

OFFICE OF THE
City Auditor

2008 Annual Report

March 24, 2009



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.

Office of the City Auditor
Room 1000, Chancery Hall
3 Sir Winston Churchill Square
Edmonton, Alberta, T5J 2C3

Phone: 780-496-8300

Fax: 780-496-8062

Website: <http://edmonton.ca/auditor>

Table of Contents

1. Message from the City Auditor.....	1
2. Authority and Responsibilities.....	3
3. Vision, Mission, and Values	4
4. Projects Completed in 2008.....	5
4.1. Prioritized Projects.....	5
4.1.1. 23 rd Avenue & Gateway Boulevard Interchange Project Review	5
4.1.2. Fire Prevention	9
4.1.3. Edmonton Transit System Shift Trades.....	10
4.1.4. Review of City of Edmonton Ice Allocation and Booking Processes ..	11
4.2. Branch Audits	12
4.2.1. Human Resources Branch Audit	12
4.3. Emerging Requests	14
4.3.1. P3 Benefits & Risks	14
4.3.2. Bylaw Community Standards Grant.....	15
4.3.3. Investment Funds Transfer.....	15
4.3.4. First Place Edmonton Home Ownership Unit Draw	15
4.4. Follow-up Audits	16
4.4.1. Rundle and Hawrelak Park Concessions Review.....	16
4.4.2. Professional Services Agreements, Sole-Source Review	17
4.4.3. City Archives Cash Handling Review	17
4.4.4. Corporate Procurement Card Program.....	18
4.4.5. Edmonton Police Governance.....	18
4.4.6. Kinsmen Cash Handling Review	18
5. Other Audit Activity in 2008.....	19
5.1. Introduction	19
5.1.1. International Fellowship Program	19
5.1.2. Cash Handling Reviews	19
5.1.3. City Council Executive Assistants' Orientation	19
5.1.4. Audit Committee Orientation	20
5.1.5. External Audit Support.....	20
5.1.6. Police Commission Self-Assessment	20
5.1.7. Leadership and Professional Development.....	20
6. Annual Fraud and Misconduct Hotline Report	21
6.1. Background.....	21
6.2. Hotline Operation	21
6.3. Hotline Administration and Cost.....	22
6.4. Hotline Activity	22
6.4.1. Disposition of Reports/Complaints.....	23
6.4.2. Investigation of Reports/Complaints	24
6.5. Outcomes of the Completed Investigations	25
6.6. Summary	26
7. Measuring our Performance	27
8. Conclusion	29

1. Message from the City Auditor

I am pleased to present the Annual Report of the Office of the City Auditor (OCA) for the year ended December 31, 2008. Our goal is to present objective, balanced and independent audits and I believe this annual report reflects the success of my office in meeting that goal during 2008.

The reactions of Council, the Administration and the public to our 2008 reports shows that we are helping to improve accountability, acting as a catalyst for change, generating debate in areas of public concern and delivering insight into the use of taxpayers' money and resources. Our contribution is reflected through results such as:

- Completing a review of the 23rd Avenue and Gateway Boulevard Interchange project. This project is the single largest road construction project the City has ever undertaken. At the close of our review, the project budget stood at \$261 million, up from the 2003 estimate of \$75 million. The City completed the conceptual planning for the project in 2003, with original plans calling for the project to be completed in 2006. It is now scheduled to be completed in 2011. Our review examined cost increases, delays in project completion and whether the City exercised due diligence as project owner. This audit led to nine recommendations to enhance the City's project management, cost estimating, scheduling, resourcing, and communication practices. During the later phases of our audit, the City Manager proactively created a new Capital Construction Department, which is charged with managing capital projects.
- Our recommendations from reviews, investigations, and audits we conducted in previous years continued to benefit the City of Edmonton in 2008. In our 2007 audit of Mobile Equipment Services (MES), we identified a decline in overall productivity and a number of issues hindering efficient service delivery. Based on our recommendations Administration and Council reduced MES' 2008 budget by \$2 million and their 2009 budget by \$4 million. Council also directed that the OCA verify these efficiencies. We will undertake this audit work in 2009.

This past year was not without its tensions for the City of Edmonton as the emerging budgetary difficulties and challenges foreshadowed in our 2007 Annual Report became reality. The significant operating deficit that the City of Edmonton had in 2008 is clear evidence that the City of Edmonton is not immune to these challenging times. The first half of 2008 had the City's tax-supported operations facing inflationary pressures, highlighted by rapid fuel cost escalation. This was compounded in the second half of 2008 with underperformance in net investment earnings due to the turmoil in the capital markets.

Looking ahead, the current global economic crisis is likely to continue to present long-term sustainability challenges for municipalities. The economic outlook is indicating that ongoing fiscal pressures will be putting the City of Edmonton's budgets for 2009 and beyond under enormous strain. It is critical that City Council and City Administration pull together to balance Edmontonians' needs with fiscal responsibility. Edmonton is an exciting, vibrant city that offers enviable lifestyle opportunities in which Edmontonians

can take great pride. Council and the Administration face the challenge of protecting all of this for future generations while providing for the needs of the City's current residents.

Citizens' expectations are that Council and Administration will make decisions that are both affordable and sensitive to their needs. Many citizens email or phone our office about the use of taxpayers' money. We consider all correspondence and, where important issues are raised, I incorporate them as part of an audit. In 2009, we will continue to focus on making sure that the citizens of Edmonton are receiving the biggest return on their taxpayer dollars. We will continue to work aggressively to find ways to identify operational efficiencies as we conduct our audits. One of the more significant projects within our work plan for the upcoming year is an audit of the City's investment and use of Information Technology. This audit will assess the cost and utilization of information technology by all City departments. As per the direction of City Council, we will also be completing an audit on the cost effectiveness of the City of Edmonton's Winter Road Maintenance Program and Policy (Snow Removal).

Delivering high quality public services, while achieving value for money, is a challenge that faces all levels of government. Consistent with my comments in the 2007 Annual Report, City Council and the Administration continue to debate whether the City's budget process is able to answer whether this goal has been achieved.¹ The lack of understandable and reliable performance and efficiency measures creates significant challenges. While the budget was ultimately approved, there appeared to be a misalignment between Council and the Administration throughout the budget review and approval process. Based on the increasing frustrations with the budget process, the unprecedented vote by three Councillors and the Mayor against the 2009 City Budget was not totally unexpected. In 2009, we will assess the City of Edmonton's operating budget process to identify where the budget process can be improved.

As an independent Office reporting on the efficiency, effectiveness and economy of City operations, we must operate in a cost effective and clearly accountable manner. In 2008, I completed a detailed line-by-line review of our costs to see where we could operate more economically. This exercise resulted in a cost containment budget for the 2009 year. In 2009, we are absorbing inflationary costs and reducing our budget by approximately \$5,000.

In closing, the city has tremendous demands on its revenues to support important city services. Because of the budget challenges caused by the current economic downturn, sustainability will underpin much of City Council's decision-making over the next few years. Any decision to increase expenditures will require a corresponding decision to find a way to pay for it — either with increased revenues or by cutting other expenditures. To assist Council in dealing with these budgetary challenges, as City Auditor, I will ensure that my office continues to deliver on our commitment to provide recommendations to help the City operate as efficiently and effectively as possible.

¹ OCA 2007 Annual Report – “*The City's budgeting process is an area where we believe there are opportunities to improve. In observing the process, it was clear that Council direction to develop the budget within specified parameters is required.*”

2. Authority and Responsibilities

Bylaw 12424, *City Auditor Bylaw*, establishes the City Auditor as a designated officer in accordance with the Municipal Government Act. The City Auditor is accountable to City Council for the exercise of all powers, duties, and functions delegated to the position. To ensure the appropriate level of independence and objectivity, the Office of the City Auditor (OCA) reports through the Audit Committee of Council.

The OCA provides an independent, unbiased and informed opinion on matters that are considered to be significant to Council. Our annual workplan is prepared and presented to the Audit Committee each calendar year. The audit workplan focuses business processes and programs that we have identified as high priority.

We perform several types of audits to review City operations. Cash-handling and compliance reviews provide City business areas with specific recommendations to help ensure compliance 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.

Investigations are designed to prove or refute alleged fraudulent or inappropriate behaviour by a City employee. When investigations are turned over to EPS, the evidence we collect and the rigor for documenting our work must meet stringent legal requirements.

Performance reviews determine whether a Branch, service or program operates efficiently, effectively, and economically and whether control systems are adequate.

We also conduct special projects or audits 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.

Each of the above mentioned projects result in an audit report. Some audit reports recommend ways to increase revenues or reduce costs. Other audit reports identify opportunities to use resources more efficiently, increase effectiveness, and improve internal controls. We operate under a public reporting protocol that requires all audit reports to be issued publicly by the City Auditor unless a specific exemption to disclosure exists under the *Freedom of Information and Protection of Privacy Act*.

Bylaw 12424, *City Auditor Bylaw*, also states that the "City Auditor will submit to Council an Annual Report that will include a synopsis of activities undertaken by the City Auditor." This, our 2008 Annual Report, provides a summary of the observations, recommendations, and information pertaining to the audits conducted by the OCA during the past year.

3. Vision, Mission, 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



4. Projects Completed in 2008

This section highlights audit activity for the 2008 year. Our program of work was set out in our 2008 Annual Audit Plan. Our Annual Audit Plan was supplemented by a number of unplanned requests, investigations, and other types of audit input. All of our audit work, whether in the Audit Plan or not, is subject to a risk assessment process, to ensure that we prioritize our workload appropriately. Copies of our public audit reports are on our website: <http://edmonton.ca/auditor>.

4.1. 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 hinder the organization to reach its goals. The five prioritized projects completed as part of the 2008 Annual Plan are summarized below.

4.1.1. 23rd Avenue & Gateway Boulevard Interchange Project Review – Report issued September 3, 2008

In September 2003, Council approved the concept plan for the 23rd Avenue project. The estimated cost for the project was \$75 million, with construction to be complete by the end of 2006. Subsequently, design and pricing changes brought the estimated cost to approximately \$130 million. In August 2007, following the review of construction bids received, Council approved an additional capital budget of \$130 million, bringing the total 23rd Avenue project cost estimate to \$261 million. Subsequently, planned construction completion was revised to 2011.

We reviewed the process that was followed for the 23rd Avenue and Gateway Boulevard Interchange Project (the 23rd Avenue project). Our overall objective was to identify areas of improvement in the planning, design, tendering and contract award processes for future major/complex projects. To achieve our objective, we sought to answer three basic questions:

- What are the reasons for the cost increase from \$75 to \$261 million?
- What are the causes of the delay in project completion from 2006 to 2011?
- Did the City exercise due diligence as project owner in managing the project?

Figure 1 illustrates what the 23rd Avenue project will look like when it is complete. It includes five bridges: two over Gateway Boulevard and Calgary Trail, two over the CP Rail tracks at 23rd Avenue and a flyover at 19th Avenue.

Figure 1
Artist Rendering of 23rd Avenue & Gateway Boulevard Interchange (looking south)



Source: [23rd Avenue Interchange project](#) website

What are the reasons for the cost increase from \$75 to \$261 million?

The 23rd Avenue project cost increased by \$186 million from \$75 million in 2003 to \$261 million in 2007. The following table summarizes the reasons for the cost increase.

Table 1 - Cost Increases

Reasons for Cost Increase	Amount (millions)	Comments
Cost Escalation	\$86	The original estimate was stated in 2003 dollars rather than year-of-expenditure dollars. Project completion is now scheduled for 2011. This amount is based on heavy construction industry escalation factors.
Industry at Capacity	\$55	At the time of tender there were other significant opportunities for contractors across the province. Only two contractors submitted bids for the 23 rd Avenue project.
Design Changes and Underestimates	\$45	In addition to design changes, the engineering consultant hired for the design phase identified "significant deficiencies" in the concept plan estimates.
Total Increase	\$186	Total project cost increased by \$186 million.

What are the causes of the delay in project completion from 2006 to 2011?

The plan prepared at the conclusion of the concept planning phase indicated construction of the 23rd Avenue project was to be completed in 2006. Following the award of the construction contract it was communicated that construction would be complete in 2011, approximately 60 months later than planned. The following table identifies the delays or lapsed time between the planned and actual completion of each phase of the project.

Table 2 - Project Delays - Planned to Actual Schedule

Phase	Months	Comments
Strategic Planning	--	A specific strategic plan was not prepared and executed. This may have resulted in lost opportunities such as early land acquisition.
Concept Planning	9	The Transportation and Public Works Committee extended the non-statutory hearings by 3 months. Documentation does not indicate the reasons for other delays. Resourcing issues experienced by Transportation and the complexity of the project also impacted the schedule.
Preliminary/Detailed Design Phases	24	Rework of the plan was required due to "significant deficiencies" in the concept plan. Land acquisition was extended due to the desire to avoid the risk of claims against the City after project completion. Unplanned work for pipeline relocation and protection was required.
Tendering & Contract Award	6	Tender packages were not ready when planned, 9 addenda were issued and the approval process took longer than planned.
Construction	24	The construction period extended from 2 to 3 years. (12 months) Early communication on the construction period did not include final asphalt overlay to the Gateway Boulevard/Calgary Trail corridor. (12 months)
Total Number of Months	63	Total delay or lapsed time between the planned and actual completion of each phase of the project.

Did the City exercise due diligence as project owner in managing the project?

The above results are a reflection of the project management practices applied for the 23rd Avenue project. Our observations were summarized into four themes: guidance, resources, communications and project management practices.

General guidance to facilitate effective planning, management, integration and control of projects is available at various levels: The Project Management Institute, corporately for the City and departmentally for transportation infrastructure projects. Our high level review of the departmental manual revealed areas that require review and enhancement. The project plan included some guidance for project management but did not include sufficient details to effectively manage the 23rd Avenue project.

Resource issues in the Transportation Planning area have been identified as far back as 1995. A junior staff member was assigned project management duties for the 23rd Avenue project during the planning phase. We also noted the department does not have cost estimating expertise and relies on consultants for this function. Without this expertise, the City cannot effectively verify the accuracy of project estimates.

Project communications were not completely effective resulting in attention being diverted from project work and creating some degree of uncertainty among team members. A number of reports were requested/provided to Transportation and Public

Works Committee/Council, effectively shifting Council from a strategic to a detailed project focus. Communication from engineering consultants also indicated that the “health of the partnership” had been tested by uncertainty and the time it took to resolve issues.

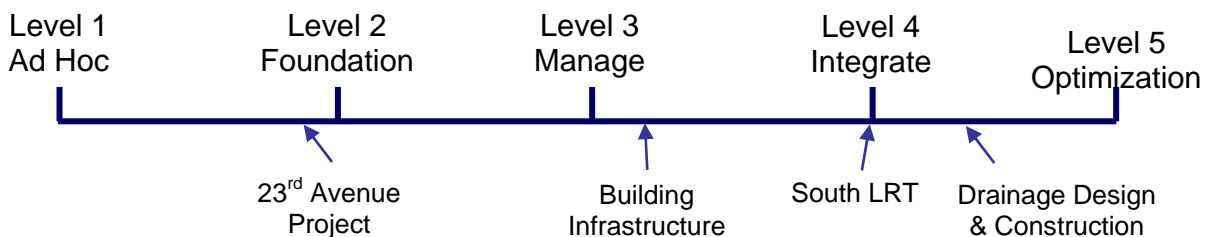
Project ownership was transferred between branches and project managers as the 23rd Avenue project progressed. Project management roles, responsibilities and accountabilities were not clearly defined and the City relied on the engineering consultant to manage key activities. We also noted that learnings from similar projects were not captured and shared to facilitate continuous improvement. This impacted the quality of project outcomes.

At the conclusion of our review we assessed the project management practices for the 23rd Avenue project using the maturity model developed by the Project Management Institute. The model represents best practice for any major project. The following table outlines the five maturity levels. At the bottom of the table is our assessment of the 23rd Avenue project as well as our preliminary assessment of other organizational units in the City.

Table 3 - Project Management Maturity Model- (Project Management Institute)

			Level 4	Level 5
	Level 2	Level 3	Project portfolio management is institutionalized and integrated into the organization's business planning process	Project-centered organization with an established approach to continuous improvement of project management practices
Level 1	Consistent, basic approach	Consistent, comprehensive approach		
No formal, consistent process				

OCA's Assessment of City Project Management Practices



Best practice research and some project management practices within the City demonstrate the potential for significant benefits from moving towards a project-centered/project portfolio management environment (Level 5). These opportunities would significantly enhance the City of Edmonton’s ability to deliver projects with predictability, consistency, and success.

We made nine recommendations to enhance the City’s project management, cost estimating, scheduling, resourcing and communication practices.

4.1.2. Fire Prevention - Report issued January 19, 2009

Fire Prevention is part of the Fire Rescue Services Branch in the Community Services Department. In 2008 Fire Prevention had a budget for 42 employees, \$4.7 million in expenditures, and \$236 thousand in revenue. Fire Prevention's business objectives are to create safer communities, raise educational awareness within the community, provide a consistent greater application of the Alberta Fire Code, have a City Council and Alberta Safety Codes Council approved Quality Management Plan and maintain highly trained staff.

Fire Prevention prepared a Quality Management Plan (QMP) in 2003 that commits to inspecting all buildings of certain occupancy types either once a year or once every two years. In the past five years Fire Prevention has not performed all of the required inspections per the QMP. In 2007 they performed 66% of the required QMP inspections. In 2007, 46% of the activities Fire Prevention performed were not QMP inspections. Fire Prevention does not track the amount of time required to perform these other activities or QMP inspections. We made recommendations to help Fire Prevention increase the effectiveness and efficiency of their fire inspections and other activities including: developing a new Quality Management Plan with achievable targets; developing and enforcing a quality control process to ensure that the buildings they inspect are in compliance with the Alberta Fire Code; and implementing new controls to ensure private vehicles used to perform inspections and other activities are used efficiently.

POSSE is the software system Fire Prevention uses to record and track information relating to the work they perform. Management uses the information in POSSE to assist in the performance of their supervisory duties as well as for the compilation of statistics for reporting purposes. The Fire Prevention Officers use the information in POSSE to acquire historical and contact information relating to the site they are inspecting and for compiling lists of high risk buildings. We determined that the information in POSSE does not allow for effective reporting of fire inspections. We made recommendations for Fire Prevention to enhance controls to ensure Fire Prevention Officers enter all inspection and other activity information into POSSE accurately and completely; to develop written standards to enter information into POSSE; and to track the computer and POSSE related issues encountered by staff and communicate how the issues are resolved.

We also determined that Fire Prevention does not have a system in place to identify and address future staff requirements. We recommended that they develop a process to regularly identify workforce needs and develop strategies to meet those needs.

Fire Prevention is required by the Alberta Fire Code to inspect all construction sites for new commercial development or commercial additions and to ensure they have adequate Fire Safety Plans. We found that they do not have a system in place to ensure all construction sites that require an inspection are identified, have a proper Fire Safety Plan and are actually inspected. We recommended that they develop a process to do this. We also found that Fire Prevention was not charging for inspections of flammable/combustible fuel tanks in accordance with Bylaw 13567, *Emergency Response Fees and Charges Bylaw*. We recommended that they charge for all services in accordance with the Bylaw.

4.1.3. Edmonton Transit System Shift Trades – Report issued January 20, 2009

The objective of this audit was to document and evaluate the shift trades practice used in the Edmonton Transit System Bus Operations Section. Edmonton Transit System Management implemented shift trade tracking in their dispatch system in late 1998. For the purposes of our review, we obtained and analyzed shift trades data for 2007 and for January through September 2008.

While the process in the Edmonton Transit System is commonly referred to as “shift trading,” it is better characterized, in at least some cases, as “shift selling.” While some operators may trade hour-for-hour with another operator, some bus operators indicated that it is common practice to ‘sell’ hours to another operator (paying the replacement operator). Significant numbers of shift hours have been traded or sold by Edmonton Transit System bus operators both in 2007 and through the end of September 2008. According to confidential sources, scheduled hours are typically ‘sold’ at \$18 to \$20 cash per hour. We used \$18 per hour to calculate total trade/sales values. (Note that this total value is not necessarily the amount of money that changed hands.) Edmonton Transit System had 1,500 to 1,600 bus operators in 2007-2008 (excluding LRT and DATS operators).

Table 1: Summary of Shift Trades Data

Description	2007	2008 (to September 30)
Number of employees selling scheduled hours	1,114	1,005
Total number of shift sales/trades	21,586	12,811
Total hours sold/traded	99,358.1	60,636.6
Value of total hours sold/traded (at \$18/hour)	\$1,788,446	\$1,091,459

Several operators have sold or traded much or most of their scheduled work to other operators. Management has allowed this practice in the interest of meeting service demands, but the end result is that operators are not being treated equitably. Some operators have essentially sold their jobs, but continue to receive employment benefits and accumulate pension credits. Other operators are working significant numbers of replacement hours, but the withholdings from their pay do not reflect their actual income. We believe that the most substantial issue in the current shift trades practice is that the City is not paying the operator who is actually driving the bus. The actual driver is recorded in the Edmonton Transit Dispatch System, but that information is not being passed to Human Resources Branch to ensure that the person who is actually driving receives their pay and benefits in accordance with all applicable legislation. The City is operating in violation of legislated requirements to record and report accurate work hours for each employee. In addition, the City is allowing some employees to accumulate full-time pension, employment insurance, and other employment benefits without actually working full-time. Current shift trade practices are contrary to the general principle of employment equity. We made three recommendations designed to reduce the City’s risk exposure with regard to compliance with legislation and to resolve the historical issues that have evolved over several years.

4.1.4. Review of City of Edmonton Ice Allocation and Booking Processes – Report issued March 31, 2008

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

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

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

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

We made five recommendations aimed at improving the efficiency of the ice allocation and booking processes and strengthening the internal controls related to these processes.

Five additional recommendations were made to improve the effectiveness of the ice allocation process in meeting its intended objective of providing fair and equitable access to ice to City residents.

Some of our recommendations will have an impact on user groups. Because of the positive and cooperative working relationship that exists between the City of Edmonton and these groups, we presented our report to the Arena User Committee, which represents the arena user groups on issues that relate to or potentially impact arenas. We also advised City Administration to discuss potential action plans in response to our recommendations with the Arena User Committee.

4.2. Branch Audits

Branch audits determine whether services and programs offered by a Branch operate efficiently, effectively and economically and whether risks are minimized. We completed an audit of the Human Resources Branch in 2008.

4.2.1. Human Resources Branch Audit – Report issued April 2, 2008

The Human Resources Branch's business objective is to develop and implement human resources strategies that will attract, develop and retain a diverse, engaged, productive, and talented workforce. Our audit objective was to determine if the services provided by the Branch are effective, efficient, and economical in addressing the human resource needs of the City of Edmonton.

Our audit results focused on the Branch's overall financial performance and on three high risk areas: staff recruitment, staff retention, and workforce succession planning.

Financial Performance

The Human Resources Branch's budget in 2007 was \$9.6 million. We researched other cities and found that the Human Resources Branch's cost per City employee in 2007 was \$872 per employee (Full and part-time) compared to the average of \$968 of the cities surveyed. The industry benchmark data further showed that the Human Resources Branch's costs in relation to the City's total operating costs are at the median level, meaning that 50% of those surveyed have higher cost ratios.

The Human Resources Branch staff levels have remained conservative since 2003 (up 3%) while civic administration staffing on the whole has grown by 16%. The Branch's staff ratios are comparable to the other municipalities we surveyed. The industry benchmark comparison showed that the Branch is staffed at the 75 percentile level (only 25% of other cities surveyed supported more staff per HR employee). Based on this analysis, we concluded that the Branch is operating in a cost effective manner.

Staff Recruitment

The Human Resources Branch has not achieved its targeted Time-to-Fill rate of 52 days, but at 56 days, it is within reason. We compared the City's actual Time-to-Fill rate to that of other cities and found that it is near the average. The Branch is moving forward to improve recruitment efficiency by introducing an electronic recruitment system. No external or industry benchmark information for recruitment costs was available for comparison, so we were unable to determine whether the Branch's recruitment services are economical.

The Branch's clients indicated varying levels of confidence in its ability to attract qualified candidates, which we believe reflects a very competitive labour market. Our recruitment process review found that the process is fair and open. The Branch has proactively engaged in several recruitment initiatives to support and promote a diverse labour workforce, such as the Employment Outreach program. Based on this analysis we concluded that the Branch has effective and efficient processes in place to recruit new employees.

Staff Retention

The City's turnover and resignation rates are in line with the other cities we surveyed. These rates are rising and associated cost impacts are increasing. We found that client confidence in the Human Resources Branch's retention strategies varied. The increase in employee turnover in the past few years and the competitive labour market undoubtedly affect clients' levels of confidence.

We concluded that the Branch is effective in helping the City retain employees; however, opportunities exist to increase effectiveness. To help increase effectiveness in retaining employees:

We recommended that the Human Resources Branch communicate to all employees the benefits and programs offered by the City that define it as an attractive workplace.

We recommended that the Human Resources Branch develop criteria, including timelines, for periodic compensation reviews.

We recommended that the Human Resources Branch determine acceptable turnover thresholds for each job family and monitor the actual turnover rates, taking appropriate action when a rate exceeds the acceptable level. They should also assess these thresholds periodically to ensure they are still appropriate.

Workforce and Succession Planning

The Human Resources Branch has made significant progress in workforce planning and the HR clients indicated a high level of awareness of these activities with overall moderate satisfaction ratings. We also believe the Branch's efforts have moved the City towards best practice in succession planning. Although not all business units have formal succession plans, the Branch is very aware of the need for such plans and is successfully moving the succession planning process forward. We believe it will take several years to culturally ingrain succession planning as an ongoing business planning practice.

We concluded that the Human Resources Branch is effective in supporting workforce and succession planning activities. We believe that the Branch must continue to focus on these efforts in order to further ingrain succession planning within the City.

We recommended that the HR Branch continue to implement the succession planning strategy and regularly monitor and report on progress on a corporate basis.

4.3. 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 audit 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 2008.

4.3.1. P3 Benefits & Risks – Report issued June 9, 2008

At its December 18, 2007 meeting, City Council passed the following motion: "That the Office of the City Auditor, in conjunction with the City Manager, assess the use of P3s (Public Private Partnerships) by municipalities and provide a report to Council advising of the benefits and risks that should be considered as part of P3 arrangements."

After our initial review of relevant P3 information, we determined that P3s are strategic in nature and complex in application. As such, in addition to advising on the benefits and risks of P3s, we expanded the content of this report to provide insight into what we believe are the key elements for the City to be aware of when considering P3 partnerships for the provision of public services.

P3s represent a fundamental shift in how the City can deliver services. It all starts with the overriding question:

Is the provision of public services through a partnership with private enterprise an acceptable service delivery model for the City of Edmonton?

If it is an acceptable service delivery option, then it is another alternative that the City can consider when determining the Optimal Service Delivery model for approved and prioritized municipal services. It is simply a service delivery option that can be appropriate to explore under pre-established conditions. The exploration requires due diligence and rigorous analysis to determine whether the P3 business case demonstrates best value for money and, as such, is the Optimal Service Delivery model to provide that service. This analysis should also consider additional criteria such as environmental, social, quality and safety considerations.

The P3 report did not contain any recommendations. However, in the event that Council wants the Administration to consider P3 partnerships for service delivery, we believe that the creation of a Service Delivery Policy would be the natural next step. A Service Delivery Policy is necessary to confirm authority and intent for the Administration to consider P3s as a service delivery option. Such a policy would provide consistency and transparency, and need to ensure fairness in assessing, managing, implementing, and monitoring P3 service delivery projects.

We believe the information compiled in the P3 report will assist Council in making an informed decision on whether P3s are right for Edmonton. If Council determines that they are an appropriate service delivery method, the content of the report will also assist the Administration with establishing a fair and transparent process to determine under what circumstances a P3 is the service delivery option that provides best value.

4.3.2. Bylaw Community Standards Grant–Report issued April 15, 2008

A Bylaw Community Standards Fund was approved by City Council as part of the 2008 operating budget exercise. Its purpose is to establish a yearly grant fund that provides money to small-scale projects organized by community groups or business associations to benefit communities by promoting safety, cleanliness and livability at a neighbourhood level. The Planning and Development Department requested our office to provide proactive control-related feedback on the grant allocation process and assistance in safeguarding the \$150,000 annual fund. Our overall objective was to ensure that all potential risks were identified and controls implemented to ensure that the Community Bylaw Grant Fund is safeguarded, fairly distributed and accounted for. Recommendations and feedback we provided have been incorporated in the Grant process.

4.3.3. Investment Funds Transfer – Report issued October 3, 2008

On May 1, 2008 the Treasury Management Section contacted the OCA to review its funds transfer process in light of an attempted fraud incident. An unsuccessful attempt was made to transfer \$3,000,000 in funds from the Custodian of one of the City's External Investment Managers. Within the City of Edmonton, wire transfers are facilitated by the City's Investment Management business unit and the City's Custodian for several purposes. Our objective for this review was to determine whether adequate controls exist relating to the process of funds transfers to and from City of Edmonton investment accounts. The fraud attempt demonstrated that in this instance the controls successfully prevented a theft. Based on our assessment of the controls, the likelihood of this kind of fraud being successful is low; however, it is still important that all parties have adequate insurance coverage should such an attempt actually succeed. We recommended that the City's Investment Management business unit require appropriate insurance coverage in future contracts with External Managers and that the City receive a certificate of insurance demonstrating the required coverage prior to contract execution. We also recommended that the Administration review and adjust the City's level of insurance coverage for wire and computer fraud loss.

4.3.4. First Place Edmonton Home Ownership Unit Draw - Report issued November 13, 2008

The City of Edmonton has initiated First Place – An Edmonton Home Ownership Program in partnership with the Government of Alberta, Edmonton Catholic School District and Edmonton Public School Board. This program is designed to help qualified first-time home buyers own their homes. It is intended to develop moderately priced two or three bedroom town homes in mature, serviced neighbourhoods for purchase by households that meet prescribed eligibility criteria. Two pilot sites were selected for implementation and the City will use the experience gained to enhance the implementation process for the remaining sites. The City's Working Committee requested us to provide proactive risk and control-related feedback on the unit draw process and observe the unit draw for the pilot sites. We confirmed that the unit draw process was accurate, fair and equitable, and was conducted in accordance with agreed upon procedures.

4.4. Follow-up Audits

We perform follow-up reviews to assess the adequacy, effectiveness, and timeliness of action taken by management on reported observations. Performing follow-up reviews is not only a strong governance and risk management practice; it is also mandated in the audit standards that we adhere to.

As the governing body for the internal audit profession, the Institute of Internal Auditors (IIA) maintains the *International Standards for the Professional Practice of Internal Auditing* and the profession's *Code of Ethics*. As an organizational IIA member, we are required to adhere to the *Standards* and *Code of Ethics*. These *Standards* require an audit follow-up process to determine the status of outstanding audit recommendations. This in turn provides the assurance that the intent of our recommendations has been accomplished.

Our audit monitoring program consists of reviewing the status of actions taken on recommendations in previously released audit reports with the appropriate management staff. It is intended to provide assurance that proposed action plans were or are being carried out and to assess the rationale where action will not be taken or has been delayed.

We completed the following six follow-up reviews in 2008.

4.4.1. Rundle and Hawrelak Park Concessions Review Follow Up – Report issued March 31, 2008 (Original Report issued January 20, 2005)

In 2005, we completed a review of the Rundle and Hawrelak Park Concession operations. The concession, paddle boat, and mini-golf attractions provided at Rundle and Hawrelak Park are sub-contracted. Our objective was to determine whether controls and systems were in place to ensure that revenues reported and submitted by the contractor were complete and accurate. Our 2005 review consisted of two main procedures. The first was to determine whether the revenue collected, reported and remitted by the contractor was in accordance with the terms and conditions contained in the contractor agreements. This was accomplished by reviewing the contracts and examining monthly contractor revenue submissions to ensure that revenues due to the City were recorded and received. The second procedure was to assess whether the information provided by the contractor is sufficient to enable spot checks and audits.

The original report contained one recommendation and action plan to implement the recommendation. Our follow up review determined that the recommendation contained in the original report has not yet been implemented. The recommendation is intended to improve the overall accuracy and completeness of contractor revenue reporting. Community Services has committed to a revised action plan that will address the recommendation in 2008.

4.4.2. Professional Services Agreements, Sole-Source Review Follow Up – Report issued April 22, 2008 (Original Report issued March 1, 2005)

In 2005, we performed a review to provide assurance that sole-source procurement of professional services was being used appropriately, in compliance with the established guidelines, and in the best interests of the City. Sole-source procurement is used to obtain a variety of professional services, ranging from small projects to complex engineering projects when one party enters into an agreement with another without a tender call or request for proposal. This type of agreement is justifiable and legitimate in several specific circumstances. There is however, a risk to the City that inappropriate use of sole-source procurement can violate the City's procurement principles of openness, transparency and best value.

Our original report contained seven recommendations that were intended to minimize the City's risk exposure to any perceived unfair contract awards and to strengthen the City's adherence to the Agreement on Internal Trade. Our follow-up review concluded that three of the recommendations were implemented and four recommendations are currently in the process of becoming fully implemented pending training to be delivered to the City's various operational areas. To date, we are aware that one session of training was successfully offered on March 31, 2008 and attended by 25 City employees. It is our understanding that there will be additional training sessions offered in the upcoming months. We will continue to monitor the progress in completing the outstanding recommendations.

4.4.3. City Archives Cash Handling Review Follow Up – Report issued May 7, 2008 (Original Report issued August 23, 2005)

In 2005, we completed a review of the cash handling operations at the City Archives facility. The City Archives is located in the Prince of Wales Armouries and is operated by the Recreation Facility Services Branch of the Community Services Department. The facility offers a small number of archival or historical related products and services. The facility also rents out meeting rooms and banquet facilities contained within the Prince of Wales Armouries.

The primary objective of the original report was to determine whether cash resources were handled in a manner consistent with established City requirements and whether they were adequately safeguarded against loss. Our original review observed two control deficiencies: that inventory records were not being maintained and that reconciliation to sales of inventory items was not being performed. These controls are necessary to minimize inventory shrinkage due to theft or error. Two recommendations were made within the original report to address these control issues.

Our follow-up review concluded that Community Services has implemented both of the recommendations contained in the original report. Inventory is now being recorded into the Point of Sale system. In addition, we confirmed that when sales of inventory items occur, they are appropriately being accounted for in the inventory system.

**4.4.4. Corporate Procurement Card Program Follow Up –
Report issued June 12, 2008
(Original Report issued May 29, 2006)**

In 2006, we completed a review of the City's corporate procurement card (CPC) program to determine whether the City is accomplishing its goals in implementing the program and to provide assurance that the City is adequately controlling the program. We concluded that the City is meeting its goal of providing an efficient and cost effective method of acquiring and paying for low value goods and services. We also made four recommendations to help strengthen the program.

Our follow-up review concluded that the City has implemented all four of the recommendations contained in the original report. The City has clarified what constitutes appropriate support documentation for CPC purchases, they have reinforced to users that personal purchases are a violation of the purchasing policy and they have provided up-to-date guidance on items that cannot be purchased using a CPC.

**4.4.5. Edmonton Police Governance 2nd Follow Up –
Report issued September 15, 2008
(Original Report issued April 20, 2005)**

We issued the Edmonton Police Governance Audit Report on April 20, 2005. That report contained 31 recommendations; 14 were directed to the City of Edmonton and 17 to the Edmonton Police Commission. The objectives of that audit were to review the governance roles, responsibilities and relationships of City Council, the Police Commission and the Police Service as they related to the policing program in Edmonton. Our first follow-up report issued on March 9, 2007 found that the City had completed actions to address all of the recommendations directed to them and the Commission had completed actions for 11 of the 17 recommendations directed to the Commission and was in the process of implementing the remaining six. The results of the second follow-up confirmed that the Commission has now fully completed all actions to address the remaining recommendations.

**4.4.6. Kinsmen Cash Handling Review Follow Up –
Report issued July 15, 2008
(Original Report issued May 9, 2005)**

We issued the Kinsmen Cash Handling Review report on May 9, 2005. We identified one opportunity for improvement, that recurring reports be generated to show patterns of cashiers' use of cash registers and that abnormal results be investigated. Our follow-up review indicated that the Branch has implemented the recommendation contained in our original report. In addition to their other controls, this will make them aware of inappropriate cash register usage and find indicators of cash handling problems or potential frauds.

5. Other Audit Activity in 2008

5.1. Introduction

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

5.1.1. International Fellowship Program

The OCA partnered with the Auditor General of Alberta in the Canadian Comprehensive Auditing Foundation's International Fellowship Program. This Program invites senior auditors from a partnering country's government audit office to acquire knowledge and experience in audit methodologies, techniques and practices for the purpose of transferring these to their colleagues upon their return home. Two participants from the State Audit Office of Vietnam joined our office from November 10, 2008 to November 28, 2008. At present, the State Audit Office of Vietnam has over 1000 officials and auditors with responsibilities to audit State and Municipal operations. We provided the two visiting auditors with an opportunity to understand and become familiar with the City of Edmonton and our audit practices. Both parties also gained from the experience by learning a different culture.

5.1.2. Cash Handling Reviews

We perform cash handling reviews to determine whether staff at 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. We 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 completed a cash handling review of the Coin Processing Centre in 2008. The Coin Processing Centre is the City of Edmonton's facility for sorting, counting and depositing all monies currently received from revenue producing business areas and facilities throughout the corporation. In total for 2007, the Coin Processing Centre sorted and counted just over \$26 million dollars of revenue. The report was provided to members of City Council. However, it was not discussed in a public forum as it is protected under the provisions of Sections 24 and 25 of the *Freedom of Information and Protection of Privacy Act*.

5.1.3. City Council Executive Assistants' Orientation

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

5.1.4. Audit Committee Orientation

On November 17, 2008, we provided a document (*Audit Committee Roles and Responsibilities Handbook*) to Audit Committee members and other members of Council to serve as a reference source when considering Audit Committee issues. The handbook outlines the governing relationships between City Council, Audit Committee, and the City Auditor and provides best practice information focusing on Audit Committee roles. These relationships were established through two City bylaws: 1) Bylaw 12300, *Procedures and Committees Bylaw*, and 2) Bylaw 12424, *City Auditor Bylaw*. The City of Edmonton's Audit Committee structure will change in 2009 to include the addition of two public members. City Council passed a motion on September 17, 2008 directing the Administration to bring forward amendments to the Procedures and Committees Bylaw 12300, which would add one person with a professional accounting designation and one citizen-at-large.

5.1.5. External Audit Support

Annually, we provide assistance to the City's External Auditors, Deloitte, in the audit of the City's financial statements. Coordinating our audit efforts with the external auditor provides benefits to the City, including avoiding duplicate work. We provide Deloitte with copies of our audit reports as required, helping them plan their financial statement audit. We are also using Computer Assisted Audit Techniques (CAATS) to extract the electronic data contained in the City's databases related to journal vouchers. The External Auditor uses this data to do further follow-up of journal vouchers that fall outside of prescribed criteria.

5.1.6. Police Commission Self-Assessment

Successful governance involves leading by example and setting the tone at the top. A successful Board monitors its progress towards achieving its priorities and strategic plan and periodically assesses whether course adjustments are required. This can be best accomplished through periodic self-evaluations. The Edmonton Police Commission took the proactive step of completing a self-assessment in 2007. The self-assessment process involved having each Commission member complete two surveys – A Commission Self-Assessment Survey and a Chair Evaluation. The Commission requested us to assist in evolving the process for 2008. We received and consolidated the 2008 Edmonton Police Commission self-assessment surveys and prepared a report of survey results for the Commission's consideration.

5.1.7. Leadership and Professional Development

To stay current in the industry, our staff undertakes a number of activities that promote the profession and our audit practices within the City. OCA audit staff actively supported the auditing profession throughout 2008 by chairing or serving on boards of directors or committees of professional audit-related organizations, including the Institute of Internal Auditors (IIA) Canadian Council, IIA Edmonton Chapter, and the Association of Local Government Auditors (ALGA).

6. Annual Fraud and Misconduct Hotline Report

The City's Fraud and Misconduct Hotline was implemented on January 2, 2007. Section 27(2)(g) of Bylaw 12424, *City Auditor Bylaw*, requires the City Auditor to provide the Audit Committee with periodic reports related to the overall hotline activity. This report summarizes the hotline activity for 2008.

6.1. Background

The City of Edmonton values integrity and ethics, and expects its employees to demonstrate civic values by working responsibly, being trustworthy and behaving ethically. However, the risk of fraud and misconduct is an inherent part of conducting business in all organizations, including the Public Sector. Measuring the total cost of occupational fraud is a difficult task because fraud is clandestine and can sometimes go undetected for many years.² According to the Association of Fraud Examiners, the typical Canadian organization loses 5% of its annual revenues to fraud every year.

During 2008, we were approached by several private and public sector organizations for advice in the establishment of hotline operations in their respective jurisdictions. As of December 2008, four other Canadian municipalities (Toronto, Ottawa, Windsor, and Calgary) have a hotline to report fraud and misconduct. The audit offices lead the hotline operation in all of these municipalities. This is consistent with leading practice organizations that provide a level of independence in the oversight role.

6.2. Hotline Operation

The City's Fraud and Misconduct Hotline has been promoted as an additional channel for employees to report alleged fraud or misconduct anonymously (if desired) and confidentially. The hotline is available 24 hours a day, seven days a week, all year round. Employees can provide reports using an online web reporting service or through professionally trained live agents via a toll free telephone service.

The hotline system provides the following eight reporting categories:

- Financial Reporting and Accounting
- Health and Safety, Environment
- Unethical Conduct and Conflict of Interest
- Manipulation or falsification of data, records, reports, contracts
- Harm to people or property
- Theft, embezzlement, fraud
- Violation of Laws, Regulations, Policies, Procedures
- Miscellaneous

² *Detecting Occupational Fraud in Canada: A Study of its Victims and Perpetrators*, 2007 by the Association of Certified Fraud Examiners.

The reporters are asked to indicate the category that best represents or describes the nature of their complaint when providing reports to the hotline. Employees are also asked to answer additional questions to validate the information provided and gather pertinent information should an investigation be initiated. Automatic e-mail notifications immediately alert authorized OCA employees to newly submitted or updated reports that are stored on the service provider's Canadian-based secure servers. The security of the system was reviewed by a team of City staff from the OCA, Information Technology and Law Branches as well as staff with privacy expertise.

When reports are received, authorized OCA employees conduct a preliminary screening to determine the disposition of the report in accordance with the Protocol document prepared and maintained by the City Auditor and the City Manager. Depending on the nature of the complaints, we decide whether to investigate the reports or refer them to the City Manager or relevant City Boards or Authorities. The case management system provides a variety of summary and detailed reports to facilitate tracking and reporting.

To ensure that all alleged fraud and misconduct reports we receive through all methods are tracked, monitored and reported using a common system, we input reports received from employees via the City's e-mail, telephone, general mail, etc. into the hotline system with a unique identifier. This method also provides an effective quality assurance tool for us to ensure that the hotline system is operating as intended. All such reports have been included in our 2008 Annual Fraud and Misconduct Hotline Report to provide comprehensive information on our 2008 investigative work.

6.3. Hotline Administration and Cost

Currently, existing internal resources administer the hotline in addition to their normal duties. Based on our current experience, additional resources will not be required to administer the hotline in 2009. We will continue to monitor the volume of complaints received through the hotline and other sources, the effort required to investigate them, and the impact on our ability to meet our 2009 and future Annual Plans that are approved by Council. The annual operating cost of the hotline will be approximately \$21,000 for 2009. We have been able to absorb this cost in our budget.

6.4. Hotline Activity

In 2008, we received 29 reports through the hotline, of which eight (28%) were through live agents, 20 (71%) were through the online web service, and one (1%) was through the hotline voice mail service. In addition four reports/complaints were received directly by us, three through a phone call and one via e-mail to our web site.

A total of 33 reports/complaints were received and reviewed for 2008. Of these, 31 (94%) have been closed and two (6%) are pending investigations.

The following table summarizes the reports received by the Hotline and the OCA for 2008 by report category.

Reports received by the Hotline and the OCA – January 1 to December 31, 2008

Report Category	Number
Financial Reporting and Accounting	0
Health and Safety, Environment	2
Unethical Conduct and Conflict of Interest	10
Manipulation or Falsification of Data	0
Harm to People or Property	3
Theft, Embezzlement, Fraud	5
Violation of Laws, Regulations, Policies, Procedures	11
Miscellaneous	2
Total	33

6.4.1. Disposition of Reports/Complaints

All 33 reports were screened by my office to determine their disposition in accordance with the Protocol document and appropriate City Policies and Administrative Directives. No action was taken on some reports due to insufficient information despite our attempts to obtain additional information through the hotline system. The system's interactive dialogue capability allows us to pose additional questions within the security of the web application while maintaining the employee's anonymity. Possible reasons for employees not providing the requested information are that they may not be checking the status of their report on the system, or they may not be able to substantiate their complaint and provide the required information.

Some reports provided tips that we can use on future audits. These reports, as well as those that did not have sufficient information to conduct an immediate investigation, will be used in future audits to design tests that may lead to improved controls within City operations.

Due to the nature of the complaints and the knowledge and expertise required, some reports that pertained to operational matters were referred to the Administration for investigation through the City Manager. In these cases, departmental management was asked to report back to us on the resolution and any action taken. We reviewed the results of these investigations prior to closing the reports on the hotline system.

The remaining reports on fraud and misconduct were investigated by us in accordance with internal procedures and guidelines, as well as professional standards. These cases were reviewed in detail and evidence gathered to confirm or dispel the allegation reported. We also consulted with internal experts from Corporate Security, the Law and Human Resources Branches, as well as appropriate departmental staff as required.

A number of reports received pertained to workplace issues that fall within the jurisdiction of the City Manager. In accordance with City Policy C522 and the Protocol document, these were referred to the City Manager for resolution, closed on the hotline system, and the employees who submitted the reports were informed accordingly. Our

research indicates that when hotlines are implemented, employees who feel that their complaints to management have not resulted in appropriate action use it as an additional avenue to elevate their complaint. This goal has been achieved since we were able to refer them to the City Manager for resolution. We are also making continuous efforts to educate City employees to report workplace issues to their supervisors and other City resources.

We also have regular meetings with the City Manager and the Director of Corporate Security to evaluate the nature of the complaints received and whether any corporate action needs to be taken. This forum will assist us in the future to focus on common areas of concerns identified through a trend analysis of all complaints received.

The following table summarizes the disposition of the 33 reports/complaints we received in 2008:

Disposition of Reports/Complaints – January 1 to December 31, 2008

Description	Number
No action taken (insufficient information, comments and inquiries on the hotline, follow-up on previously submitted report, etc.)	9
Tips provided that will be used in future audits	3
Referred to the City Manager (workplace issues, retaliation complaints, etc. that are outside the scope of the OCA)	7
Reports/Complaints Investigated	
• by the OCA	7
• by the Administration	7
Total	33

6.4.2. Investigation of Reports/Complaints

14 reports/complaints were investigated during 2008, seven by the OCA and seven by the Administration. 12 investigations have been closed. Two investigations were still in progress at year-end. For investigations conducted by the Administration, the protocol in place requires the individuals conducting the investigations to consult with the OCA to ensure appropriate investigative steps are followed. All findings from reports investigated by the Administration were also reviewed by the OCA to ensure that the investigations were thorough and applicable action plans were sufficient. Based on our review, we determined whether additional action was required prior to us closing the complaint. All employees participating in the review and/or investigation of these allegations were required to maintain confidentiality and comply with the *Freedom of Information and Protection of Privacy Act*. Employees who submitted the reports through the hotline were given the opportunity to provide additional information during the investigation.

6.5. Outcomes of the Completed Investigations

Of the 12 complaints that were investigated and closed, five allegations could not be substantiated and confirmed based on the information available. Therefore, no further action was taken.

The remaining seven allegations were substantiated and confirmed and resulted in the following outcomes.

Inappropriate usage of the internet

An employee was in violation of the City of Edmonton's Administrative Directive A1429 *Acceptable Use of Communication Technology*. The employee was disciplined in accordance with established City of Edmonton disciplinary procedures.

Abusive language and behavior

A supervisor used abusive language and behavior towards another employee. Management had conducted a thorough investigation of the incident as soon as they became aware of the incident and prior to receipt of the Hotline complaint. The supervisor was disciplined in accordance with established City of Edmonton disciplinary procedures.

Misuse of Petty Cash

An employee with custody over a petty cash fund was using this fund inappropriately. We determined that there was no documentation to account for \$252.19. The employee responsible for the petty cash fund was in non-compliance with the City's Code of Conduct and the City's Imprest Funds (Petty Cash) procedures. The employee was disciplined in accordance with established City of Edmonton disciplinary procedures. In addition, we made two recommendations to improve the controls over petty cash in other areas of the City.

Misuse of City Property

A violation of the City's Code of Conduct occurred when City employees were using City indoor ice free of charge for 1.5 hours per week to play hockey without proper approval. The investigation noted some procedural irregularities in shift changes. A coaching/counseling session was held with the appropriate staff to ensure compliance to both shift change procedures and the City of Edmonton Code of Conduct.

Theft of cash at City of Edmonton facility

In September 2008, Community Services sought our assistance in regards to an apparent theft of cash at one of their facilities. Our investigation focused on the identification of control weaknesses as well as assessing the losses sustained. The losses sustained over the three month period of June, July, and August 2008 was estimated at approximately \$2,100. The evidence prepared in this case was forwarded to the Edmonton Police Service (EPS) through the City's Corporate Security Office. We were informed through Corporate Security that EPS conducted an investigation but no criminal charges were laid since the evidence produced in light of deficient controls could not attribute personal accountability. In order to address the control weaknesses, we made two recommendations.

Inappropriate Employee conduct

An employee reported a colleague's unprofessional and aggressive behavior towards another coworker, which was observed by a number of employees from the same work group. The employee has been counseled on the City of Edmonton's respectful workplace practices.

Inappropriate comments

An employee had displayed inappropriate behaviour based on verbal exchanges which were considered sexual harassment by staff. The employee in question was issued with a counseling memo outlining coaching and counseling to be undertaken, training courses that must be completed, expectations of the City and repercussions if further unacceptable behaviour is detected.

6.6. Summary

The City's Fraud and Misconduct Hotline was implemented on January 2, 2007. Thus, 2008 was the second year in which the Hotline has been operating. The hotline is available 24 hours a day, seven days a week, all year round. Through City Policy C522, the City has been able to offer more formal protection to employees who make disclosures. The hotline has provided an additional channel for employees to report allegations of fraud and misconduct for investigation. Although it comes with additional cost and some level of nuisance calls since employees using the hotline are allowed to remain anonymous, the benefits outweigh the costs and risks involved. In its 2008 Report to the Nation on Occupational Fraud and Abuse, the Association of Certified Fraud Examiners found "that approximately half of fraud tips came through a hotline when that mechanism was available." The hotline's biggest benefit is that it serves as a deterrent. We will continue to work with the Administration to implement an effective ongoing communication strategy that promotes the hotline as part of the City's overall program for encouraging ethical behaviour and minimizing instances of fraud and misconduct.

7. Measuring our Performance

Just as we assess the performance of City Departments, the OCA is accountable for its performance in achieving its goals. While measuring an internal audit function has historically been difficult, we have implemented a range of performance indicators that are designed to provide assessments of both our internal business processes and our 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 customer relationships, internal business measures, learning and human resource measures, and financial measures. Each of these measures is an indicator of our success towards achieving our strategic vision and mission.

The following statistics provide an overview of our performance trends over the past five years. We have been able to maintain consistent performance during that time.

Performance Indicator	Industry	2004	2005	2006	2007	2008
Customer Relationships (client surveys)	(out of 5)					
Communication How well the client was informed of objectives, process, timeframe, and emerging findings.	N/A	4.4	4.4	4.4	4.6	4.6
Understanding of client's business How well the audit staff demonstrated their understanding of the client's issues and challenges.	N/A	4.3	4.3	4.4	4.6	4.4
Professionalism How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients.	N/A	4.7	4.6	4.6	4.6	4.7
Quality of findings Practicality, adequacy, and openness of communication with the clients	N/A	4.2	4.2	4.4	4.6	4.4
Overall average Client's overall assessment of the value received.	4.3	4.5	4.4	4.5	4.6	4.5

Performance Indicator	Industry	2004	2005	2006	2007	2008
Internal Measures						
% Recommendations accepted A measure of the value provided by the audit.	92%	95%	92%	100%	100%	100%
% Recommendations Implemented or Satisfactory Progress Observed During Follow-up A measure of the feasibility of recommendations.	83%	96%	97%	94%	90%	97%
% chargeable time vs. available time A measure of the available time worked on projects.	74%	76%	79%	83%	78%	75%
% of completed engagements to number scheduled A measure of office productivity.	80%	N/A	N/A	N/A	91%	90%

Performance Indicator	Industry	2004	2005	2006	2007	2008
Human Resources						
Days of City-funded training & development/employee A measure of staff commitment to maintaining and enhancing professional certifications and skills.	8 – 12	12.5	9.3	10.9	8.9	9.9
Percent staff certified or with advanced designations A measure of staff qualifications	64%	93%	93%	93%	93%	92%
Average years of audit experience A measure of staff commitment to the audit profession.	10 to 15	13.8	14.8	15.7	14.4	13.2

Office of the City Auditor Budget Performance – Year Ending 2008 – (\$000)

	Ytd Budget	Ytd Actual	Variance	Variance %
Total Expenses	\$1,943	\$1,747	\$196	10%
Total Revenues	0	0	0	0.0
Net Position	\$1,943	\$1,747	\$196	10%

Expenditure	(\$ 000)	Variance Explanation
Personnel	139	Two vacancies for part of year.
Material and Equipment	7	Due to savings on stationery, computer hardware purchases, and computer software maintenance.
Services	31	Internal staff used to conduct audits resulting in a saving of consulting fees.
Other/General Costs	19	Due to savings on telephone charges, travel and training, memberships, and professional fees.
Total	\$196	

Performance Indicator	Industry	2004	2005	2006	2007	2008
Financial						
% Actual vs. budgeted expenditures	90 to 110%	92%	93%	90%	90%	90%

8. Conclusion

I am proud of the OCA's contributions to the City of Edmonton in 2008 and our demonstrated commitment to continuous improvement and innovation. When selecting audit topics, we try to balance audits expected to yield cost reductions, increased revenue, improved services, and improvements in major control systems with projects that will address policy and management issues requiring attention. Our process for selecting audit projects also involves considering complaints we receive from a variety of sources, as well as concerns and requests from City Council, citizens and management. Our audit work is conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. These standards require due professional care in conducting audits, professionally qualified staff, independence, adequate supervision and planning of audit work, reporting of audit results, and periodic review of the office by outside professionals.

I acknowledge the support and keen interest in the work of the OCA that has been expressed by members of Audit Committee and City Council. It is critical that we are able to respond to the needs of Council. I value the strong, open relationship with the Audit Committee and City Council which is an important contributor to our success. I also appreciate the support and the cooperation that is extended to us by City Administration.

In closing, I wish to pay tribute to my staff. The audit task is never an easy one. The fact that we ultimately attained, and in some instances even exceeded, our organizational goals is a credit to all staff for the effort and hard work they put in. I would like to acknowledge and thank all staff members for their support, professionalism and dedication throughout 2008. I am confident that with the commitment and skills of my staff, the OCA will continue to meet the challenges presented in 2009 and contribute to improvements in performance and accountability in City operations.

Staff of the Office of the City Auditor

Gordon M. Babey
Chrisy Burton
Bill Cook
Paul Ebenezer
Leslie Glasbeek
Todd Horbasenko
Larry Laver
Rhonda Minchau
Beata Montgomery
Janine Mryglod
Almas Murji
Edwin Ryl
Thomas Wong
David Wiun