



OFFICE OF THE
City Auditor

2006 Annual Report

April 16, 2007



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1. Message from the City Auditor

On behalf of the Office of the City Auditor (OCA), I am pleased to present a summary of the OCA's activities during 2006. As the City Auditor, I report directly to City Council through the Audit Committee, ensuring appropriate organizational independence from the City Administration. Our position in the organization enables us to provide independent, objective, and useful information regarding city operations. We are committed to providing recommendations that improve accountability, identify potential efficiency gains, improve operational effectiveness, and provide guidance regarding the provision of economical services to citizens.

We are proud of our contribution to the City of Edmonton in 2006. We believe that we have completed work in areas of significance to the City. Through our observations and recommendations, we have identified areas for continuous improvement. The areas reviewed in 2006 were approved by City Council as part of the 2006 Annual Work plan. Within this plan, I am afforded some flexibility to use discretion to undertake projects that address unforeseen or emerging issues that arise throughout the year. This report includes an overview of our activities and discusses each of the projects completed in 2006.

As I prepare this report in the first quarter of 2007, I am optimistic about the future. Throughout 2006, we have observed a desire for improved interaction between the Administration and City Council. Support for an evolving corporate business planning and performance reporting model is evident. Discussions of improved governance are common and all parties have embraced the need to work together towards a common purpose. City Council and City Administration are embarking on a process (*Council Visioning and Strategic Planning Exercise*) of integrating goal setting, a management accountability system, and performance measurements in an effort to meet the short and long term planning needs for the City.

As we look to the future, we will monitor the evolution of the corporate business planning and performance reporting processes. I believe that the OCA can add value to this process. Once the Administration has developed its performance framework, we can provide assurance regarding the accuracy and reasonableness of the performance reporting. As with any measurement system, if the right things are not measured, or are measured inaccurately, those using the data will be misled and poor decisions will likely follow. To mitigate this risk, we will consult with Council and Management on establishing a new audit focus area. This new audit role would encompass Performance Measure Validation Audits which would validate the performance results reported to City Council. This would provide further assurance to the citizens of Edmonton on the City's new strategic planning process and also allow us to achieve a broader audit coverage across the City.

David Wiun
City Auditor

2. Overview of our roles and responsibilities

Bylaw 12424, *City Auditor Bylaw*, established the position of City Auditor and defined the powers, duties, and functions to be fulfilled by the person holding that position. The City Auditor is responsible for all internal auditing activities within City Programs and City Agencies. The City Auditor:

- Provides independent, objective assurance and advisory services designed to add value and improve the City's programs;
- Assists 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
- Coordinates fraud investigation activities within City Programs or City Agencies.

The *City Auditor Bylaw* defines two roles to fulfill the City Auditor's mandate: guardian and agent of change.

2.1. Guardian Role

Projects conducted in this role are directed primarily towards providing assurance through review of existing operations. In this role we typically focus on compliance, controls, efficiency, effectiveness, and economy in order to systematically evaluate and improve the effectiveness of risk management, control, and governance processes. Types of audit projects that fit into the guardian role include:

Branch Reviews determine whether a department, service or program operates efficiently, effectively and economically and whether controls are adequate.

Governance Process Reviews determine whether corporate oversight practices meet general ethical and performance standards, and comply with legal and regulatory requirements.

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

Compliance Reviews determine whether or not the process or organizational unit being reviewed is complying with applicable policies, plans, procedures, laws, regulations, contracts, and other requirements.

Information Technology Reviews determine whether adequate controls are built into automated systems and whether they continue to operate effectively. They also include use of computer assisted audit techniques that allow us to analyze large amounts of data on corporate systems. We also use some of those techniques to provide ongoing monitoring to ensure that particular controls are working as intended.

Investigations are designed to prove or refute alleged fraudulent or inappropriate behaviour by a City employee. Evidence must meet sufficient legal requirements before being turned over to the Edmonton Police Service.

Special Projects are audits or studies that are not listed in the OCA's Annual Audit Plan. These projects are conducted at the discretion of the City Auditor and may be identified by OCA staff, members of City Council, members of 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 the follow-up audit is to determine the progress achieved in addressing the original recommendations and determining whether the problems or issues originally identified have been resolved.

2.2. Agent of Change Role

In this role, we conduct proactive and forward-looking projects that are focused on provision of strategic, risk, and control-related advisory services. These projects are designed to better serve the changing needs of the corporation and help bring about improvements in program performance. Types of projects in this role include:

Governance Process Reviews include providing Audit Committee with information to assist members of both Council and Audit Committee in enhancing their governance roles and responsibilities related to corporate oversight.

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

Information Technology Reviews allow us to provide proactive control-related advice and feedback during information technology systems development to ensure that appropriate safeguards are in place prior to implementation. We also provide ongoing monitoring services for selected corporate systems.

Special Projects allow proactive involvement in corporate initiatives and projects such as e-business, Corporate Business Planning, and other initiatives that may be identified by the Administration, Council, or a member of the public. Participation in these projects is at the discretion of the City Auditor.

Advisory Services allow us 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, Enterprise Risk Management 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 each activity in summary reports to Audit Committee and Council.

3. Mission, Vision, and Values

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



3.1. External Quality Assessment of the OCA

Section 11(1) of the City Auditor Bylaw states: “*the City Auditor will arrange for peer reviews at intervals not to exceed five years.*”

We follow the *International Standards for the Professional Practice of Internal Auditing*, established by the Institute of Internal Auditors (IIA). These standards are the internationally accepted criteria by which the operations of internal audit departments around the world are evaluated and measured. The standards state that a quality assurance review should be conducted at least once every five years by a qualified, independent reviewer.

As part of our continuous improvement efforts, in 2006 we conducted a self-assessment review to measure our performance against the *Standards*. We contracted a qualified, independent assessor for review and validation of this assessment. As part of this process, the independent assessor performed an evaluation of a selection of project files completed during 2005 and 2006, and conducted interviews with staff and with selected members of management and the Audit Committee.

The most significant recommendation resulting from the independent review was for the OCA to “*consider a re-commitment to the IT function by developing a more extensive IT audit universe and re-focusing its staff resources to a much larger IT audit emphasis.*” We have embraced this recommendation and the 2007 Annual Plan includes increased information technology audit services.

We are pleased that the Independent reviewer concluded that “The Office of the City Auditor has achieved the highest possible rating¹ - **generally conforms** to the *International Standards for the Professional Practice of Internal Auditing.*”

¹ IIA Quality Assessment Ratings: Generally Conforms; Partially Conforms; Does Not Conform

4. Completed Projects

4.1. Audit Activity Summary

This section highlights audit activity for the 2006 year. During 2006, we completed 24 projects: two branch audits; four prioritized projects; four cash-handling reviews; four follow-up audits; six emerging requests; and four investigations. We also participated in eight corporate projects. The projects covered a diverse range of the City's activities and programs. Our recommendations affected all City departments and dealt with issues of efficiency, effectiveness and economy. In addition to providing the full report to members of Council on the majority of these projects, we also provided a concise summary of each project in summary reports to Audit Committee. You can find copies of our public audit reports on our website: <http://www.edmonton.ca/auditor>.

The following sections highlight the significant projects completed during 2006.

4.2. Branch Audits

We completed two branch audits in 2006. We schedule these audits to ensure that every branch operation in the City is audited at least once every eight years. Branch audits are initiated by creating a risk and strategic profile of the branch and assessing risk exposures, allowing us to focus our attention during the project on those operational units or processes that present the greatest risk or opportunity for improvement to the City.

4.2.1. Transportation Planning – Report issued May 19, 2006

The Transportation Department is responsible for the development and implementation of transportation plans and programs including roadways, public transit services, cycling paths and walkways. The Transportation Planning Branch of this department serves as the key strategic force to guide the department and City in transportation-related matters. The objective of this branch audit was to assess the Transportation Planning Branch's capability to develop and implement an effective transportation strategy for the City of Edmonton. The majority of the work completed in this audit focused on the strategic planning and governance that supports transportation planning for the City of Edmonton.

The Transportation Planning Branch, with an operating budget of \$4 million dollars, has a significant role in directing and influencing a large portion of the City's capital and operating expenditures. Implementation of the Branch's plans requires significant investments as demonstrated by the requirements of the Transportation Department's budget. In 2006, the total capital and operating expenditures for the Transportation Department were budgeted at \$582 million, representing approximately one-third of total City expenditures.

The Branch's primary planning document is the Transportation Master Plan (TMP). The TMP identifies an investment of \$10 billion dollars in capital and operating expenditures over the next twenty years. We believe that this estimate is outdated and actual costs are likely to exceed \$15 billion dollars.

The TMP is a legislated requirement under the provincial *City Transportation Act*. The current TMP took 6 years to develop and was approved by Council in 1999 as part of the City Transportation System Bylaw.

The TMP requires updating to reflect the changing needs of the City. During the original TMP development, resources were assigned for a defined period of time and then the team was disbanded. We believe the Transportation Planning Branch should assign resources for continual update of the TMP to ensure that the TMP remains relevant to the City's changing needs. Updating the TMP will require significant time, resources, and statutory public hearings. The current TMP includes a list of transportation priorities based upon the anticipated requirements of the City as forecast in 1999. Currently, the City Transportation Systems Bylaw requires that statutory public hearings be held as a part of the process to make any changes to the TMP. We recommended that the list of transportation priorities be removed from within the TMP and a separate framework for priority setting be developed.



The Branch should develop a clear transportation policy within the TMP to establish the parameters Council wants the Transportation Department to operate within. They should develop specific policies to provide guidance in the areas of: a) people movement, b) goods movement, c) congestion levels, d) allocation of capital resources, e) project decision criteria, f) performance reporting, and g) transit land use integration. A formal policy is required to provide direction to the Administration related to the proportion of spending for roadways versus transit.

We completed an analysis that contrasted capital investment in the transit system with the capital investment in roadways. The results indicate that for every dollar spent on capital expenditures for transit, an additional dollar will be required for operating

expenditures over a twenty year period. Comparatively, for every dollar spent on capital expenditures for roadways, an additional 50 cents will be required for operating expenditures over a twenty year period. Our analysis of financial trends showed an increase in expenditures towards transit versus roadways with the average spending for transit expected to double over the next five years. We believe these observations demonstrate the need for Council to review transportation policy on a regular basis.

The 1994 Edmonton Household Travel Survey indicated that 9% of citizens use transit, 77% use roadways, and 14% use other modes (e.g., walk or bike). The recent 2005 Household Travel Survey results indicate very little change has occurred in modal split. The disproportionate capital allocation to transit over roadways should be evaluated in the context of the overall goals of the TMP. The capital allocation decisions should be directly related to the overall transportation strategy that moves the City forward in a cost-effective manner. Over time, the dynamics and characteristics of the City change with corresponding shifts in demand for different modes of transportation. We believe that a major TMP rewrite every ten years and supplementary three-year reviews would be sufficient to keep the plan current. The three-year review cycle would allow each newly-elected Council to understand what the TMP contains and provide Council an opportunity to influence the TMP and set policy direction. To ensure that the TMP reflects the needs of all Edmontonians, the update process should include input from key stakeholders such as communities, business organizations and dialogue with regional partners. This could provide a more integrated transportation system to ensure effective and efficient movement of both freight and people.

Our view is that the current governance structure does not adequately support the effective and efficient development and implementation of the City's transportation system. The role of the Transportation and Public Works Committee (TPW) and its relationship with Transportation and Council needs to be enhanced. A systematic approach to transportation priority setting during the transportation planning process is required by TPW/Council and would add needed rigor and transparency to the current decision-making process. We believe that a transportation-based decision model that includes decision criteria endorsed by Council and TPW would benefit the organization. This transportation decision model and criteria would serve as the basis for annual reprioritization of transportation projects. We also believe the Branch should develop and prioritize a ten-year plan of transportation projects for approval every three years and Council should review the plan annually prior to budget deliberations.

The Branch needs to enhance the reporting of results for strategic transportation goals through the development of effective targets and measures. They should regularly report progress towards achieving these goals to TPW and Council so that they can fulfill their oversight and monitoring roles. We also believe the City needs to improve its communication with the public regarding the City's transportation network and related strategic goals and accomplishments. We met with internal and external stakeholders to gather their perceptions of the City's achievement of the goals stated in the TMP. External stakeholders rated the quality of results consistently lower than did internal stakeholders and expressed a desire to understand how transportation projects are

prioritized. We believe more effective public communication is needed to resolve these matters.

Overall, we believe that the Transportation Planning Branch has demonstrated the ability to develop and implement a transportation strategy for the City of Edmonton; however an improved governance framework is needed. This governance framework between Council and the Administration needs to include improved role clarity, policy development, an effective decision-making framework, and increased measurement and communication of strategic results. We believe that this improved governance framework will lead to greater trust between the Administration and Council, and ultimately to a more effective, efficient and economical transportation system.

4.2.2. Edmonton Transit – Report issued December 18, 2006

Edmonton Transit System (ETS) is one of five branches within the Transportation Department. Its mission is to provide customer-focused, safe, reliable and affordable public transit services that link people and places.² In 2006 the operating budget for ETS was approved at \$180.4 million of which \$108.7 million was funded by the Tax Levy. The approved budget included funding for 1,912.0 Full Time Equivalents (positions). Between 2001 and 2006, the operating expenditure budget for all transit services increased by 46.0% for an average of 9.2% per year. Over the same period, revenue increased by 37.1%, tax levy funding increased by 52.5%, and full time equivalents increased by 23.3%. The ETS fleet consists of 769 diesel buses, 49 trolley buses, 29 community buses, 91 DATS lift vans and 37 LRT vehicles.



City Council, Senior Management and Operational Management and Staff play key roles in the delivery of transit service. Council is the owner of the transit service and the administration is accountable to Council for operating the service within approved policy. Understanding and adopting the responsibilities associated with each role will

² Edmonton Transit System 2006-2008 Business Plan

facilitate Council's approval and oversight role and provide the administration with the direction and flexibility required to achieve the greatest benefit from the City's investment in transit services.

There are three strategic documents that are an integral part of the ETS governance framework: the 1999 Transportation Master Plan, Horizon 2000, approved in 1996, which sets out specific strategies and long term goals for the delivery of transit services, and the ETS business plan that sets out a 10-year expenditure forecast for capital spending and short-term goals, operating strategies for service delivery and activities that support Council initiatives.

Our analysis showed ETS' revenue/cost ratio is 8% below the average ratio for comparable Canadian transit organizations. We estimated that for each 1% increase in the revenue/cost ratio, approximately \$1.5 million of tax levy savings could be achieved. Improving the revenue/cost ratio can be achieved through a combination of revenue increases, service changes and cost reductions. An 8% increase in the revenue/cost ratio represents \$12.0 million dollars in potential tax levy savings. One factor that has contributed to ETS having a lower revenue/cost ratio compared to many Canadian transit organizations is that Edmonton's cash fares and pass prices are 11% to 14% below the average of comparable organizations.

Horizon 2000 defined a transit strategy to deliver improved performance and provide customers with a more reliable and consistent service. The strategies set out in Horizon 2000 have not been reviewed or updated since being approved by City Council in 1996. Following Council approval of recommendations in the Edmonton Transit Fare Structure Strategy Review report in 2000, ETS management adopted the City's business planning and budget process to guide transit service delivery. Council's consent for service delivery decisions was obtained through annual budget deliberations. Our review of ETS services shows that between 1994 and 1999 the financial performance of transit service delivery improved and that between 1999 and 2005 the revenue/cost ratio declined.

Our research showed that transit organizations recognize the need to increase ridership and revenues. To facilitate ridership increases, organizations are developing comprehensive ridership growth plans. ETS projects ridership growth based on population forecasts and does not have a comprehensive ridership growth plan. A comprehensive plan that includes ridership growth targets is an effective tool for monitoring improvements in the effectiveness and efficiency of transit services.

An assessment of the ETS fleet utilization showed, on average, ETS buses are utilized less than those of comparable transit organizations. We believe there is potential to reduce operational costs and maintain passenger carrying capacity by adjusting bus deployment decisions, by utilizing more articulated buses on high volume routes, and using more smaller community buses on lower volume routes. We also observed that ETS does not have a stable source of funding for replacement of its fleet, jeopardizing the ability to maintain its fleet replacement strategy.

We observed that the passenger boarding count standards used to flag transit services for further investigation were lower than those approved by City Council in 1996. We reviewed boarding count performance reports used by ETS. Although the data gathering needs to improve, the reports indicate that approximately 40% of bus routes are not performing within the target range established by ETS management. Based on assertions made by ETS management, in 2005 approximately 680,000 service hours were affected by possible overload conditions and approximately 170,000 service hours did not fully meet the minimum standards. In our opinion, ETS will need to continue making difficult deployment choices over the next 3 to 5 years to deal with services not within the target range set by ETS. Improving its route monitoring process should improve the economy of service delivery and decrease the occurrence of passenger overload and underload conditions.

ETS has been effective in increasing ridership. The increase in ridership is consistent with the population growth used to forecast ridership. This is supported by the 2005 Household Travel Survey that reported that transit use remained constant in comparison to 1994 (9% modal split). However, there was also a corresponding increase in service hours. Benchmark results show that Edmonton uses more resources to move lesser levels of passengers than most other municipalities. Since 1998, the cost per passenger has steadily increased as service hours have been added. This increased cost of service will require higher tax levy funding to maintain existing service levels if the trend continues.

Overall, our audit recognized that Council is the owner of the transit service and the Administration is accountable to Council for operating the service within approved policy. These policies should clearly define service strategies, fare structure, performance standards and financial targets. Current policies are not in place that provide clear direction for the delivery of transit services and performance expectations. We believe that ETS has opportunities to improve its effectiveness, efficiency and economy without sacrificing ridership growth.



4.3. Prioritized Projects

Prioritized Projects are areas where we have determined that there are strategic, operational, governance, and project risks faced by the City that would benefit from an audit. These projects begin with identification of risks that could keep the organizational unit from reaching its goals. The four prioritized projects completed as part of the 2006 Annual Plan are summarized below.

4.3.1. Debenture Servicing Audit – Report issued February 24, 2006

The City of Edmonton utilizes two types of debentures: private issues and public issues. Private issues are debentures primarily issued to the Alberta Capital Financing Association (ACFA), the Receiver General for Canada, the Provincial Government of Alberta, or the Canada Mortgage and Housing Corporation. Private issue debentures are issued or sold, under the direction of the City Treasurer, as authorized by City Council. Authority to pass debenture bylaws for capital borrowing comes from the Municipal Government Act. Public issues are City of Edmonton debentures which have been issued and sold to the public. As with private issues, the proceeds from the public issue debentures have been used to pay for the construction of capital projects, such as the Genesee Power Plant. These debentures were issued under the same authority as private issues. When public debentures were issued, the Treasury Section coordinated the entire process and ensured that all authorizing documents (such as certified copies of the bylaw contracts and an original debenture register) were in place. Treasury then initiated the debenture transfer process within the Debenture Tracking System. The City of Edmonton last issued public debentures in 1993 and those debentures will mature on September 14, 2018.

We accessed the vault in order to confirm the physical security of un-issued blank debenture certificates. We observed that overall there are very good access security controls in place. We also observed the debenture transfer procedures to verify that staff are carrying them out as outlined in the procedures and that proper segregation of duties occurs. We verified the debenture interest payment procedures to ensure that procedures were adequate and appropriate controls are in place. In addition, we reviewed the interest payment process that was completed at the end of 2005. We found that proper segregation of duties and operational controls are in place to ensure that interest on outstanding debentures is accurately paid.

Our review included sending confirmation letters to all public issue debenture holders listed in the Debenture Tracking System. Eighty-two percent of debenture holders responded to the requests for confirmation, accounting for 99% of the outstanding debenture balances (\$568,411,000). We concluded that the process for servicing the City's public issue debentures has adequate controls in place.

4.3.2. Project Change Order Review – Report issued March 3, 2006

The objectives for this review were to identify the underlying reasons for changes to contracts issued for capital construction projects, verify compliance with delegated

authority and other relevant governance documents, and determine where opportunities for improvement to the City's processes exist.

Generally, project change orders are well managed at the project level. However, each branch reviewed has developed its own project management practices to meet operational objectives. This results in varying project management practices throughout the organization. At the corporate level, project management guidelines, capital budget instructions and purchasing directives do exist, but do not clearly identify monitoring responsibilities and processes to ensure consistency or compliance with corporate requirements. As a result, corporate monitoring is either not in place or is ineffective and the administration has limited ability to demonstrate that existing project change management processes adequately and consistently protect the City's interests.

By comparing the differing practices observed and by reviewing corporate processes and documentation, we were able to identify opportunities for improvement to four processes: capital budget, project change management, monitoring and reporting, and governance and accountability. The report includes eight recommendations which ensure that corporate and departmental responsibilities and requirements are clearly identified and aligned, and that communications and monitoring strategies are in place to increase the likelihood of consistent application of processes. We believe that these improvements will help ensure that appropriate governance oversight occurs and will provide the ability to demonstrate that processes adequately protect the City's interests.

4.3.3. Continuous Monitoring – Report issued March 6, 2006

We use Computer Assisted Audit Techniques to examine electronic data contained in the City's databases. The audit software provides a time and cost effective method to extensively test (up to 100%) the City's data. The City uses different procurement methods based upon the value and nature of the purchase. The method with the most controls, the requisition process, is required for purchasing goods and services in excess of \$5,000. The requisition process has built-in controls to prevent unauthorized purchases. In addition to the dollar limit, certain types of purchases (e.g., computers, furniture, chemicals, and printing), regardless of value, must also use the requisition process. However, for qualifying purchases less than \$5,000, goods and services can be ordered by issuing what is called an L-order (Low-value order), which has fewer controls. One of our continuous monitoring applications identifies and reports all L-orders that appear to be exceptions to the following City requirements: a) L-orders that exceed \$5,000; b) L-orders that may be for split orders, and/or c) L-orders that may be for restricted items. All exceptions identified are sent on a quarterly basis to the business areas for investigation, resolution, and reporting.

As a result of our monitoring efforts and the action taken by management, the number of anomalies identified decreased significantly over our test period. For example, only 11 of the 6,832 (0.16%) L-orders created during the fourth quarter of 2005 exceeded \$5,000 compared with 46 of the 7,458 (0.62%) L-orders created during the second quarter of 2005.

4.3.4. Corporate Procurement Card Program – Report issued May 29, 2006

The City of Edmonton's corporate procurement card (CPC) program has been in place since 2000. It allows City employees to make low-value purchases with a City-issued credit card. The purpose of our review was to determine whether the City's goals in implementing the CPC program are being accomplished and to provide assurance that the program is adequately controlled. The City's CPC unit is responsible for CPC issuance and compliance monitoring. The OCA's review confirmed that the CPC unit obtained appropriate authorizations before issuing CPCs, conducted training for cardholders and supervisors, reviewed support documentation for each of the cardholder's CPC transactions, and took prompt action when there were lost or stolen cards. The CPC unit also ensured that no interest was paid on the monthly consolidated CPC statements, making the City eligible for cash rebates from the bank when CPC purchases reached a certain dollar threshold.

Our review confirmed that there is a high level of compliance regarding cardholder reconciliation of receipts to cardholder statements, supervisory review and approval of each transaction, and the provision of receipts to support the City's payment of the transaction. Further, we did not detect any fraudulent purchases. However, to further strengthen the program, we recommended that the City clarify what constitutes appropriate support documentation for CPC purchases, and update guiding documentation and practices for prohibited items. We also determined that improvements can be made with respect to CPC monitoring and control. First, supervisors must be held accountable for approving inappropriate use of the card such as for personal, prohibited or split purchases or approving purchases without documentation. Second, that Materials Management play a greater role in educating clients about the proper procurement method when the CPC unit detects split purchases. Our research of five Canadian corporate procurement card programs (4 municipal and 1 provincial) found that the programs either do not allow restaurant, hosting, entertainment or gift expenses to be purchased using corporate credit cards or they have appropriate guidance in place to define acceptable parameters. The City of Edmonton needs to adopt this best practice and provide clear corporate guidance for all in-town restaurant and catering expenses as well as gift card purchases.

Overall, our review concluded that the City's CPC program is a useful purchasing method that is reasonably controlled. It allows for more timely purchases of low-value items and payments to vendors. The CPC program is meeting its goal of providing an efficient and cost effective method of acquiring and paying for low value goods and services. CPCs are now the primary purchasing method for low-value purchases, with almost 70 percent of low-value purchases made with CPCs.

4.4. Emerging Requests

Emerging Requests are audits or studies that are not listed in the OCA's Annual Audit Plan. These projects are undertaken at the discretion of the City Auditor and may be identified by OCA staff during a scheduled audit, by City Council, by the Administration, or by a member of the public. The following emerging requests were completed in 2006.

4.4.1. EPS Charitable and Fund Raising Activities – Report issued February 22, 2006

The Edmonton Police Service (EPS) requested a review of their charitable and fund raising activities as these initiatives have increased in nature and scope over the past several years. The EPS is actively involved in several non-profit and charitable activities that are related directly or indirectly to policing activities. Some of these activities are undertaken in attempts to meet the objectives of a particular EPS program. Others arise as a result of citizen and member efforts to assist in community and/or organization objectives. These activities are currently approved by the head of the EPS Branch, Unit, Section or Detail depending on the extent of the involvement or effort expended by that entity. EPS is involved in a variety of these charitable and fund raising activities, ranging from presenting courses for a fee to collecting donations. Monies received from these activities are to be submitted to EPS Finance and expenditures are to be authorized and approved in accordance with EPS payment procedures.

Our report acknowledged a high degree of accountability by EPS is necessary to protect the image and integrity of EPS. It is generally understood and accepted that EPS involvement in non-core programs is instrumental to building better and safer communities and delivering quality programs and services. However, since there are costs associated with these programs and services, EPS needs to periodically review and assess the cost effectiveness of their involvement in specific activities and whether they continue to meet the criteria established for such activities.

Overall, the programs we reviewed followed EPS and City of Edmonton procedures for expenditures. However some of the revenue aspects did not comply with approved procedures. We found that the different personnel involved in collecting and recording revenue used different methods and consequently there are different levels of assurance that they collected and reported revenue accurately. Although we did not identify any incidences of inappropriate transactions, EPS involvement in any program has the potential to impact the integrity of EPS. Therefore, EPS needs to ensure that the likelihood of any improprieties is minimized.

The OCA made recommendations to address the need for program selection and evaluation criteria; the need for a program charter template to ensure that each type of program is administered consistently; and that non-core program operations follow existing policies and procedures developed for core programs. EPS accepted all 3 recommendations.

4.4.2. Edmonton Boxing and Wrestling Commission Governance Review – Report issued March 7, 2006

The Chair of the Community Services Committee of Council requested that we undertake a governance review of the Edmonton Boxing and Wrestling Commission (Commission). The City of Edmonton Boxing and Wrestling Commission was originally established in 1920, with the mandate to control and regulate boxing, wrestling and full contact karate. The objective of this project was to review and assess the effectiveness of the governance roles, responsibilities, and relationships of the Commission.

In order to gather information about the current practices of the Commission, we met with each Commissioner (2005 Members) in January 2006. During these meetings, we gathered information about the Commission's practices and asked them to rate (score) their effectiveness in both general and specific terms. We noted that although the overall scores were high, individual comments indicated that improvements could be made to improve the Commission's governance. Our observations and recommendations focused on the following areas where the Commission can enhance its governance framework: Orientation and Training, Role Clarity, Meeting Protocol, Conflict of Interest, Bylaw Revision, Appointment Process, and Annual Reporting Process.

4.4.3. External Audit Assistance – Report issued March 7, 2006

We assisted the City of Edmonton's external auditors, Deloitte & Touche, in the audit of the City's 2005 financial statements. Coordinating our audit efforts with the external auditor provides benefits to the City, including avoiding duplicate work. In 2006, on behalf of Deloitte & Touche, we tested controls related to departmental involvement in three computer applications (TACS, PeopleSoft and POSSE) to assess the operational effectiveness of those controls. In addition, we also provided Deloitte & Touche with copies of our audit reports to help them plan their financial statement audit.

4.4.4. Fraud Policy Revision and Promotion – Report issued June 6, 2006

In 2006, in collaboration with the Law Branch, Corporate Services Department, we prepared the City's integrated whistleblower and fraud investigation policy for Council's approval. This policy was drafted after reviewing the whistleblower and fraud investigation policies and procedures of leading practice organizations. A draft outline of the policy was prepared and circulated to members of the Senior Management Team and all Union/Association leaders for comments. We held a meeting with the City's subject matter experts on the *Freedom of Information and Protection of Privacy Act* (FOIP) to ensure that the Policy and Procedure met FOIP requirements. In June 2006, City Council approved City Policy C522, Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection. Policy C522 reflects the City's proactive efforts to demonstrate its commitment to corporate accountability, transparency, responsibility, and sound ethical operating practices. The Policy also sets out guidelines and responsibilities on reporting and investigating alleged fraud and misconduct, and enhances the degree of protection offered to employees who report allegations in good faith or participate in investigations, proceedings and hearings.

4.4.5. Electronic Funds Transfer – Pilot Vendor Payments - Report issued August 31, 2006

The Electronic Funds Transfer (EFT) process is a widely used technical solution deployed by corporations throughout the world to transmit instructions to financial institutions to pay employees and vendors. The City of Edmonton currently uses the direct deposit process to pay its employees electronically through its payroll system, PeopleSoft, and TD WEB Banking. In 2005 and 2006, the City of Edmonton initiated a pilot to implement electronic funds transfer for two selected vendors. This enhancement will allow the City to make vendor payments electronically using the electronic funds transfer functionality in its financial system, SAP, in conjunction with TD WEB Banking. It is intended to provide the City with a lower cost alternative for making vendor payments compared to traditional methods such as issuing cheques, and keep pace with industry standards.

We were requested to participate in the pilot and provide proactive risk and control-related feedback. Since the EFT process involves financial transactions, this request was given a high priority. Our role was to ensure that controls pertaining to the authorization, integrity, accuracy, completeness and timeliness of EFT transactions were implemented, operating as intended and reflected in the operating procedures. We verified that appropriate controls were in place and provided assurance to the Project Sponsors that no unmanageable risks were present at the go-live date. The pilot was completed successfully and the City is in the process of offering the EFT method of payment to additional vendors.

4.4.6. Hotline Implementation – Hotline operational as of January 2, 2007

City Policy C522, *Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection* incorporates a hotline as an additional channel for City employees to report suspected fraud and misconduct. City Council appointed the OCA as the independent body to lead the implementation and operation of a hotline to ensure the required independence and objectivity. In collaboration with the Law, Information Technology, and Communications Branches of Corporate Services, we identified the requirements for a hotline intake service and worked with Materials Management in order to acquire an external service provider that was staffed with professionally trained intake staff. Considerable effort was invested to identify the City's needs and protect the City's interests.

From October to December, we worked with the Communications Branch to establish a communication plan for the hotline program. The plan addressed how and when existing and new City employees will be informed about the hotline program. Training of designated City staff and completion of the privacy impact assessment was completed by December 15, 2006.

The promised date for employees to start using the hotline was met as on January 2, 2007 the hotline became operational. The hotline is available 24 hours a day, seven days a week, all year round, by phone or via Internet. Starting in 2007, the City Auditor will provide periodic reports to the Audit Committee related to overall hotline activity.

4.5. Cash Handling Reviews

We perform cash handling reviews to determine whether the City's cash handling sites are handling their cash resources in a manner consistent with established City requirements and to ensure they are adequately safeguarded against loss. These reviews also assess the adequacy and effectiveness of internal controls within the cash handling location. These reviews consist of an objective review and evaluation of the cash handling practices and procedures relating to the receiving, transporting, storing, depositing, recording and safeguarding of City money (including cash, cheques, credit cards and debit cards). We complete several cash handling projects each year. Projects are selected based on a number of criteria including estimated revenue, volume of transactions processed, cash handling risk, date of any previous audit(s) undertaken in the area, and history of problems and control weaknesses identified.

We completed the following four cash handling reviews in 2006:

4.5.1. Edmonton Transit Cash Handling Review – Report issued February 23, 2006

- LRT Portable Fare Boxes**
- Edmonton Transit Ferrier Garage**
- LRT Ticket Vending Machines**

We conducted three separate cash handling reviews within Edmonton Transit, and consolidated the results into one report. We identified five opportunities to further strengthen controls, including the need for updated cash handling procedures that incorporates the LRT-Ticket Vending Machines (TVMs), as well as updating the Fare Maintainer's job descriptions to reflect their new duties in connection with maintaining LRT TVMs. We also recommended that Edmonton Transit complete a cost/benefit analysis to determine whether it would be advantageous to install an electronic fare payment module option on TVMs. We also noted that there is no report which provides management with the information to determine reasonableness of cash collected at each of the three Transit Garages. We recommended that Edmonton Transit develop a management report to facilitate review of the reasonableness of cash fares collected in relation to passenger volume (or other reasonable basis) for each of the three Transit Garages. Our fifth recommendation was that Edmonton Transit work with Corporate Security to develop procedures to ensure the activities in the cash vault rooms are adequately monitored. Edmonton Transit accepted all 5 recommendations.

4.5.2. Point of Sale Transactional Review – Report issued August 28, 2006

In this review we utilized our computer assisted auditing capability to review cashier data contained in the Recreation Facilities Branch's Point of Sale System. Using this technology, we analyzed and compared individual cashier's activity for each shift at each of the 13 swimming and fitness facilities. We analyzed over 3.7 million transactions recorded from July 2003 to March 2006. The OCA's analysis identified three individual cashiers whose transaction patterns appeared to be out of the ordinary regardless of the shift or facility worked. After further examination we concluded that these three cashiers were recording all revenues received.

4.6. Follow-up Audits

Follow-up of audit recommendations along with management's action plans are an essential part of an effective audit process. Only by having an effective follow-up process can Council, Management, and the OCA be assured that prior recommendations have had the desired impact. The City Auditor schedules follow-up reviews as part of the Annual Work Plan development. Follow-up reviews are normally scheduled for six months to two years after the date of the last planned recommendation implementation in each audit report. We completed the following four follow-up reviews in 2006:

4.6.1. EPS Overtime Review – Report issued May 4, 2006

We issued the original report to the Edmonton Police Service (EPS) with eleven recommendations in September 2004. Our follow-up concluded that the EPS has completed three of the recommendations and eight were in progress. The EPS committed to addressing these before October 31, 2006. We will schedule another follow-up for these outstanding recommendations in the last quarter of 2007.

4.6.2. Cellular Telephones – Report issued May 15, 2006

We issued the original report to Corporate Services with six recommendations in March 2002. Our follow-up concluded that they have completed one recommendation and five were in progress. Corporate Services committed to addressing these before December 2007. We will schedule another follow-up for these outstanding recommendations in 2008.

4.6.3. Corporate Overtime – Report issued November 15, 2006

We issued the original report to the Administration with one key recommendation in February 2003. Our follow-up concluded that the level of detail in the available management information is inadequate to complete an independent assessment of overtime usage. We committed to consult with the Senior Management Team regarding when a more comprehensive reporting system would be in place, following which we will then conduct a more detailed review.

4.6.4. Edmonton Composter – Report issued January 8, 2007

We issued the original report to the Waste Management Branch with six recommendations in September 2003. Our follow-up concluded that they have completed five recommendations and one was in progress. Waste Management committed to addressing this recommendation before March 31, 2007. We will schedule another follow-up for this outstanding recommendation in 2008.

4.7. Investigations

Investigations are designed to prove or refute alleged fraudulent or inappropriate behaviour by a City employee. Evidence must meet sufficient legal requirements before being turned over to the Edmonton Police Service. In 2006 we conducted four investigations. None of the investigations required the involvement of the EPS. However reports were forwarded to management for appropriate action in accordance with City administrative directives.

4.8. Corporate Involvement

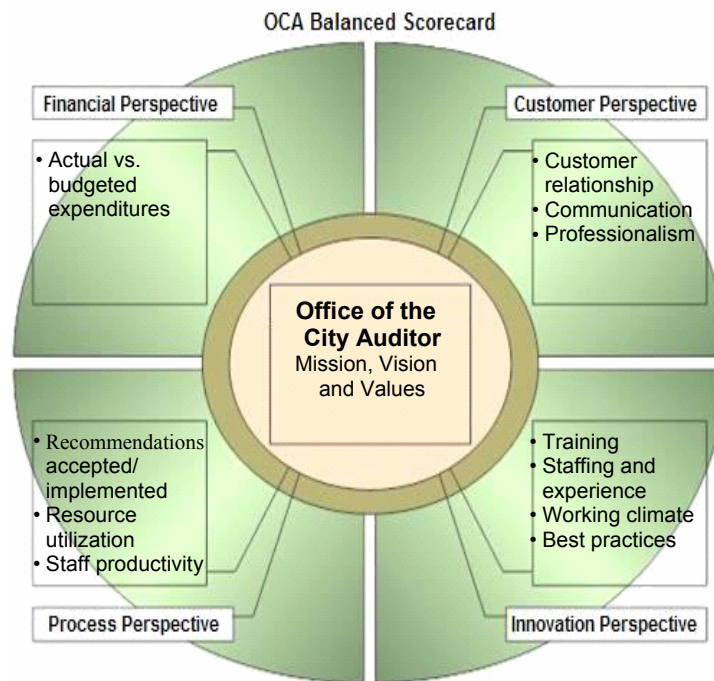
We continued to work with the Administration throughout 2006 on projects with mutual benefits. By participating on a variety of corporate teams, we have been able to contribute to the overall enhancement of control, process, and governance systems within the City. During 2006, we were involved in eight ongoing initiatives:

- Freedom of Information and Protection of Privacy Steering Committee
- Environmental Management System Steering Committee
- IT Technical Council
- E-Records
- E-Business
- Management Job Evaluation Review Team
- 311 Project Steering Committee
- Election Planning Committee

As part of our advisory services, we also make ourselves available to offer professional advice on topics within our expertise.

5. Measuring Our Performance

While measuring an internal audit function has historically been difficult, the OCA has implemented a range of performance indicators that are designed to provide assessments of both our internal business processes and external outcomes. We measure key quality and efficiency indicators in order to continuously improve our strategic performance and results. We have adopted the four perspectives of a Balanced Scorecard as our framework for performance measurement. The balanced scorecard is a way of measuring our success, by balancing long-term and short term actions and balancing financial measures (financial perspective), customer measures (customer perspective), internal business processes (process perspective), and learning measures (innovation perspective). Each of these measures are an indicator of our success towards achieving our strategic vision and mission as outlined in the diagram below.



The OCA has also benchmarked its performance in each of the above four perspectives against the Association of Local Government Auditors' (ALGA) benchmarks for most of our performance measures. ALGA is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education and training, while upholding the highest standards of professional ethics. ALGA represents local government audit organizations in both Canada and the United States. ALGA conducts a biannual Benchmarking and Best Practice Survey. The OCA was one of 107 local government organizations that took part in the survey. The audit shops are grouped to allow comparability among audit departments with similar staffing levels. The OCA is categorized as a Group 4 audit department (11 or more auditors).

5.1. Customer Perspective

Customer Relationships

One of our objectives is “to provide responsive and value-added professional audit services.” To accomplish this objective, we place emphasis on the importance of our relationship and communication with audit clients. Ongoing communication with management during audits to understand their priorities, expectations, particular concerns, and knowledge is critical to our effectiveness. At the conclusion of all major projects, we issue a customer satisfaction survey to the client to help us monitor our performance and to identify areas where improvements in our operations can be made. Our customer satisfaction survey focuses on how well we communicated throughout the audit; our understanding of the client’s issues and challenges; the professionalism of our audit staff; and the quality of our findings. Feedback received from Departmental Management Teams is universally supportive of our efforts to accomplish the most benefit for the Corporation as the overall rating “of the value received” on our 2006 projects was 4.5 out of 5. Moreover, the OCA has been able to maintain consistent performance during the past five years on key customer relationship indicators.

Performance Indicator	Industry	2002	2003	2004	2005	2006
Customer Relationships (client surveys)	(out of 5)					
Communication How well the client was informed of objectives, process, timeframe, and emerging findings.	N/A	4.8	4.8	4.4	4.4	4.4
Understanding of client’s business How well the audit staff demonstrated their understanding of the client’s issues and challenges.	N/A	4.7	4.7	4.3	4.3	4.4
Professionalism How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients.	N/A	4.8	4.9	4.7	4.6	4.6
Quality of findings Practicality, adequacy, and openness of communication with the clients	N/A	4.7	4.6	4.2	4.2	4.4
Overall average Client’s overall assessment of the value received.	4.3	4.7	4.8	4.5	4.4	4.5

5.2. Process Perspective

Recommendations Accepted

One of our objectives is to provide independent analysis and assurance that operations are efficient, effective and economical. One of the ways we monitor how effective we have been in achieving this objective is by tracking our audit reports and recommendations, the outcomes or results of these products, and the efficiency or unit cost with which we produce the products and results.

We are committed to providing recommendations that identify potential efficiency gains, improve operational effectiveness, and provide guidance regarding provision of more economical services to citizens. Our commitment to helping management improve the

organization often results in identification of opportunities to achieve substantial cost avoidance, cost savings, and/or revenue enhancement opportunities. In addition to these tangible benefits, our recommendations continue to add value to the City through increased operational effectiveness, improved customer service, indirect cost savings, and identification of potential revenue streams. It is our responsibility to present accurate and convincing information that clearly supports our recommendations. The percent of recommendations accepted by the Administration is an indication of our effectiveness in this regard. Management accepted 100% of the recommendations made in 2006.

Performance Indicator	Industry	2002	2003	2004	2005	2006
Internal Measure						
% Recommendations accepted Best audit practices will result in the majority of recommendations being accepted by the client.	92%	95%	95%	95%	92%	100%

Recommendations Implemented

Benefits only come from implementation of our recommendations. It is up to management to implement the recommendations and track the realized benefits, while Audit Committee and City Council are responsible for ensuring that agreed upon changes and improvements occur. In follow-up audits conducted in 2006, we observed that 94% of our recommendations were implemented by the Administration or satisfactory progress was being made towards implementing the recommendations.

Performance Indicator	Industry	2002	2003	2004	2005	2006
Internal Measure						
% Recommendations Implemented or Satisfactory Progress Observed During Follow-up A measure of the feasibility of recommendations.	83%	N/A	97%	96%	97%	94%

Resource Utilization – Staff Direct Hours

One of the performance indicators that we benchmark against other internal audit offices is the measurement of direct time to available time. Direct or chargeable time is the time charged by auditors for the performance of audits, investigations, follow-up audits or other engagements. Indirect time charged by auditors incorporates non-project time, including time used for general administration, training and other indirect activities. An auditors' available time is the sum of direct time and indirect time. We had a direct to available time ratio of 83% in 2006 compared to the industry rating of 78%. We have made consistent gains in this measure over the past five years.

Performance Indicator	Industry	2002	2003	2004	2005	2006
Internal Measure						
% chargeable time vs. available time A measure of the available time worked on projects.	78%	72%	73%	76%	79%	83%

Staff Productivity

Another performance indicator that a number of internal audit offices are tracking to measure their productivity is the percentage of projects that were completed during the past year compared to the number that were scheduled in that year. This is a new measure for our office in 2006. With the exception of four projects, we completed our approved 2006 Annual Work Plan. In addition to the scheduled projects, we also completed six projects that were not in the original work plan.

Performance Indicator	Industry	2002	2003	2004	2005	2006
Internal Measure						
% of completed engagements to number scheduled A measure of office productivity.	90%	N/A	N/A	N/A	N/A	95%

5.3. Innovation/Learning Perspective

Training

As a professional internal audit office we encourage professional development to improve our skills, effectiveness, and efficiency. We encourage professional certification, provide required continuing education, and support staff involvement in professional associations. Training is vital to the OCA as it keeps us fresh professionally and on the cutting edge of technology. Moreover, internal auditing standards require that our staff complete at least 80 hours of continuing education every two years. In addition, staff must meet the minimum continuing education requirements to retain their professional certifications. In 2006, auditors completed an average of 81 hours (10.9 days) by attending courses, seminars, workshops, conferences, monthly professional association luncheons, and in-house training sessions.

Training topics included Improving Management in the Public Sector, Municipal Governance, Cost Estimating, Continuous Monitoring, Computer Assisted Audit Techniques, Performance Measurement, Audit Management, Performance Auditing, Report Writing, Audit Standards, Audit Topic Trends, FOIP, Leadership, and Economic Crime. To help minimize training costs in 2006, we hosted semi-annual retreats and incorporated topical training courses.

Performance Indicator	Industry	2002	2003	2004	2005	2006
Human Resources	# of days					
Days of City-funded training & development/employee A measure of staff commitment to maintaining awareness of professional certifications and skills.	8 - 12	8.0	8.9	12.5	9.3	10.9

Professional Certification

Several staff members are also active in organizations of auditors, accountants, engineers, public managers, and information technology professionals. Professional associations include the Institute of Internal Auditors, Institute of Chartered Accountants, Society of Management Accountants, Certified General Accountants Association, Association of Certified Fraud Examiners, Information System Audit and Control Association, Government Financial Officers Association, Association of Professional Engineers, Geologists, and Geophysicists of Alberta, and the Association of Local Government Auditors. The extensive variety of skill sets offered by staff members enables the OCA to conduct most of its tasks with internal resources, rather than having to hire external resources. Professional certification is strongly encouraged. 93% of the professional staff members possess one or more certifications or advanced degrees.

Performance Indicator	Industry	2002	2003	2004	2005	2006
Human Resources						
Percent staff certified or with advanced designations A measure of staff qualifications	64%	n/a	n/a	93%	93%	93%

Staffing and Experience

Recent regulatory and legislative changes affecting publicly-owned companies have required them to significantly enhance or create independent audit functions. These environmental issues have created a significant shortage of skilled internal auditors, especially at management levels, in the Edmonton area. As would be expected in this booming economy, auditors are also commanding higher wages than ever and staff attraction and retention have become significant issues for many audit offices in the Edmonton area.

Our recruiting efforts emphasize hiring highly qualified internal audit professionals, meaning the successful candidates have several years of audit and/or business experience, possess certifications and/or advanced degrees and require less supervision. Key measures of our recruiting effectiveness and ability to maintain our depth and breadth of skills includes the average years of audit experience and the ratio of audit staff throughout the year to total organizational staff. These two measures are reflected in the following table.

Performance Indicator	Industry	2002	2003	2004	2005	2006
Human Resources						
Average years of audit experience A measure of staff commitment to the audit profession.	10 to 15	n/a	n/a	13.8	14.8	15.7
Ensure a sufficient level of staff Audit staff to total organizational staff	1 auditor per 676 staff	n/a	n/a	n/a	n/a	1:714

Employee Satisfaction

The City of Edmonton has developed a corporate workforce plan to meet future and current workforce needs. As part of this plan, in 2004, the City of Edmonton made a commitment to develop and implement an employee engagement survey. In the spring of 2006, all employees within the OCA were invited to participate in the Employee Engagement survey.

The City of Edmonton has defined employee engagement as employees who are service oriented, provide meaningful contribution, work collaboratively and are committed to organizational results. As a measure of this outcome statement, the City of Edmonton established an Employee Engagement Index that is based on six Employee Engagement Survey questions. The Employee Engagement Index Score for the Office of the City Auditor was 93% in 2006.

Performance Indicator	Industry	2002	2003	2004	2005	2006
Human Resources						
Maintain a positive working climate A measure of the average level of staff satisfaction on several attributes (see Employee Engagement Index table below).	N/A	N/A	N/A	N/A	N/A	93%

Employee Engagement Index	
Employee Engagement Index Question	% of Respondents Who Strongly or Somewhat Agreed
	<i>Office of the City Auditor (n=14)</i>
Your organization provides recognition for your work contributions	100%
Your organization encourages teamwork	93%
Your supervisor provides timely feedback and coaching that helps you in your work	93%
You receive high quality service from others in your immediate work group	85%
You know the direction the City is going and understand how your work helps the City move towards its Vision	93%
You have a sense of personal accomplishment in your work.	93%
Employee Engagement Index (Average Score)	93%

Internal Audit Best Practices

ALGA has identified seventeen best practices for internal audit offices. The following table provides a listing of these best practices with a short explanation of each practice. In the 2006 ALGA Benchmarking and Best Practices Survey, audit offices provided a self-evaluation of their department's current status regarding each best practice topic area. The status levels were: (1) Best Practice – highly successful, (2) Experienced, (3) Just starting and (4) Not applicable. The Industry rating column reflects the percentage of audit offices that evaluated themselves at either a 1 or 2 for the applicable practice. The OCA status column indicates our ranking (from 1 to 4) in each of these best practice areas. Our performance is in the top rating, "highly successful" for 12 of the 17 practices.

#	Internal Audit Leading Practices - ALGA	Industry Rating	OCA Status
Business Planning			
1	Working with Audit Committee and/or Senior Management to Identify Major Issues - Audit Committee and/or Senior Management reviews the audit work plan and strongly supports early involvement of the audit department.	71%	1
2	Audit Department Planning Process - Audit department prepares a formal risk assessment document.	57%	2
3	Planning for the Future - Strategic planning and/or long-term (3 to 5 year) audit work planning on-going.	49%	2
4	Marketing the Audit Function - Audit department has developed a marketing product, which encourages management to see audit as an advisor/consultant and supports the audit mission.	40%	4
Customer Satisfaction			
5	Customer Satisfaction Surveys - Audit department obtains input through the use of formal customer surveys.	38%	1
6	Audit Effectiveness Questionnaire - Audit department asks customers to value audit after the engagement has been completed.	33%	1
Measuring Results			
7	Audit Report Follow-up - Action dates logged and tracked, and non-compliance reported to Audit Committee and/or senior management.	70%	1
8	Audit Report resolution and corrective action taken by management - Audit committee and/or senior management actively support the audit resolution process and take corrective action in a reasonable period of time.	81%	1
Third Party and Peer Review			
9	Third Parties - Use of third parties to conduct audit work when required.	36%	1
10	External Quality Control Reviews - Audit department schedules external peer reviews once every three to five years.	53%	1
Audit Activities			
11	High percentage of Performance/Operational Audits - Audits focus on business process (economy and efficiency and effectiveness), not just controls.	71%	1
12	Contract Auditing - Audits are performed at the contractor's place of business before or early in contract term; field audits are used to verify amounts billed and obtain contract repayments.	30%	4

#	Internal Audit Leading Practices - ALGA	Industry Rating	OCA Status
13	Information System Auditing - Perform pre and post implementation reviews of new automated systems and/or actively involved in the audit of active automated system applications and the general control environment.	37%	1
14	Performance Measures Benchmarking and/or Best Practices - Audit department reviews and/or analyzes submissions made by operating departments regarding performance measures to verify the reliability of management presentations.	35%	3
Business Process Activities			
15	Organization teams for Re-engineering Work Process Improvements and Quality Improvement - Audit department facilitates or participates in organizational initiatives to streamline operations and/or focus on customer needs.	51%	1
16	Control Self Assessments - Audit department educates/facilitates/equips operating departments for self-assessment of organizational risks.	27%	1
Use of Automated Audit Tools			
17	Use of Automated Audit Tools - Use computer-assisted audit techniques and tools to assist in audit analysis and testing, and/or audit planning and administration.	56%	1

5.4. Financial Perspective

Our financial objective is to manage our expenditures so actual final year-end expenditures are within +/- 5% of budgeted expenditures. Our 2006 results were 10% below budgeted expenditures. As presented below, extended vacancies in two positions and an under-expenditure in consulting dollars were the primary factors for our variance in 2006.

Performance Indicator	Industry	2002	2003	2004	2005	2006
Financial						
% Actual vs. budgeted expenditures	90 to 110%	87%	93%	92%	95%	90%

Office of the City Auditor Budget Performance – Year Ending 2006 – (\$000)

	Ytd Budget	Ytd Actual	Variance	Variance %
Total Expenses	\$1,791	\$1,605	\$186	10.4%
Total Revenues	0	0	0	0.0
Net Position	1,791	1,605	186	10.4%

Expenditure	(\$ 000)	Variance Explanation
Personnel	78	Extended vacancies in two positions.
Material and Equipment	20	Computer charges less than anticipated
Services: General	50	Under-expenditure in consulting
Services: Interdepartmental	3	Minimal variance in interdepartmental services
Other Costs	30	Under-expenditure in travel and training
General Costs	5	Membership fees less than anticipated
Total	\$186	

6. Conclusion

We appreciate City Council's strong support of the audit function and the cooperation received from the Administration. This has contributed directly to our success. We do not view our vision – "*Committed to Adding Value*" – as a mere catch phrase; rather we embrace it, and we are continuously improving our processes to live up to the responsibility placed upon us. We are proud of our contribution to the City of Edmonton in 2006. We believe that we have completed work in areas of significance to the City and through our observations and recommendations, have identified areas for continuous improvement by the City Administration. The branch audits completed this year highlighted opportunities to improve the interaction between the Administration and Council. Discussions of improved governance were included in both projects and both parties have embraced the need to work together towards a common purpose. As we look to the future, we will monitor the evolution of the corporate business planning and performance reporting processes. As frameworks and models mature, we anticipate that a new audit role may evolve through which we can provide independent assurance on the performance reports provided to Council.

I would like to conclude by acknowledging the tremendous dedication and effort of the OCA staff members to help the City operate as efficiently and effectively as possible. Our greatest strength truly lies within our staff. I want to thank and acknowledge the OCA team for their dedication, professionalism and support in 2006. We enjoy the respect of many stakeholders because of the wide range of knowledge, skills and experience we offer to the City. Collectively, OCA staff members hold one or more of the following degrees and certifications:

- Accreditation in Internal Quality Assessment/Validation
- Applied Arts in Business Administration
- Bachelor of Arts
- Bachelor of Commerce
- Bachelor of Science
- Certified Fraud Examiner
- Certified General Accountant
- Certified Management Accountant
- Certification in Control Self Assessment
- Certified Information Systems Auditor
- Certified Internal Auditor
- Chartered Accountant
- Master of Business Administration
- Master of Science - Engineering
- Professional Engineer
- Qualified Administrative Assistant

How to Reach Us

If you would like to obtain copies of one of our reports, provide comments or receive more information about our office, please contact us as noted below.

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