OFFICE OF THE
City Auditor

Office of the City Auditor
2009 Third Quarter
Activity Report

THE CITY OF
Edmonton

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1.   Introduction

Section 10(4) of Bylaw 12424, *City Auditor Bylaw*, requires the City Auditor to submit periodic reports summarizing the status of projects and the budget performance of the Office of the City Auditor (OCA). This *OCA Third Quarter Activity Report* provides the Audit Committee with the following information:

- Section 2 Progress Monitoring - an update of our progress toward completion of our Annual Work Plan
- Section 3 Summary of Completed Projects - summaries of completed projects finalized in this reporting period
- Section 4 Summary of Investigations – summaries of two investigations finalized in this reporting period
- Section 5 Projects in Progress - a brief status report of audits in progress
- Section 6 OCA 2010 Budget – a summary of our 2010 budget requirement

2.   Progress Monitoring

This section provides an update of our progress toward completion of our Annual Work Plan. The purpose of this section is to assist Audit Committee and Council in their governance role by enabling them to effectively monitor the OCA's progress towards completing the approved Annual Work Plan. Table 1 highlights our audit activity for 2009 up to the end of October. It is divided into project categories to provide a better understanding of the type of work that is associated with each project. Table 1 also indicates the reports that we presented at the three previous Audit Committee meetings in 2009. In 2009 to date, we have completed 21 projects.

Two audit reports, Edmonton Transit Shift Trades and Fire Prevention were discussed at the February 3, 2009 Audit Committee meeting.

Five audit reports were summarized in our First Quarter Activity Report (Planning and Policy Audit, Stolen Fare Product Investigation, Employee Business Expense Review, Edmonton Transit Branch Follow-up, and Operating Budget Process Review) and were discussed at the April 17, 2009 Audit Committee meeting.

Two audit reports, Snow and Ice Control Cost Effectiveness and Information Technology Corporate Review were presented as stand-alone reports at the June 29, 2009 Audit Committee meeting. Six additional projects were summarized in our Second Quarter Activity Report (Cash Theft Investigation – Facility X, Tender Conflict of Interest Investigation, Review of Payment Controls, Semi-annual Recommendation Follow-up, COBIT Reassessment, and Bylaw Community Standards Grant) and were also discussed at the June 29, 2009 Audit Committee meeting.

Three projects (Corporate Environmental Review, Audit of Privacy Controls for Laptops and Tablets, and Fleet Services Branch Follow-up) are presented for discussion purposes at this Audit Committee meeting. Full copies of these reports are attached to this Activity Report. Three additional projects (Occupancy Permit for a Commercial Building, Police Commission Self Assessment and U-Pass Review) are also summarized in this Activity Report.

Table 1 – 2009 Annual Plan Progress Monitoring

#	Project Title	Project Status	
		Audit Committee Discussion Date	**In Progress**
OCA Governance Reporting			
1	Office of the City Auditor 2008 Annual Report	April 17, 2009	
2	Office of the City Auditor First Quarter Activity Report	April 17, 2009	
3	Office of the City Auditor Second Quarter Activity Report	June 29, 2009	
4	Office of the City Auditor Third Quarter Activity Report	**Nov 23, 2009**	
5	Audit Committee Orientation	June 18, 2009	
6	Audit Committee Bylaw	**Nov 23, 2009**	
7	Office of the City Auditor 2010 Annual Plan	**Nov 23, 2009**	
8	Office of the City Auditor 2010 Budget	**Nov 23, 2009**	
Branch Audits			
9	Planning and Policy Audit	April 17, 2009	
10	Edmonton Transit Branch Follow-up to the 2006 Audit	April 17, 2009	
11	Information Technology Corporate Audit	June 29, 2009	
12	Fleet Services – Follow-up to the 2007 Audit	**Nov 23, 2009**	
Prioritized Projects			
13	Fire Prevention	February 3, 2009	
14	Operating Budget Process Review	April 17, 2009	
15	Employee Business Expense Review	April 17, 2009	
16	Snow and Ice Control Cost Effectiveness	June 29, 2009	
17	Semi-annual Recommendation Follow-up	June 29, 2009	
18	U-Pass Review	**Nov 23, 2009**	
19	Corporate Environmental Review	**Nov 23, 2009**	
20	Consulting Services Review		✓
21	Audit of Privacy Controls for Laptops & Tablets	**Nov 23, 2009**	
22	Vehicle Take Home Permits		✓
Information Technology Audits			
23	IT Control Framework (COBIT) Reassessment	June 29, 2009	
24	Password Reset and Single Sign on		✓
Investigations			
25	Stolen Fare Product Investigation	April 17, 2009	
26	Cash Theft Investigation – Facility X	June 29, 2009	
27	Review of Occupancy Permit for a Commercial Building	**Nov 23, 2009**	
28	Fraud and Misconduct Hotline Administration – Ongoing		✓
29	Fraud Risk Assessment/Fraud Awareness and Training		✓
Emerging Requests			
30	Edmonton Transit Shift Trades	February 3, 2009	
31	Review of Payment Controls	June 29, 2009	
32	Tender Conflict of Interest	June 29, 2009	
33	Bylaw Community Standards Grant – Pilot Program	June 29, 2009	
OCA Knowledge/Leadership Sharing			
34	International Fellowship Program	June 29, 2009	
35	Chinese Delegation Presentation	June 29, 2009	
36	Police Commission Self Assessment	**Nov 23, 2009**	

3.   Summary of Completed Projects

The following five projects were completed during this reporting period and are summarized below.

3.1.   Corporate Environmental Review

This review focused on the City's corporate environmental governance framework and selected strategic objectives contained in the *2008 EcoVision Annual Report.*

Overall, we found that the City's environmental governance framework is an appropriate framework to manage the achievement of environmental strategic objectives. The framework is accountable, transparent, has defined roles and responsibilities for the committees involved, and allows for the prioritization and allocation of resources. The City also has developed environmental strategic objectives and performance targets, is collecting data, and is reporting on results.

We did find that the reported results are not presented as a formal report to Council. We believe it is important that Council receive formal reports on the achievement of environmental objectives. This gives City Council members an opportunity to ask questions and provide feedback on the achievement of objectives.

In our evaluation of a sample of environmental strategic objectives, we found that the City needs to ensure that for each objective they are reporting relevant indicators that will show the achievement of the objective, and that there are sufficient indicators to report on all the components of the objective. Also, we believe that as part of this process the City should assess how other cities and levels of government are reporting on similar objectives.

For each strategic objective we selected, we chose one indicator that related to the objective and assessed it for reliability, accuracy, and completeness. We also assessed the process used to determine the targets for each indicator. We did not find any issues with how targets were selected, but we did find that in three of the five indicators we selected, there were issues with the accuracy, completeness, and/or reliability of data used to calculate the results. The indicators we found issues with are:

- tonnes of greenhouse gas emitted in Edmonton,
- percent of new homes built in mature neighbourhoods, downtown and premium transit locations versus the suburbs, and
- the mode split to central areas.

A full report outlining the detailed results of our review is attached.

3.2.　　　Audit of Privacy Controls for Laptops & Tablets

The City of Edmonton uses laptop and tablet computers (mobile devices) to carry out its routine business. Some of these mobile devices contain personal information (recorded information about an identifiable individual). At the end of 2008, the City had 859 laptop and 345 tablet computers in use. Over the last four years, the City estimates that it has lost one mobile device per month. We found that only 50% of the stolen or missing devices are investigated. We also found that, with one exception in the last four years, the City did not specifically determine whether the lost or stolen mobile devices contained any personal information. When a mobile device containing personal information is lost or stolen, a privacy breach occurs. The City must ensure that the personal information they collect and store is continually protected, as required by privacy legislation.

We conducted an audit of privacy controls to provide assurance that appropriate safeguards are in place to protect personal information residing on the City's mobile devices. Our overall assessment of internal controls over personal information on the City's mobile devices is that:

- The City has implemented reasonable *physical controls* to protect personal information on mobile devices. We have suggested some opportunities for improvement to enhance these controls.
- The City has not implemented reasonable *technical* and *administrative controls* to protect personal information on mobile devices. Specific control weaknesses are discussed within the report so that they can be addressed by the Administration.

We believe that the root cause of the gaps between a strong internal control environment and the City's actual practices is the lack of clarity in roles, responsibilities, accountabilities and authority for managing personal information on mobile devices. We have also identified several attributes to strengthen the corporate investigation process to ensure that it is both effective and timely.

A full report outlining the detailed results of our review is attached.

3.3.　　　Fleet Services Follow-up

In 2007, we completed a branch audit of the Fleet Services Branch. Fleet Services provides comprehensive equipment services for all City Departments, EPCOR, Alberta Health Services, Edmonton Public Library and the Edmonton Police Service. On November 28, 2008, City Council passed a budget motion for Fleet Services to reduce its budget by $4 million dollars, and transfer this money to departments as a tax levy reduction. Council further directed the OCA to verify these efficiency savings.

The objective of the original Fleet Services Audit was to provide assurance that Branch services were being delivered in an effective, efficient and economical manner and determine whether risks within the Branch were being managed to an acceptable level. We found that mechanic productivity was declining and that Fleet Services clientele were unsatisfied with equipment downtime levels. We identified the need for process

improvements in equipment needs planning, warranty recovery and equipment inventory management.

Through our follow-up audit we observed that Fleet Services budget expenditures have grown by $30.2 million in the last two years, after being reduced by $6.0 million dollars through Council directed savings. City fleet growth, inflation, and increasing fuel costs are the key factors increasing the Fleet Services budget. For 2009, Fleet Services is projecting a positive expenditure variance of $8.1 Million ($5.6 Million for fuel and $2.5 Million in operating cost savings); however the actual cost savings will not be known until after the 2009 fiscal period.

Improvements have been made by Fleet Services in customer communications as illustrated by greater customer engagements in projects, customer forums and surveys. Fleet Services has improved a number of key processes such as equipment planning, inventory control, and warranty recovery.

Fleet Services continues to work on addressing system performance reporting issues, which have created a barrier to measuring operational performance and reporting on productivity and equipment downtime. This lack of ability to measure and monitor operational performance has prevented Fleet Services from establishing operational baselines which are necessary to establish reasonable service delivery targets.

Fleet Services commissioned an independent review of current fleet replacement practices that included a 25-year replacement plan and the development of a dedicated fleet replacement reserve. Council approved the creation of this reserve to ensure that the long-term funding of capital replacement needs is adequately maintained. Also, Fleet Services has committed to an implementation date of January 1, 2010 for a new pricing model for all customers, which we believe, can simplify billing and ultimately reduce costs.

Of the twelve recommendations, nine have been satisfied and three are in progress. The OCA will monitor the progress towards full implementation of these recommendations and report the results to Council.

A full report outlining the detailed results of our review is attached.

3.4.   Police Commission Self Assessment

For a second year the OCA has supported the Edmonton Police Commission's self-assessment exercise. The Commission monitors its progress towards achieving its priorities and strategic plan and annually assesses whether course adjustments are required. The self-assessment process involved having each Commission member complete two surveys – A Commission Self-Assessment Survey and a Chair Evaluation. The Commission initially requested us to assist in evolving the process in 2008 and now again in 2009. We received and consolidated the 2009 Edmonton Police Commission self-assessment surveys and prepared a report of survey results for the

Commission's consideration. The report was presented at the Commission's October 22, 2009 meeting.

3.5. U-Pass Review

The Universal Transit Pass (U-Pass) provides eligible students enrolled at the University of Alberta and Grant MacEwan College unlimited access to regular Edmonton, St. Albert and Strathcona County transit services. As the three-year pilot for the U-Pass program is set to expire in April 2010, we performed a review focused on identifying the additional revenues and costs of the U-Pass program and determined the impact to Edmonton Transit Services' (ETS) overall operations.

In July 2009, we provided the results of this review to City Council, ETS, and to the members of the U-Pass Advisory Committee. ETS referenced our report as part of their September 15, 2009 U-Pass – Pilot Program Evaluation study. The "U-Pass – Pilot Program Evaluation" was addressed at the October 6, 2009 Executive Committee meeting. In addition, on October 14, 2009, City Council approved an approach for continuation of the U-Pass program, with the U-Pass price adjusted upwards to better reflect actual program costs.

4. Summary of Investigations

City Policy C522 – *Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection* sets out the City's guidelines on reporting and investigating alleged fraud and misconduct. According to this policy, the City Auditor is responsible for investigating allegations of fraud and misconduct. Below is an update to an investigation completed last quarter and a summary of one investigation completed during this reporting period.

4.1. Facility X Cash Theft Investigation

On May 5, 2009, we reported that we had concluded our investigation into a potential cash theft at Facility X and had determined that the amount stolen was approximately $13,700. We reported that the ex-employee had been charged with theft under $5,000. Law Branch submitted documentation from both Corporate Security and our office to support the City's claim to the Provincial Court and requested that the Court order restitution in the amount of $13,700.

At the time we released the report, the case was still before the criminal court, so we did not identify the facility (Millwoods Recreation Centre). The case recently concluded with the ex-employee pleading guilty and being sentenced to 18 months suspended sentence and 18 months probation, ordered to refrain from any contact with Millwoods Recreation Centre, and ordered to provide restitution of $1,000 to the City by November 11, 2010.

4.2. Occupancy Permit for a Commercial Building

In response to a citizen complaint, the OCA reviewed the basis under which an occupancy permit was issued for a commercial building. This project was undertaken as an emerging request. We focused on determining whether the City's Planning and

Development Department prematurely issued the occupancy permit; whether the City's process is transparent and processes are in place to respond to complaints received; and whether there is evidence of non-compliance with the City's process and procedures for issuing occupancy permits.

We reviewed information provided by the complainant, relevant legislation, schedules and drawings provided to the City by other professionals as well as the City's inspection records. We also interviewed City staff who were involved in the issue of the occupancy permit as well as individuals who accompanied them on site visits. Lastly, we had discussions with employees of two Provincial agencies that also responded to complaints relating to the building.

Based on our review, we found that the Planning and Development Department employees followed the City's process and procedures in issuing the occupancy permit. We did not find evidence of ethical concerns or non-compliance during the issue of this permit.

5.   Projects In Progress

We have a number of projects in various stages of completion. The following three projects should be completed by the first quarter of 2010.

5.1.   Vehicle take-home permits

A vehicle take-home permit authorizes a City employee to take home a City vehicle that is required for essential City business. The procedures and guidelines are governed by City policy A1421 - Vehicle Take-Home Permits. The objectives of this project are to review the adequacy of the policy, assess the monitoring practices & compliance to the policy, and assess the cost effectiveness and efficiency of providing employees with a take-home vehicle.

We have completed the planning phase of this review and are targeting the release of the final report in the first quarter of 2010.

5.2.   Consulting Services Review

Our objectives for this review are to assess the value the City receives from the use of consultants and to determine whether the City's procurement and accounting practices effectively support monitoring and accurate, consistent reporting on consulting service expenditures.

Organizations use consultant services for a variety of reasons, including: lack of specific skills or resources internally; lack of knowledge on how to approach the task; and desire for an independent or objective point of view on an issue. When used correctly and in the appropriate circumstances, consulting services can provide significant benefit to an organization. However, to optimize the benefits, the organization must effectively manage risks such as lost opportunities to develop skills and knowledge in-house and increased costs.

We assessed 81 consulting service engagements selected from 2008 expenditures recorded in SAP. We reviewed documentation for each engagement that covered all phases of the consultant engagement process from defining the need for consultant services to project deliverables and post project evaluation.

We facilitated eight stakeholder assessment sessions, attended by more than 50 City employees, to supplement our assessments. We used anonymous voting technology to obtain individual assessments on the use of consulting services generally and specifically on eight consulting service engagements.

We are currently analyzing the results of these exercises and plan to release the final report before the end of the year.

5.3.   Password Reset and Single Sign on

The Information Technology Branch (ITB) initiated a multi-year Identity Management program with the goal of improving and streamlining the processes for confirming the identities of employees and citizens accessing City information and services. The OCA has been providing proactive risk and control-related advice to the working committee responsible for this program. Our overall objective is to ensure that all potential risks are identified, and automated and procedural controls have been implemented to minimize the risk of unauthorized access to City information. In 2009, ITB focused on implementing two initiatives for City employees, Self Service Password Reset and Single Sign On.

Password Reset, which has been fully tested and implemented, allows employees to unlock or reset their Windows account password if they forget it or become locked out of their account. They do not have to call the City's Inside Information group to have their password reset or account unlocked. The application verifies their identity based on answers they provided when enrolling in this initiative. The OCA worked with ITB staff to ensure that all required controls were in place prior to ITB making this service available to employees.

Single Sign On, which is in the implementation phase, will allow network users to use a single password to log into in-scope applications and websites that they have access to. The application will store and confirm a user's ID and password and log the user into the desired application or website. In view of the increased risk to the City's information, the OCA planned and facilitated two risk and control assessment sessions using guiding documents published by the IT Governance Institute through the Information Systems Audit and Control Association (ISACA), to assess the City's existing environment and recommend changes prior to the implementation of Single Sign On. IT staff that participated in the sessions identified six high-risk areas, which the OCA presented to the City's Chief Information Officer for implementation. Four of the six high-risk areas have been addressed, one is in the process of being implemented and the remaining one, a service review, will be addressed after Single Sign On has been implemented and adequate data has been collected. The OCA will continue to provide control-related advice to the working committee as required.

6. OCA 2010 Budget

Bylaw 12300, Procedures and Committees, Section 165.2(a)(ii) states: "The Audit Committee…reviews and makes recommendations to Council about…the City Auditor's annual budget request."

We have submitted our complete budget documents through the administrative budget process for formal consideration during City Council's 2010 Budget deliberations. We conducted a line-by-line review of our budget requirements for 2010. This resulted in reductions in the budget requirements for most expenditure categories other than personnel and intra-municipal services. Personnel costs account for 90% of our 2010 budget.

There are no additional service package requests with our 2010 budget and our overall budget requirement increased by 2.9% from 2009 to 2010.

Our budget requirement for 2010 is provided below. We are recommending that Audit Committee recommend to City Council the approval of our 2010 Budget.

Notes	2008 Actual	2009 Budget	Revenue & Cost Impacts*	Service & Budget Review	Service Needs	2010 Budget	% Change '09-'10	F
Revenue & Transfers								
User fees, Fines, Permits, etc.	-	-	-	-	-	-		
Grants	-	-	-	-	-	-		
Transfer from Reserves	-	-	-	-	-	-		
Total Revenue & Transfers	-	-	-	-	-	-		-
Expenditure & Transfers								
Personnel	1,568	1,719	83	-	-	1,802	4.8	
Materials, Goods & Supplies	41	46	(6)	-	-	40	(13.0)	
External Services	41	49	(6)	-	-	43	(12.2)	
Fleet Services	-	-	-	-	-	-		
Intra-municipal Services	40	45	2	-	-	47	4.4	
Other Charges	57	77	(17)	-	-	60	(22.1)	
Transfer to Reserves	-	-	-	-	-	-		
Subtotal	1,747	1,936	56	-	-	1,992		
Intra-municipal Recoveries	-	-	-	-	-	-		
Total Expenditure & Transfers	1,747	1,936	56	-	-	1,992	2.9	
Net Operating Requirement	1,747	1,936	56	-	-	1,992	2.9	
Full-time Equivalents	15.0	15.0	-	-	-	15.0		

* Cost Impacts includes: inflation on personnel and non-personnel costs, annualization, adjustments based on performance. Revenue Impacts relate to rate and volume changes.