability on the part of management to

record, monitor, and evaluate travel expense claims. The OCA partnered with Finance Branch, Corporate Accounting and Reporting to recommend the successful candidate as the City's external auditor for the next five years (subject to annual renewal). The OCA also conducted a review to ensure that the City's investments were in compliance with City policy. The OCA also conducted a credit card cash advance test. The cash advance test originated from an observation that some other Canadian cities had found inadequate controls around the use of their corporate procurement cards (credit cards). The card program used by the City of Edmonton was not susceptible to the control weaknesses that had been observed in other jurisdictions.

### November 2004 Quarterly Report

The November report to Audit Committee summarized six reports, including two projects conducted at the request of the Edmonton Police Commission that were designed to evaluate the Edmonton Police Service's management systems around overtime usage and major issues faced by the Service. The OCA facilitated the identification and prioritization of Police priorities. Three of the issues related to governance, resulting in the OCA agreeing to conduct the Police Governance Audit that is expected to be complete early in 2005. Improvements to the Edmonton Police Service's overtime control environment through improved policies, information records, and monitoring will allow the Service to satisfy itself and others that it is using overtime resources more efficiently, effectively, and economically. The OCA also reported on a Control Self-Assessment project that was conducted for the Information Technology Branch that resulted in a number of significant action plans designed to enhance the City's information technology processes. An audit of the Greater Edmonton Foundation identified a number of potential efficiency gains that could be implemented, with a value of approximately \$1.5 million. In preparation for the upcoming comprehensive audits, the OCA undertook a Business Objective Review which will provide the foundation for conducting risk assessments of each Branch operation. A follow-up review of Edmonton Economic Development Corporation found that all 20 recommendations from previous work conducted by the OCA had been satisfactorily completed.

## Corporate Involvement

### Corporate Projects

The OCA continued to work with the Administration throughout 2004 on projects with mutual benefits. By participating on a variety of corporate teams, the OCA has again been able to contribute to the overall enhancement of control, process, and governance systems within the City. During 2004, the OCA was involved in the following ongoing initiatives:

- Corporate business planning and budget process review
- Corporate Business Risk Planning (the OCA is leading this initiative in cooperation with the Administration; the model is available on the OCA's website)
- Maintenance management system development (MAIN-LINK)
- Freedom of Information and Protection of Privacy Steering Committee (Office of the City Manager)
- Environmental Management System (Asset Management & Public Works)
- Shared Services Program review (Corporate Services)
- E-Records (Office of the City Manager)
- E-Business (Corporate)

The OCA also serves as a best practice and performance measurement resource for the City.

### Assistance to Others

The OCA provided specific assistance to several other organizational units in the City during the course of 2004, including:

- 2005 World Masters Games (Office of the City Manager)
- Contract award review (Corporate Services)
- Municipal Emergency Plan Review (Emergency Response)
- EPCOR water rates review (Corporate Services)
- Emergency Preparedness (Emergency Response)
- Assessment and Short-term Counselling Handbook review (Community Services)
- Cash Consultant recruitment process (Corporate Services)
- Potential P3 Contracts (Asset Management & Public Works and Transportation & Streets)
- ETS Fare Products (Transportation & Streets)
- SAP audit tools presentation (Corporate Services)

## 2005 Annual Work Plan

With the addition of three new positions to enable performance of cyclical comprehensive audits of each Branch operation within the City, the OCA redesigned its risk assessment methodology to incorporate high level assessments of the risk exposures for each Branch. The information from that evaluation (the Business Objectives Review as reported in the OCA's November 2004 Quarterly Report) was then consolidated with the project risk assessment methodology that the OCA has been using for the past several years to arrive at the projects that were included in the approved 2005 Annual Work Plan.

Three comprehensive audits are planned for 2005: Development Compliance Branch, City-Wide Services Branch, and Transportation Planning Branch. Since the 2005 Annual Work Plan was approved by Council, the City-Wide Services Branch and the Neighbourhood Services Branch were combined, extending the scope of the planned comprehensive audit. At the time of this report, that organizational change is not expected to materially impact the OCA's 2005 Annual Work Plan.

The tentative schedule for comprehensive audits that was established during the Business Objectives Review project will attempt to ensure that each Branch operation receives a comprehensive review at least once every six to eight years. The OCA currently has the equivalent of approximately five positions allocated to comprehensive audits. The OCA's remaining position equivalents are allocated to ongoing projects, investigations, system audits, agent of change projects, cash-handling reviews, continuous audit projects, emerging issues, etc.

The OCA believes that the projects planned for 2005 will provide value to the City by focusing on current state assessments and identification of opportunities for improvement that will enhance the overall performance of the City in providing services to its citizens.

The OCA's 2005 Annual Work Plan is attached as Appendix 1.



## Audit Performance

The OCA's stated vision is, "Committed to Adding Value." The OCA believes that by accomplishing this vision it can effectively address the needs of the City of Edmonton. The OCA's commitment to adding corporate value is best seen in the manner in which it relates to both its audit clients and its governing bodies (City Council and Audit Committee).

The OCA is clearly positioned organizationally to provide independent oversight as well as objective advisory services. This dual mandate is captured in the *City Auditor Bylaw* (Bylaw 12424) in the functions of Guardian and Agent of Change. In delivering its services, the OCA keeps both of these roles in view and ensures that it acts appropriately in each role so as not to compromise its effectiveness in the other.

## Client Survey Comments

At the conclusion of each project, the OCA, as a part of its commitment to continuous improvement, asks clients for feedback on the project, the auditor(s), and the process. Following is a selection of comments received from clients during 2004:

- "... I found the Auditors to be very professional, competent, and interested in discovering facts relevant to the audit. It was a pleasure to work with [the assigned OCA staff members], both of whom represented the OCA in a most favourable light."
- "The leadership of Mr. Wiun and his staff in conceptualizing the nature of the audits and in establishing the terms of reference has been outstanding. We are confident that the quality and usefulness of these audits will be of the same high standard as the 'first' one in which this 'evaluator' has been involved."
- "Mr. Wiun and Staff were exceptional in their professionalism and effort to provide a positive, useful learning experience for us all. Excellent results and recommendations. We are already planning for future audits with his office."
- "From [our] perspective, we feel the involvement of the Office of the City Auditor added value to the...project by providing feed back to ensure that controls to the...process were not compromised during the conversion."
- "Audit/Project objectives were clearly set out *prior to commencement of the project*. ... In addition we were able to obtain some advice that will assist our operations in the future."
- "One of the key objective[s] of the review was to assess whether [the client] is using overtime efficiently, effectively and economically. I am not certain the report answered that question for the [client]. ... I believe that the expectation of stakeholders was to provide an opinion on [the client's use of] overtime. ... I believe the OCA carried out their work in a professional, courteous and understanding manner. The OCA Team should be acknowledged for their efforts and professionalism."

- “I always received the information that I needed in a timely manner and was most satisfied with the outcomes. In the future, if I were to need any information from the City Auditor’s office, I would not hesitate to go there.”
- “The scope of this audit was limited to controls and process, thus precluding opinions and feedback that many [client] executive members were hoping to learn about... However, the audit did showcase superior existing practices, prompted the development of new practices and highlighted other processes that would improve upon the manner in which we conduct our business.”
- “It is believed that the audit has the potential of being of significant value to the [client]. This will depend in part on further analysis of the report and this in consultation with the OCA. It will depend also on the [client’s] ability to use that analysis to determine if policies should be put in place vis a vis overtime [usage].”

## Internal Audit Leading Practices

The Institute of Internal Auditors (IIA)<sup>1</sup> has identified a number of processes that are considered “leading practices” for internal audit organizations. The IIA defines thirteen processes that comprise evidence of leading practices in internal audit organizations such as the OCA. The OCA has adopted nearly all of those processes and is quite advanced in several areas.

### Conducting Enterprise Risk Assessment

The OCA has been jointly leading the development of the City’s Enterprise Risk Management model through its leadership of the Corporate Business Risk Planning project. The City of Edmonton is a leader in implementing Enterprise Risk Management in a municipal setting.

### Utilizing Risk and Control Self-Assessment (CSA)

The OCA has been instrumental in bringing the practice of CSA into the City of Edmonton. Working with selected clients to help them assess their own performance has proven to provide broader coverage and more effective management action plans that would not have been possible with a more traditional audit approach. The OCA has also invested in and will be using anonymous voting technology during facilitated risk and control self-assessment workshops.

### Using Internal Control Processes Based on COSO

The Committee of Sponsoring Organizations (COSO) issued a document in 1992 titled *Internal Control – Integrated Framework*. The OCA has been using audit processes based on the Canadian equivalent of the COSO model to define detailed audit steps to ensure that it has considered all risk elements. In 2004, the OCA took steps to ensure that its Enterprise Risk Planning model incorporated the elements of the expanded version of COSO that includes risk management themes.

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<sup>1</sup> The Institute of Internal Auditors is the professional organization that defines the Professional Practices Framework for Internal Auditing (the international standards for internal audit).

### **Partnering with Management**

In 1998, the OCA began to move from being a rather traditional audit shop toward partnering with management to achieve maximum value for the City of Edmonton. By working with management to identify potential projects and by finding joint resolutions to observed opportunities for improvement, the OCA has been able to show management that its goal of enhancing the overall performance of the City also helps them to better meet their goals.

### **Integrating Concepts of Corporate Governance into Practice**

By focussing on organizational governance processes including business planning, budget process enhancements, emphasizing performance measures, and providing investigative and assurance services, the OCA has been successful in integrating corporate governance concepts into the work it does with audit clients. The OCA also enhances Council members' awareness of their governance responsibilities by providing applicable materials to each Councillor at the start of their term of office.

### **Increasing Staff Performance**

The IIA indicates that this can be accomplished by education, training, introduction of automated tools, etc. The OCA has well-established programs supporting its staff in ongoing learning opportunities, providing opportunities for staff members to serve their professional organizations, learn to use new audit tools, and so on.

### **Communicating More Effectively**

By redesigning its reporting style and format several years ago, OCA reports have been transformed from lengthy reports that focused on details to reports that provide stakeholders with a balanced, high-level account of its observations, including both things done well and areas where there are opportunities for improvement.

### **Developing Staff both Personally and Professionally**

In addition to emphasis on university educations (including advanced degrees), eighty hours of training per staff member (ten days) is a measure that is frequently associated with best practice audit organizations. The OCA requires at least a university degree for its new hires and includes professional certifications and licenses in its evaluations of potential candidates. The OCA's commitment to ongoing staff training is demonstrated in its goal of eight to twelve days of training per year per audit staff member.

### **Using Technology to Increase Staff Efficiency**

Over the past few years, the OCA has added new tools to its audit capabilities and encouraged its staff to utilize those tools effectively. One of the tools is a software tool that can be used to automate analysis of very large numbers of data transactions. This tool is currently being used not only to enhance the performance of regular audit projects, but also to develop continuous auditing applications that will contribute to the overall level of assurance that selected information technology and management control systems are operating as intended. Acquisition of anonymous voting technology is permitting the OCA to increase its efficiency and effectiveness in conducting control

self-assessment workshops and in conducting awareness and opinion studies, including the 2005 Ethics Review.

### Establishing a Quality Assurance Function

The OCA has a long-standing history of incorporating assessments of risk management, controls, and governance processes in the projects it conducts. The OCA has also introduced a quality assurance function within the office to ensure that its internal processes are both in compliance with the requirements of the *Professional Practice Framework for Internal Auditing* and the needs of the City. The OCA is in the process of preparing for an external peer review in 2006.

### Providing Advisory Services

The purpose of providing such services is to assist management in achieving operational improvements. The OCA continues to provide advisory services through participation in corporate initiatives, conducting performance measurement, economics, and work study workshops for departments, and participating in design and delivery of the City's *Economic Crime Awareness* and *Project Management* courses.

### Conducting Audits in Emerging Areas such as Environmental Auditing

Although the OCA has not yet conducted an environmental audit, it is represented on the City's Environmental Management System Steering Committee. The OCA also conducted a review of the Cloverbar Waste Management Facility in which it provided information on potential new technology solutions to some emerging waste management issues.

### Utilizing Performance Measures

For the past six years, the OCA has tracked selected performance measures, including client satisfaction surveys, staff training, recommendation dispositions, chargeable time, projects completed, etc. For each of the past two years, the OCA has incorporated new performance measures into its annual reports. Additional measures are anticipated for next year.

## Performance Measures

During 2004, the OCA's performance measures were comparable to those experienced since 2000, showing continuing strong performance.

| Performance Indicator  | Target     | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|------------|------|------|------|------|------|
| <b>Customer Relationships (client surveys)</b>   | (out of 5) |      |      |      |      |      |
| <b>Communication</b><br>How well the client was informed of objectives, process, timeframe, and emerging findings.                                       | 4.5        | 4.4  | 4.4  | 4.8  | 4.8  | 4.4  |
| <b>Understanding of client's business</b><br>How well the audit staff demonstrated their understanding of the issues and challenges faced by the client. | 4.5        | 4.0  | 4.3  | 4.7  | 4.7  | 4.3  |

| <b>Performance Indicator</b>  | <b>Target</b>      | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> |
|---|--------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Professionalism</b><br>How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients.   | <b>4.5</b>         | 4.4         | 4.7         | 4.8         | 4.9         | <b>4.7</b>  |
| <b>Quality of findings</b><br>How practical and thorough the audit findings were and how openly the audit staff communicated with the clients   | <b>4.5</b>         | 4.3         | 4.3         | 4.7         | 4.6         | <b>4.2</b>  |
| <b>Overall average</b><br>Overall judgement by the client of the value received.  | <b>4.5</b>         | 4.3         | 4.5         | 4.7         | 4.8         | <b>4.5</b>  |
| <b>Internal Measures</b>  | <b>(% or #)</b>    |             |             |             |             |             |
| <b>% Recommendations accepted</b><br>Best audit practices will result in the majority of recommendations being accepted by the client.  | <b>90%</b>         | 76%         | 86%         | 95%         | 95%         | <b>95%</b>  |
| <b>% Recommendations accepted with modification</b><br>Some recommendations may require minor adjustments to be operationally practical.  | <b>10%</b>         | 24%         | 14%         | 5%          | 5%          | <b>5%</b>   |
| <b>% Recommendations Implemented or Satisfactory Progress Observed During Follow-up</b><br>A measure of the feasibility of recommendations.   | <b>95%</b>         | n/a         | n/a         | n/a         | 97%         | <b>96%</b>  |
| <b>% Administration &amp; training hours vs. available time</b><br>Administration activities include strategic planning, training, library time, office meetings, informal consultation with clients, maintenance of the OCA web site and time accounting system. | <b>20%</b>         | 23%         | 16%         | 28%         | 25%         | <b>22%</b>  |
| <b>% Chargeable time vs. available time</b><br>A measure of the available time worked on projects.  | <b>75%</b>         | 77%         | 84%         | 72%         | 73%         | <b>76%</b>  |
| <b>Projects completed per staff auditor<sup>2</sup></b><br>A measure of office productivity.  | <b>2.5</b>         | 1.5         | 2.6         | 3.6         | 3.8         | <b>2.5</b>  |
| <b>Human Resources</b>  | <b>(days)</b>      |             |             |             |             |             |
| <b>Days of City-funded training &amp; development/employee<sup>3</sup></b><br>A measure of staff commitment to maintaining awareness of professional certifications and skills.   | <b>8 - 12</b>      | 7.8         | 7.4         | 8.0         | 8.9         | <b>12.5</b> |
| <b>Average years of audit experience (new 2004)</b><br>A measure of staff commitment to the audit profession.   | <b>10 to 15</b>    | n/a         | n/a         | n/a         | n/a         | <b>13.8</b> |
| <b>Percent staff certified or with advanced designations (new 2004)</b><br>A measure of staff qualifications  | <b>100%</b>        | n/a         | n/a         | n/a         | n/a         | <b>93%</b>  |
| <b>Financial</b>  | <b>(%)</b>         |             |             |             |             |             |
| <b>% Actual vs. budgeted expenditures</b>   | <b>90% to 110%</b> | 89%         | 81%         | 87%         | 93%         | <b>92%</b>  |

<sup>2</sup> The target for this measure was reduced in 2004 to accommodate changes in project scopes resulting from reintroduction of and planning for comprehensive audits.

<sup>3</sup> This category includes courses, seminars, conferences, organization boards, professional development luncheons, delivery of presentations at conferences, etc.

## Conclusion

The OCA has continued to make progress in its declared intent to promote continuous improvement in its own operations as well as with its clients. The OCA's greatest effectiveness comes from its ability to relate effectively and openly with both its clients and with members of Audit Committee and Council. These relationships have gone far in ensuring that the OCA's recommendations 1) address significant issues, 2) can be implemented in a cost-effective manner, 3) will be adopted and implemented by management, and 4) will enhance the overall delivery of services by the City to its citizens.

All City departments and other audit clients routinely benefit from recommendations that identify potential efficiency gains, improve operational effectiveness, and provide guidance regarding means of providing more economical services to citizens. The OCA's commitment to helping management improve the organization often results in identification of substantial cost avoidance, cost savings, and/or revenue enhancement opportunities. Through its involvement in leading the corporate Closing the Gap exercise in 2000 and 2001, for example, cost savings, cost avoidance, and revenue opportunities of approximately \$20 million were identified by the Administration. In addition, over the past four years, the OCA has identified approximately \$5 million in fraud recovery, cost saving, and revenue enhancement opportunities.

In addition to these tangible benefits, the OCA's recommendations continue to add value to the City either through increased operational effectiveness, improved customer service, indirect cost savings, and identification of potential new revenue streams. The OCA's participation in corporate initiatives has also contributed to outcomes that have enhanced the City's ability to deliver its services in a cost-effective manner. Through exercising its guardian role, the OCA's involvement has resulted in strengthened control environments for corporate assets including cash, which helps to deter fraud.

The OCA is pleased to be a contributing member of the corporate team. By maintaining its independence and objectivity, the OCA continues to promote a healthy pursuit of continuous improvement throughout the corporation.

## Appendix 1: 2005 Annual Work Plan

The projects listed in the following table are presented in order of the ranking that was assigned during the OCA's risk analysis of potential projects for the calendar year 2005. Twenty-four projects have been assigned resources for 2005, including Comprehensive Audits of three Branches.

| #                                 | Title                                   | Description   |
|-----------------------------------|---|---|
| <b>Projects Selected for 2005</b> |   |   |
| 1                                 | <b>Follow-ups</b>                       | Review of actions taken to address recommendations contained in previously issued audit reports.  |
| 2                                 | <b>Investigations</b>                   | Investigations to establish proof or refute allegations of fraudulent or unethical behavior.  |
| 3                                 | <b>Emerging Issues</b>                  | Value added projects identified by stakeholders following approval of the annual work plan.   |
| 4                                 | <b>Cash-handling</b>                    | Conduct at least five cash-handling reviews to determine whether controls are operating as intended.  |
| 5                                 | <b>Corporate Business Risk Planning</b> | Participate in leading the CBRP initiative and incorporating it into existing corporate business planning processes.  |
| 6                                 | <b>Corporate Projects</b>               | Proactive involvement in corporate initiatives to provide risk and control-related input with the objective of providing assurance that a reasonable level of controls have been implemented or considered and to help improve product and service performance. Current initiatives include e-Business, e-Records, MainLink, budget processes, Environmental Management System, and FOIP. |
| 7                                 | <b>Training</b>                         | Participate in delivery of the City's <i>Economic Crime Awareness</i> and <i>Project Management</i> courses.  |
| 8                                 | <b>Financial Governance</b>             | Review financial and audit reports prepared by the Administration and the External Auditor to provide financial expertise input to Audit Committee.   |
| 9                                 | <b>City Wide Services Branch</b>        | Comprehensive Review (includes Landlord and Tenant Advisory Board)  |
| 10                                | <b>Transportation Planning Branch</b>   | Comprehensive Review  |
| 11                                | <b>Development Compliance Branch</b>    | Comprehensive Review  |
| 12                                | <b>Shared Service Programs</b>          | Observe the execution of the change methodology selected by the Administration to provide assurance of its reasonableness and to facilitate the development of action plans to address opportunities for improvement identified during the course of the project that will take the corporation to the next level of service delivery.  |
| 13                                | <b>Continuous Auditing</b>              | Develop and implement continuous auditing methodologies for review of financial and/or personal data maintained in corporate systems to identify indicators of potential fraudulent activity, database errors, etc.   |
| 14                                | <b>Project Management</b>               | Evaluate the effectiveness of cost benefit and risk analysis practices related to project planning activities to determine whether the intent of existing administrative directives are being met and whether alternative project management structures could enhance the process.  |
| 15                                | <b>2005 World Masters Games</b>         | Conduct financial information reviews related to the games to ensure that significant risks are managed appropriately.  |

| #  | Title  | Description  |
|----|--|--|
| 16 | <b>Project Change Orders</b>                   | Review a sample of change orders issued for construction contracts to identify underlying reasons for the change and opportunities for improvement to the City's processes.            |
| 17 | <b>Property Assessment Data</b>                | Review the process of summarizing assessment data, data access controls, and data security.  |
| 18 | <b>Debenture Servicing</b>                     | Conduct a debenture compliance and effectiveness review to include transfers, interest payments, and corporate cash system controls and payment procedures.                            |
| 19 | <b>Transportation Electrical Services Plan</b> | Participate in the evaluation of the effectiveness and completeness of Traffic Operations Branch's electrical services plan.   |
| 20 | <b>Policy Evaluation</b>                       | Assess significant City procedures, policies and practices with regard to their ability to promote urban sustainability and avoid dysfunctional decisions.                             |
| 21 | <b>Better Practice Review</b>                  | Evaluate at least one process against leading practice to identify potential opportunities for enhancement of City processes.  |
| 22 | <b>Gas Tax Transfer Payments</b>               | Work with the Federal and Provincial Auditors General to identify an effective means of monitoring Edmonton's use of fuel tax transfers that will meet all stakeholders' requirements. |
| 23 | <b>Ethics Review</b>                           | Conduct a review of the effectiveness of the City's implementation of the new Code of Conduct and its impact on City operations.   |
| 24 | <b>On-street Construction Coordination</b>     | Review the processes used by City departments to ensure that on-street work is undertaken in a manner that results in minimum street closures.   |