

# **Office of the City Auditor**



## **2010 Annual Report**

### **March 18, 2011**

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>

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## 1. Message from the City Auditor

I am pleased to present the Office of the City Auditor's Annual Report for the year ended December 31, 2010. Our mission is to add value to the City of Edmonton by promoting accountability, cost-effective municipal services, and ethical practices. Recommendations made in our 2010 audits helped to achieve this mission.

Our audits for this past year examined issues such as the City's control practices for managing overtime; the use of resources in managing the City's urban forest; the effectiveness of procedures and processes for issuing development permits and approving Cornerstones grants; the City's 311 Call Centre operations; the adequacy of the vehicle take-home directive, and the governance and financial operating control processes of the City of Edmonton's Non-Profit Housing Corporation.

### **What actions were taken because of our audits?**

Our audits identify significant issues and provide practical recommendations to improve the City's operations and services. In 2010, the Administration agreed to implement 100 percent of our audit recommendations. In many instances, the Administration took action prior to our audit report being discussed at an Audit Committee meeting.

I am pleased to report that the City has made significant progress in several areas that we reported on during the past year.

#### ***Tighter management of overtime***

The Administration took our Overtime audit report seriously and immediately took a number of actions to improve the control and monitoring of overtime expenditures. They introduced a number of reports that provide improved information on overtime usage at the section and individual level. Those reports have helped to facilitate improved supervisory and managerial reviews of the use of overtime throughout the organization. In addition, all Directors were required to review overtime usage within their Sections to identify the root causes of overtime and actions that would limit the requirement for overtime. Some of the recommended strategies from the Director's reviews were new shift scheduling, using temporary staff, and changing the way work is performed. As a direct result of the recommendations from our Overtime review and the comprehensive actions undertaken by Administration, an estimated \$900,000 in cost savings occurred in 2010. The service and budget review process for 2011 captured these savings. In addition, it is estimated that changes to work practices will result in saving \$1 million in capital funds in 2011.

#### ***Development of Corporate 311 Guidelines***

As part of our 311 Call Centre review, we recommended that corporate guidelines be developed that set out roles, responsibilities, and service expectations for processes that require action by operational areas. Since our report was released, the Administration has completed formal guidelines for maintenance of 311 agent scripts. The guidelines outline a process of ensuring training materials and 311 scripts remain accurate and up to date, including a formal signoff process for any changes to scripts. In addition, the 311 Governance Committee has approved guidelines for identifying services that are or should be part of the 311 service model. Analysis has commenced on the requirements to improve the handling and tracking of service requests from 311 to the various operating departments.

***New Vehicle Take Home Directive***

As part of our review of Vehicle Take Home Permits, we concluded that the *Vehicle Take-Home Permit Directive* needed to be enhanced. The original *Vehicle Take-Home Permit Directive* was adopted on September 24, 1992. In our review of the directive, there were certain clauses which were not clear or complete. The directive also contained terms and clauses that were outdated and/or were no longer relevant. This led to inconsistencies in applying the directive. A new *Vehicle Take-Home Directive* was approved by the City's Corporate Leadership Team in October 2010. The new directive addresses our concerns around clarifying expectations for employees to ensure that vehicles taken home are effectively identified and properly managed to minimize risk.

***New Quality Management Plan for the City's Fire Prevention Unit***

In 2009, we reviewed the City's Fire Prevention Unit and recommended that they prepare a new Quality Management Plan (QMP). The QMP outlines the methods and scope for the completion of fire inspections to ensure buildings are in compliance with the Alberta Fire Code. We found that Fire Prevention was not able to meet the targeted number of inspections included in the QMP due to the amount of non-QMP activities being performed by Fire Prevention Officers. Based on our recommendations, Fire Prevention completed a comprehensive risk assessment of the Fire Prevention program and in August 2010, City Council approved a new QMP that limits the City's exposure to liability.

***Improved governance discussion of City-owned non-profit housing organization***

Our review of the City of Edmonton Non-Profit Housing Corporation's (homeEd) governance found that its board governance practices were not in line with governance best practices for similar organizations. This was due to an unclear role for the Board as a result of City staff managing the operations of the organization. In order to clarify the role of the Board and improve the governance of homeEd, its Articles of Incorporation need to be updated. The decision on how homeEd's Articles should be updated is up to its Shareholder. The Shareholder of homeEd is the City of Edmonton, as represented by City Council. As a result of our recommendations, homeEd held its first Shareholder meeting in 33 years in July 2010. The meeting led to a motion to develop a governance model and policy framework for homeEd.

**Delivering high quality, innovative and cost-effective audit services**

In addition to producing high-impact audit reports and providing a number of advisory services, we had several notable accomplishments during the year, many of which are highlighted within this report. These accomplishments include attaining the highest available rating for compliance to the *International Standards for the Professional Practice of Internal Auditing* from an independent external quality assessment consultant. We have also maintained and enhanced our reputation for leading edge audit work, as evidenced by the number of local, national and international partnerships we have formed.

## Looking Ahead

I am confident that the City is taking the risks and mitigating controls we identified in our 2010 reports seriously. In late 2010, the City Manager sent a strong message to all managers regarding the need for solid oversight practices. These practices will help to ensure that the City is managing its resources effectively and efficiently.

Another indicator that oversight is being improved within the City is that since enhancing the process for following up on our recommendations, we have seen an increase in the percentage of recommendations that are being closed. We believe this improvement is a reflection of senior management's commitment to implement actions to address our recommendations in a timelier manner.

We will continue to focus our audits on promoting strong internal controls that result in secure, efficient, effective and economical City operations and services. This will assist in providing assurance that taxpayer's dollars and resources are protected and used appropriately.

## 2. City of Edmonton Audit Governance

One of our greatest accomplishments is our ability to relate effectively and openly with members of Audit Committee, City Council and the Administration. These relationships have gone far in ensuring that the OCA's recommendations: 1) address significant issues, 2) are adopted and implemented by management in a cost-effective manner, and 3) will lead to enhanced delivery of services by the City to its citizens.

The City of Edmonton's current audit governance structure is an important factor in ensuring that we have the ability to improve accountability and deliver insight into the use of taxpayers' money and resources. The City's audit governance structure promotes a high degree of oversight, accountability, and transparency.

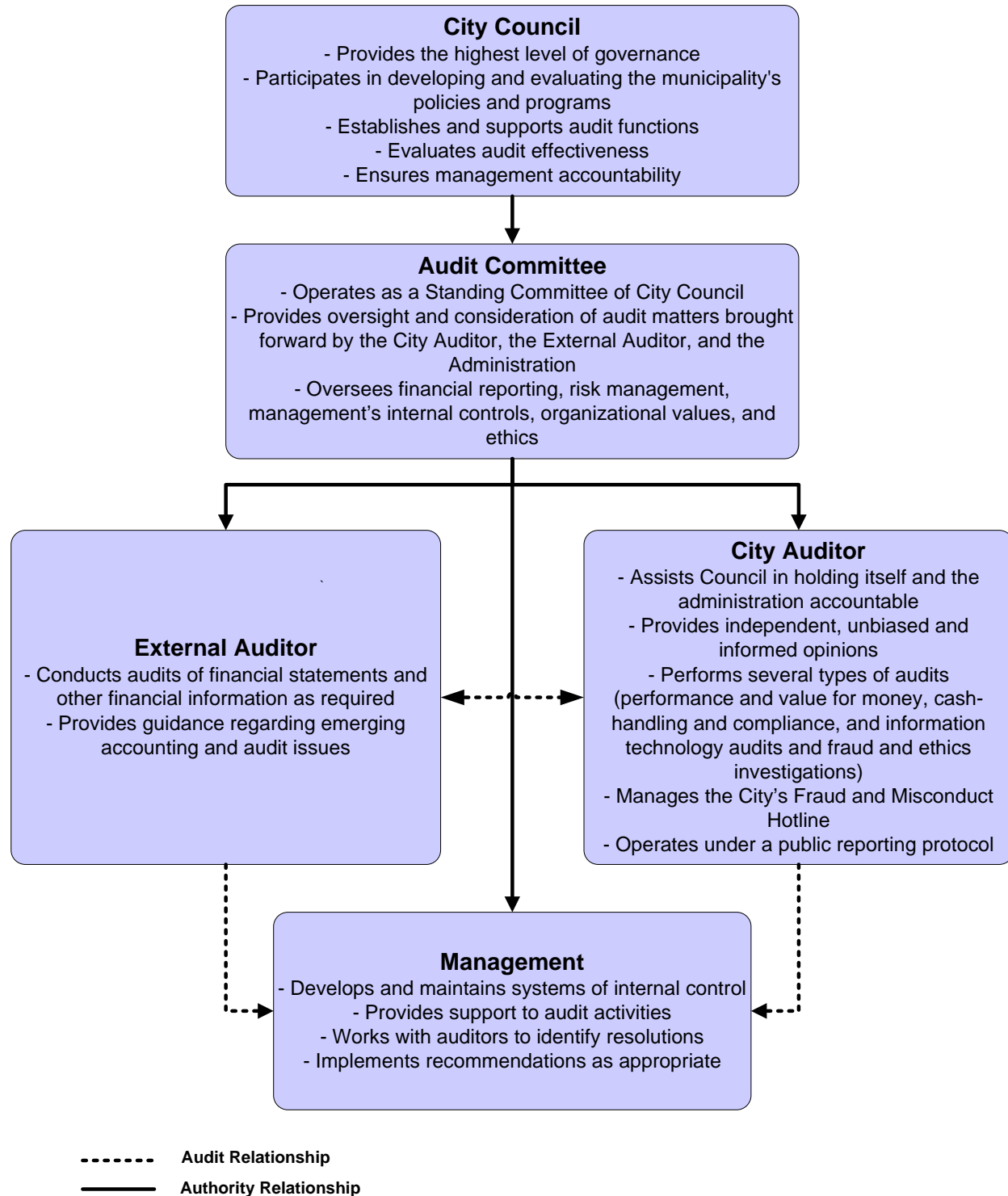
The City of Edmonton's audit legislative framework includes the following documents:

- The *Municipal Government Act* (MGA) establishes Council's principal roles and sets out its general powers and duties. The MGA provides Council the authority to establish and delegate responsibilities to Committees.
- *Bylaw 12424, City Auditor Bylaw*, prescribes the powers, duties and functions of the City Auditor. In 2000, Edmonton's City Council proactively established the City Auditor position as a designated officer for the purpose of internal auditing, pursuant to section 203 of the *Municipal Government Act*.
- *Bylaw 15310, Audit Committee Bylaw*, prescribes the powers, functions, duties, structure and procedures for Audit Committee. The City of Edmonton's Audit Committee provides oversight and support to the Office of the City Auditor.

Figure 1 on the following page provides a high-level overview of audit roles, responsibilities, and interrelationships of City Council, Audit Committee, Management, the City Auditor, and the external auditor. It conveys that the audit governance of the City of Edmonton is not the responsibility of a single group, but is shared amongst several groups.

The City's current audit framework enables these five groups to work together to achieve an effective governance environment. The goal of each group, individually and collectively, is to ensure that the City effectively achieves its goals while providing assurance that operations are being conducted in an appropriate and cost-effective manner.

**Figure 1 – Audit Governance Relationships**





### 3. Adherence to Professional Standards

We follow the *International Standards for the Professional Practice of Internal Auditing (Standards)*, established by the Institute of Internal Auditors (IIA). These *Standards* are the internationally accepted criteria by which the operations of internal audit departments around the world are evaluated and measured.

Bylaw 15310, *Audit Committee Bylaw*, Section 10(3)(c) states that Audit Committee has authority to “receive an annual report from the City Auditor demonstrating that the Office of the City Auditor is in full compliance with professional standards, including professionalism and competency.”

In 2010, to further demonstrate our compliance with the professional auditing standards and per Bylaw 12424, *City Auditor Bylaw*, Section 11(1) that states that “the City Auditor will arrange for peer reviews at intervals not to exceed five years,”

PricewaterhouseCoopers LLP performed an External Quality Assessment of our office. The objectives of the External Quality Assessment were twofold:

- Assess compliance with the Institute of Internal Auditors (IIA) Standards; and
- Compare the Office of the City Auditor (OCA) to leading internal audit practices in public and private sector organizations to highlight strengths and identify areas for improvement in seven core areas (Quality Assurance, Organization, Human Resources, Working Practices, Information Technology, Communication & Reporting, and Knowledge Management).

The assessment included the entire spectrum of audit and advisory services provided by the Office of the City Auditor. PricewaterhouseCoopers LLP met with Members of Audit Committee, City Council, Senior Administration, and OCA staff as stakeholders to consider their input as part of their evaluation. The external quality assessment had a broad scope of coverage:

- Conformance with the Definition of Internal Auditing; the Code of Ethics; the Standards; and the Office of the City Auditor’s bylaw (charter), plans, policies, procedures, practices, and applicable legislative and regulatory requirements,
- Expectations of the Office of the City Auditor expressed by City Council, senior management, and operational managers,
- Integration of the Office of the City Auditor into the City’s governance process, including the relationships between and among the key groups involved in the process,
- Tools and techniques employed by the Office of the City Auditor,
- Mix of knowledge, experience, and disciplines within the staff, including staff focus on process improvement, and
- Determination as to whether or not the Office of the City Auditor adds value and improves the City’s operations.

Based on the IIA's rating system for assessing an internal audit department's conformance to its *Standards*, PricewaterhouseCoopers LLP confirmed that we "Generally Conform" to all the Standards. This is the highest rating that an internal audit office can achieve with respect to the standards per the ratings established by the IIA.

	<b>Standards Conformance Evaluation Summary</b>	<b>GC<sup>1</sup></b>	<b>PC<sup>2</sup></b>	<b>DNC<sup>3</sup></b>
	<b>Attribute Standards</b>			
1000	<b>Purpose, Authority, and Responsibility</b> <i>The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.</i>	✓		
1100	<b>Independence and Objectivity</b> <i>The internal audit activity must be independent, and internal auditors must be objective in performing their work.</i>	✓		
1200	<b>Proficiency and Due Professional Care</b> <i>Engagements must be performed with proficiency and due professional care.</i>	✓		
1300	<b>Quality Assurance and Improvement Program</b> <i>The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.</i>	✓		
	<b>Performance Standards</b>			
2000	<b>Managing the Internal Audit Activity</b> <i>The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.</i>	✓		
2100	<b>Nature of Work</b> <i>The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.</i>	✓		
2200	<b>Engagement Planning</b> <i>Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.</i>	✓		
2300	<b>Performing the Engagement</b> <i>Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.</i>	✓		
2400	<b>Communicating Results</b> <i>Internal auditors must communicate the results of engagements.</i>	✓		
2500	<b>Monitoring Progress</b> <i>The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.</i>	✓		
2600	<b>Management's Acceptance of Risks</b> <i>When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive must report the matter to the board for resolution.</i>	✓		

The entire External Quality Assessment report can be found on our website at <http://edmonton.ca/auditor>.

<sup>1</sup> "Generally Conforms": an audit office's structures, policies, procedures, and processes are assessed to be in compliance with the Standards.

<sup>2</sup> "Partially Conforms": an audit office is making good-faith efforts to comply with the requirements of the Standards, but some practices do not comply.

<sup>3</sup> "Does Not Conform": significant deficiencies exist whereby an audit office has little potential to be effective or to add value.

## 4. Projects Completed in 2010

This section highlights audit activity for the 2010 year. Our program of work was set out in our 2010 Annual Audit Plan, as endorsed by Audit Committee in November 2009 and approved by City Council in December 2009. In addition to the projects in our Annual Audit Plan, we undertook additional work resulting from a number of emerging requests and investigations. All our audit work, whether planned or not, is subject to a risk assessment process, through which we prioritize our workload appropriately.

Copies of our public audit reports are on our website: <http://edmonton.ca/auditor>. The following projects were completed in 2010:

### 4.1. Overtime Review

The objectives of this review were to conduct a high-level analysis of overtime usage within the City of Edmonton and to assess the City's control practices for budgeting, authorizing, recording, managing, approving, and monitoring overtime for the highest earners of overtime.

We made four recommendations that focused on setting overtime expectations; improving budgeting for overtime, work-scheduling practices, overtime distribution practices and succession planning usage; improving and strengthening internal controls; and enhancing overtime expenditure reporting and monitoring.

Improvements in these areas will enhance overall overtime management, ensure effective and efficient use of overtime, and positively affect workload management and overtime expenditures.

### 4.2. Parks Branch Audit

The objectives of this review were to determine if the Parks Branch was using resources efficiently and effectively in managing the City's urban forest and in the delivery of capital construction projects. We focused this review on tree pruning, tree planting, and pest management processes.

We made five recommendations that concentrate on reviewing and reallocating as appropriate the current shift of resources away from tree pruning activities; reviewing all Branch tendering practices; strengthening the Capital Budget planning process (both composite and single projects); reviewing current workload distributions within the capital program area to ensure effective resource planning and overtime usage; and identifying and producing a limited number of key project costing reports.

Implementing these recommendations will lead to improving the effectiveness and efficiency of resources within the Parks Branch.

### **4.3. Development Permit and Cornerstones Funding**

In response to a citizen complaint, we investigated the issuance of a development permit and the approval of Cornerstones funding for a semi-detached house in a low-density Edmonton neighbourhood.

Our review concluded that the Development Officer issued the development permit in accordance with the relevant definitions currently provided in the Zoning Bylaw. However, we believe that the definitions used (e.g., household and dwelling) and some of the Residential-Related Use Classes such as Limited Group Home, Group Home, and Boarding and Lodging Houses need to be reviewed and made more specific. We also found a number of deficiencies with the process and procedures used to evaluate and approve Cornerstones grant application. We made six recommendations to strengthen controls for issuing development permits and approving Cornerstones funding.

### **4.4. 311 Call Centre Review**

Our review of the City's 311 Call Centre assessed current operations from six perspectives: staffing and training, operational performance, roles and responsibilities, knowledge management, service request tracking, and performance reporting. Overall, we concluded that 311 is delivering a high level of service in an efficient manner.

We made two recommendations to improve the 311 service. Our first recommendation identified the need to implement a process to periodically collect customer satisfaction information. This will help to ensure the City has a better understanding of citizen expectations and perceptions relative to 311 services. Our second recommendation was focused on developing corporate guidelines, and setting out roles, responsibilities, and service expectations for processes that require action by operational areas. These guidelines will improve the maintenance of training materials and scripts, enhance the criteria to evaluate service that should be provided by 311, and enhance the tracking of ticket status to enable efficient means of reporting on the status of citizen requests.

### **4.5. Transportation Planning Branch Follow-up Review**

The objective of this follow-up review was to assess the Transportation Planning Branch's progress towards the implementation of recommendations from our original audit completed in 2006.

We assessed the actions taken by the Branch in implementing the ten recommendations from our 2006 audit. We were satisfied that six of the ten original recommendations were successfully implemented. Of the four remaining recommendations, three remain in progress and one is no longer relevant.

#### **4.6. City of Edmonton Non-Profit Housing Corporation (homeEd) Governance Review**

The objective of this audit was to determine if homeEd has effective governance and organizational structures and sufficient documented policies and procedures to guide operations. Our review found that the homeEd's Board governance practices are not in line with the governance best practices for similar organizations due to the involvement of City staff in managing the organization and outdated Articles of Incorporation.

Accordingly, we made a recommendation to homeEd's Board to call a Shareholder meeting so the Shareholder's representative can be provided with the information it needs to decide how the Articles should be amended. The homeEd Articles were established in 1977 and have not been changed since that time. We also recommended that homeEd management document its operational policies to provide a framework for decision making and desired actions by staff.

#### **4.7. City of Edmonton Non-Profit Housing Corporation (homeEd) Financial Review**

We conducted a review of the financial operating control processes of homeEd. Specifically, we reviewed the adequacy of controls that support homeEd's revenue and expense processes. Currently, homeEd owns and operates 19 properties with a total of 806 housing units. The rental units include apartments and townhouses throughout Edmonton. All 19 properties are partially funded by some level of Government. We conducted our review based on funding agreements homeEd has with the Canada Mortgage and Housing Corporation, Alberta Home Mortgage Corporation, various Province of Alberta Ministries, and the City of Edmonton.

We made three recommendations that focus on the need for homeEd to review current processes and procedures to ensure alignment with signed operating agreements; the need to document its operational policies to provide a framework for operational decision making; and the need to clarify the mandate of homeEd.

#### **4.8. Fraud Risk Management Review**

The objectives of this review were to assess the City's current Fraud Risk Management Framework relative to leading practices and, based on the results of the assessment, facilitate the preparation and prioritization of action plans for improving the City's Fraud Risk Management Framework. Our review found that overall the City's existing Fraud Risk Management Framework does include most of the fundamental elements of a good Fraud Risk Management Framework. However, many of the elements can be enhanced to minimize the City's risks and address potential fraud and misconduct. Based on the results of the assessment, we have prepared and prioritized three corporate action plans for improving the City's Fraud Risk Management Framework.

#### 4.9. Recommendation Follow-up Report – March 2010

We maintain a database to track audit recommendations, including the related management action plans, the position of the person responsible for taking corrective action, and the estimated completion date for implementing corrective action.

This recommendation follow-up cycle included recommendations that were to be implemented prior to July 31, 2009. In total, status updates were requested for 83 recommendations from 21 audits. In this review and update cycle, we were sufficiently satisfied with the management response and supporting documentation to close 54 recommendations (65%). The remaining 29 will remain outstanding in our database until we are satisfied that management can demonstrate that they have taken satisfactory actions to address the intent of our recommendations.

#### 4.10. Recommendation Follow-up Report – November 2010

This recommendation follow-up cycle included recommendations that were to be implemented prior to November 30, 2010. At November 30, 2010 there were 128 outstanding recommendations in our database. These recommendations were associated with 40 audits. 111 of these recommendations had due dates that had passed, and 17 had due dates after November 30<sup>th</sup>.

For this period, we followed up on all 128 outstanding recommendations in our database. We placed the greatest emphasis on collecting and analyzing information on the actions that were and are being taken to address recommendations that were outstanding for more than 2 years past the original completion date. During this period we closed 24 (65%) recommendations outstanding more than 2 years past the expected completion date, 28 (52%) recommendations outstanding 1 to 2 years past the expected completion date, 13 (65%) recommendations less than 1 year past the expected completion date, and 1 recommendation that was due after November 2010.

#### 4.11. Vehicle Take-Home Permits

The objectives of our audit were to assess the adequacy of the City's *Vehicle Take-Home Permits Directive*, the monitoring practices and compliance with the Directive, and the cost-effectiveness and efficiency of providing employees with a take-home vehicle. In 2009, Fleet Services issued 150 vehicle take-home permits to 7 Departments/Branches.

Based on our audit work, we made two recommendations. Our first recommendation identified the need to update the current *Administrative Vehicle Take-Home Directive* to address issues relating to clarity, relevance, and roles and responsibilities to ensure a consistent understanding by all City employees requiring a vehicle take-home permit. Our second recommendation focused on the need to improve on the processes for monitoring employees who take City vehicles home.

## 5. Other Audit Activity in 2010

In addition to projects that were identified on our 2010 Annual Work Plan, other activities emerged during the year. This section summarizes the additional significant activities and initiatives that we were involved with in 2010.

### 5.1. Edmonton Indy Review

The objectives of this review were to assess the accuracy of the 2009 Edmonton Indy Profit/Loss Statement; and to identify areas that Northlands could focus on to improve the financial results of the 2010 event. At the February 17, 2010 in-private portion of the City Council meeting, we presented the results of our review of the 2009 Edmonton Indy. The *Edmonton Indy Review* report and its contents are exempted information under various sections of the Freedom on Information and Protection of Privacy (FOIP) Act.<sup>4</sup>

### 5.2. Utility Advisor for City Council

As directed by City Council, we prepared a Request for Proposal (RFP) to assist Transportation and Public Works Committee with recruiting a Utility Advisor for City Council. The RFP was issued on April 8, 2010 and closed on May 6, 2010. The Transportation and Public Works Committee interviewed the short-listed proponents on June 4, 2010. On June 9, 2010, City Council appointed its first Utility Advisor.

The role of this independent utility expert is to provide expert advice and consultation to City Council as it governs and regulates its Waste Management (solid waste), Sanitary (wastewater), and Land Drainage (surface water) Utilities.

### 5.3. Audit Committee Orientation

After the 2010 Municipal Election, the OCA offered Audit Committee members and other members of Council an orientation which outlined the governing relationships and roles and responsibilities between City Council, Audit Committee, the Administration, the City Auditor and the External Auditor. Municipal governments are entrusted with providing services within approved budget amounts in an environment of transparency, accountability, and responsibility. Moreover, every citizen wants to receive high-quality services from public sector organizations. In today's environment, Audit Committees play a critical role in organizational oversight. Their role includes oversight of financial reporting, risk management, management's internal controls, organizational values and ethics as well as overseeing the activities of external and internal auditors.

As part of the Audit Committee orientation, we provided Audit Committee members and other Members of Council a reference document to use when considering Audit Committee issues.

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<sup>4</sup> Section 16 (Disclosure Harmful to Business Interests of a Third Party), Section 21 (Disclosure Harmful to Intergovernmental Relations), Section 24 (Advice from Officials), and Section 25 (Disclosure Harmful to Economic and Other Interest of a Public Body) of the Freedom of Information and Protection of Privacy (FOIP) Act.

#### **5.4. Single Sign On Initiative**

We provided proactive risk and control-related advice to the Information Technology Branch's (ITB) working committee responsible for implementing Single Sign On. This initiative will allow the City's network users to log on to in-scope applications and websites that they have access to by using a single password. Users will no longer have to remember all the passwords to the applications 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.

Our role of identifying risks and providing control-related advice is complete. ITB needs to effectively address the outstanding issues and identified risks prior to implementing the Single Sign On Initiative.

#### **5.5. Police Commission Self Assessment**

For a third consecutive year, we 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 adjustments are required. We received and consolidated the 2010 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 November 18, 2010 meeting.

#### **5.6. Sharing of Audit Best Practices**

Our audit staff members actively supported the auditing profession throughout 2010 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, the Association of Local Government Auditors (ALGA), Information Systems Audit and Control Association (ISACA), and the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA).

#### **5.7. International Fellowship Program**

For the past two years, we have partnered with the Auditor General of Alberta in the Canadian Comprehensive Auditing Foundation's (CCAF) International Fellowship Program. The International Fellowship Program invites senior auditors from a targeted 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. As part of the program, we have provided participants from the State Audit Office of Vietnam with training and orientation on the Governance Structure of the City of Edmonton. The auditors also participated in a number of activities that allowed them to become familiar with our city, the City of Edmonton's organization and with our approach to and methods of auditing.

As part of the graduation proceedings for the two latest participants in this program, on May 12, 2010, the City Auditor made a presentation to a delegation of 9 representatives from the State Audit Office of Vietnam and the Office of the Auditor General of Alberta on performance (value-for-money) audits from a City of Edmonton perspective.



## 6. 2010 Fraud and Misconduct Hotline Summary

The City Auditor Bylaw section 22(2) states “*The City Auditor will lead the implementation and operation of the City’s hotline.*” The City implemented its Fraud and Misconduct Hotline on January 2, 2007. Since implementation, we have managed the City of Edmonton’s hotline.

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.

The following sections include a summary of hotline activities, as well as a brief narrative describing the nature of various categories of cases resolved during the year.

### 6.1. Background

City Council, through Audit Committee, is responsible for the governance oversight of fraud control and ensuring management accountability regarding audit matters. City Policy C522 – Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection (Fraud Policy), Administrative Directive A1100C – Employee Code of Conduct (Code of Conduct Directive) and other related policies provide guidance on addressing fraud and misconduct in the City.

In 2005, the City evaluated its ethics management framework in relation to leading practices. Based on the results of this evaluation, the City Auditor in conjunction with the General Manager of Corporate Services reviewed the need and assessed the risks and benefits of reporting alleged violations through a hotline. In 2006, the Fraud Policy was revised to provide employees whistleblower protection and in 2007, the City’s Fraud and Misconduct Hotline was implemented as an additional channel for employees to confidentially and anonymously report suspected fraudulent activities and significant misconduct by City employees.

### 6.2. Benefits of operating the Hotline

#### 6.2.1. Hotlines are a leading practice

The most cost-effective method of dealing with fraud, misconduct or other irregularities involving City resources is to prevent it. Our research of better practices in leading organizations continues to indicate that a Fraud and Misconduct hotline provides a high profile mechanism for combating fraud, waste and abuse, and also helps to strengthen controls by minimizing the risk of irregularities involving City assets. Benefits of implementing a hotline include increased transparency, an enhanced ethical workplace, deterrence of unethical behaviour, prevention of losses, and a centralized reporting mechanism. In some cases, substantiated complaints may result in recovery of funds for the organization.

The hotline also provides another forum to facilitate analysis of common areas of concerns identified through trend analysis of all complaints received. An example of this is our Overtime audit that is further discussed in Section 6.2.3.

### 6.2.2. Growing Canadian trend

A number of Canadian cities (Toronto, Calgary, Montreal, Ottawa, Halifax and Windsor) have established and implemented an anonymous method of reporting through a hotline. In addition, Winnipeg is considering the implementation of a hotline program.

### 6.2.3. Hotline reports resulted in overtime savings

Since the Hotline's implementation in 2007, one of the most common concerns that employees expressed to us was the inefficient use of overtime in the City. Based on the number of complaints that we received through the hotline, we added a review of overtime usage to our 2010 audit plan. The scope of our review involved assessing the City's control practices for budgeting, authorizing, recording, managing, approving, and monitoring overtime for 15 of the highest overtime earners in 2009. Based on our analysis of the City's overtime control practices relating to 15 of the highest overtime earners in 2009, we determined that there were clear opportunities to reduce the need for overtime and, thereby, reduce the City's overtime expenditures.

While the audit focused on 15 employees from five Branches, we were convinced that the issues and opportunities identified applied to all City Departments. Thus, our recommendations focused on improving corporate overtime usage and controls. The Administration concurred with our observations and provided action plans to address all four recommendations. Based on the audit, the Administration has aggressively implemented improved overtime oversight. In November 2010, the Administration provided Audit Committee with a status update on the implementation of our recommendations. This update stated that an estimate of \$1.9 million in savings and saving opportunities had already been identified.

## 6.3. Hotline Operation

The hotline is available 24 hours a day, seven days a week, all year round. Employees can provide anonymous reports using an online web reporting service or through professionally trained live agents via a toll free telephone service. Currently, existing internal resources administer the hotline in addition to their normal duties. The annual operating cost of the hotline will be approximately \$22,000 for 2011. We have been able to absorb this cost in our budget.

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

The reporters are asked to indicate the category that best represents or describes the nature of their complaint when providing reports to the hotline. They are also asked to answer additional questions to validate the information provided and gather pertinent information should an investigation be initiated. Automatic email 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 members with privacy expertise.

When reports are received, authorized OCA employees conduct a preliminary screening to determine the disposition of the reports. Depending on the nature of the complaints, we decide whether to investigate the reports or refer them to the City Manager. 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 are tracked, monitored, and reported using a common system, we input reports received directly from employees via the City's email, 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 the following Fraud and Misconduct Hotline Summary to provide comprehensive information on our 2010 investigative work.

#### 6.4. Hotline Activity

The following table summarizes the reports received by the Hotline and the OCA for 2010 by report category. For comparison purposes, a summary for 2008 and 2009 has also been provided.

**Reports received by the Hotline and the OCA – 2008, 2009 and 2010**

Report Category	2008	2009	2010
Financial Reporting and Accounting	0	1	1
Health and Safety, Environment	2	0	1
Unethical Conduct and Conflict of Interest	10	9	13
Manipulation or Falsification of Data	0	2	0
Harm to People or Property	3	5	5
Theft, Embezzlement, Fraud	5	12	7
Violation of Laws, Regulations, Policies, Procedures	11	9	7
Miscellaneous	2	6	11
<b>Total</b>	<b>33</b>	<b>44</b>	<b>45</b>

In 2010, we received 42 reports through the hotline, of which 14 (33%) were through live agents, 27 (64%) were through the online web service, and one (2%) was through the hotline voice mail service. In addition, three reports/complaints were received directly by us, two via email and one through a phone call. A total of 45 reports/complaints were received and reviewed in 2010. All 45 reports have been closed.

#### **6.4.1. Disposition of Reports/Complaints**

The OCA screened all 45 of the 2010 reports to determine their disposition. Due to the nature of the complaints and the knowledge and expertise required, we referred some reports that pertained to operational matters to the Administration for investigation through the City Manager. In these cases, we asked departmental management 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.

Despite our attempts to obtain additional information through the hotline system, we were unable to take action on some reports due to insufficient information. 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. Other possible reasons are that they may have addressed their concern through other sources or decided not to pursue further action.

We investigated the remaining reports on fraud and misconduct in accordance with internal procedures and guidelines, as well as professional standards. We gathered evidence to confirm or dispel the allegations 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 that pertained to workplace issues that fall within the jurisdiction of the City Manager were made by employees. We have regular meetings with the City Manager to evaluate the nature of the complaints received and determine whether any corporate action needs to be taken.

The following table summarizes the disposition of the 45 reports/complaints we received in 2010. For comparison purposes, a summary for 2009 and 2008 has also been provided.

**Disposition of Reports/Complaints – 2008, 2009 and 2010**

Description	2008	2009	2010
No action taken (insufficient information, comments and inquiries on the hotline, follow-up on previously submitted report, etc.)	9	5	9
Tips provided that will be used in future audits	3	4	3
Referred to the City Manager (workplace issues, retaliation complaints, etc. that are outside the scope of the OCA)	7	19	14
Reports/Complaints Investigated by the OCA and the Administration (Corporate Security, Labour Relations, etc)	14	16	19
<b>Total</b>	<b>33</b>	<b>44</b>	<b>45</b>

**6.4.2. Investigation of Reports and Complaints**

In addition to the Overtime review that we completed in 2010, the OCA and Administration investigated 19 reports/complaints. We have closed all the investigations. That is a 36 percent increase compared to 2008. For investigations conducted by the Administration, the individuals conducting the investigations consulted with the OCA, as required, to ensure that they followed appropriate investigative steps. We reviewed all findings from reports investigated by the Administration 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 19 complaints that were investigated and closed, nine allegations could not be substantiated and confirmed based on the information available. Therefore, no further action was taken. The remaining ten allegations were either confirmed or resulted in the required action. The following is a summary of the outcomes:

**Duplicate payment**

A vendor requested that we conduct a review of how two cheques could be issued to the vendor for the same item. Since, only one of the cheques was cashed and the second cheque returned to the City, the review focused on reaffirming accepted practices for paying vendors/contractors in the future to avoid this situation in the future. As a result of this finding and similar reports, we conducted a duplicate payments audit in late 2010.

**Offensive item on display at workplace**

A complaint was received that an employee had a small toy gun displayed over the employee's desk. The hotline reporter found this to be offensive. A visit to the employee's work area confirmed the allegation. The employee was counseled regarding the discretion that must be exercised when displaying personal items in the workplace. It was indicated that any items that may be offensive to others or have any connotation of violence are not appropriate for the workplace. The item noted in the complaint was voluntarily removed by the employee.

**Improper purchasing practices**

In response to a complaint, we conducted a purchasing investigation related to alleged improprieties concerning contracts with a vendor. The allegation was that a City employee had a personal friendship or relationship with a vendor representative resulting in annual purchases from the Vendor significantly increasing. Our financial analysis of the purchasing contract did not support this specific allegation. The majority of business was not placed with the Vendor and change in total expenditures from year to year did not show a steady increase. However, as the result of this investigation, we made three recommendations to safeguard the perception and the reality of fairness and transparency in City procurements and contracting.

**Inappropriate usage of email**

An investigation confirmed that an employee's email account contained subject matter related to the employee's religious and political beliefs. The employee was supplied with a copy of Administrative Directive A1429 – Acceptable Use of Computer Technology. In addition, the employee was supplied with a verbal warning regarding their email usage and was instructed to cease using their email account to send emails promoting their religious and political beliefs.

**Improper employee conduct**

It was alleged that drug use was occurring among two employees during their evening shift. We referred this matter to the City's Human Resources Branch and Corporate Security for investigation. While it was determined that there was no substantive evidence of night shift employees using illegal substances while on shift, a number of recommended actions were taken to educate and discourage the use of alcohol and drugs in the workplace. All supervisors and foremen within the work area were educated on the City of Edmonton's Drug & Alcohol Policy. In addition, Managers and Supervisors were instructed to speak about the Drug & Alcohol Policy at safety meetings to ensure that employees are educated. In addition, a planned restructuring in 2011 within the applicable operating area will result in increased supervision during the evening shift.

**Inappropriate expense claim**

It was confirmed that an employee purchased an item for work use, submitted a request for reimbursement and then returned the item for a full refund of approximately \$100. It was confirmed that a photocopy of the store receipt was used for the employee's request for reimbursement. As a result of this, the employee abandoned this request for reimbursement claiming that they could not find the original receipt. In addition, it was recommended that a formal internal investigation be conducted by the management of the work area to determine if other similar instances had occurred.

**Incorrect pay rate**

It was confirmed that an employee was incorrectly receiving a 5% top up on their hourly rate from the time of their hire (December 2008). It was determined that the employee did not lie or mislead Human Resources during their hiring process. However, it was also determined that the employee did not have the necessary trade certification to warrant the 5% top up and that Management had incorrectly assumed that the employee could be paid this 5% based on the required experience. The 5% that the employee was being paid was removed. In addition, the operational area was made aware of the importance to strictly maintain the pay for qualifications and what should be done in the future if similar situations arise. An Interpretation bulletin on relevant Collective Agreement clauses was also prepared for the operating area.

**Inappropriate credit card use**

We received a complaint that a recently terminated employee had inappropriately used a City credit card (CPC). This investigation was conducted in collaboration with Corporate Security. During our review of on-site files and 477 credit card transactions, we noted weaknesses in the existing procedural controls. The most serious weakness was that the employee used subordinates' credit cards without them being present. We also found two duplicate payments (\$1,283 in total). In addition, there were a number of instances in which the monthly credit card reviews and/or approvals were not completed by the review and approval deadlines. We also identified two transactions with no receipts (\$1,665 in total). A recommendation was made to ensure compliance with CPC process controls and cash-handling controls. The business area has communicated with CPC holders/approvers and renewed the awareness of their corresponding responsibilities and the applicable Administrative Directives. In addition, Corporate Security worked with the Edmonton Police Service to locate the items we identified as potentially missing or suspect. Most of the items had been moved to another organizational unit in the City.

**Inappropriate picture at worksite**

We received an allegation that an inappropriate photo was being displayed at a work site. A site visit confirmed the allegation. A meeting was held with the two employees identified in the report. They were very apologetic and took full responsibility for their actions. The employees also understood how the picture may have been viewed as inappropriate by others. Due to the cooperation of the two employees and with the picture being immediately removed, it was determined that no further discipline was required.

**Compliance with contract specifications**

We received a report about potentially fraudulent actions of a vendor against the City of Edmonton. The allegation stated that the vendor purposely used less plywood than required by the specifications. We reviewed the specifications to determine the actual requirements. We then performed a site visit to determine that the product the City received matched the specifications. We did not find any evidence to substantiate the complaint. However, we did recommend to the operating department that they develop a process to ensure that any new products received conform to the specifications listed in the purchase orders.

## 7. Measuring our Performance

We measure key quality and efficiency indicators in order to continuously improve our strategic performance and results. 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*	2006	2007	2008	2009	2010
<b>Customer Relationships (client surveys)</b>	(out of 5)					
<b>Communication</b> How well the client was informed of objectives, process, timeframe, and emerging findings.	N/A	4.4	4.6	4.6	4.6	4.5
<b>Understanding of client's business</b> How well the audit staff demonstrated their understanding of the client's issues and challenges.	N/A	4.4	4.6	4.4	4.5	4.4
<b>Professionalism</b> How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients.	N/A	4.6	4.6	4.7	4.6	4.6
<b>Quality of findings</b> Practicality, adequacy, and openness of communication with the clients.	N/A	4.4	4.6	4.4	4.5	4.4
<b>Overall average</b> Client's overall assessment of the value received.	4.3	4.5	4.6	4.5	4.6	4.5
Performance Indicator	Industry	2006	2007	2008	2009	2010
<b>Internal Measures</b>						
<b>% Recommendations accepted</b> A measure of the value provided by the audit.	96%	100%	100%	100%	100%	100%
<b>% chargeable time vs. available time</b> A measure of the available time worked on projects.	75%	83%	78%	75%	82%	80%
<b>% of completed projects to number scheduled</b> A measure of office productivity.	91%	N/A	91%	90%	95%	94%
Performance Indicator	Industry	2006	2007	2008	2009	2010
<b>Human Resources</b>						
<b>Days of City-funded training &amp; development</b> A measure of commitment to maintaining and enhancing professional certifications and skills.	8 – 12	10.9	8.9	9.9	7.0	8.5
<b>Percent staff certified or with advanced designations</b> A measure of staff qualifications.	83%	93%	93%	92%	92%	92%
<b>Average years of audit experience</b> A measure of commitment to the audit profession.	10 to 15	15.7	14.4	13.2	13.7	13.5
Performance Indicator	Industry	2006	2007	2008	2009	2010
<b>Financial</b>						
<b>% Actual vs. budgeted expenditures</b>	90 to 110%	90%	90%	90%	84%	97%
<b>Audit Department staffing</b> A measure of audit staff to organizational staff.	1 auditor per 816 staff	N/A	N/A	N/A	N/A	1 auditor per 823 staff
<b>Audit Department spending</b> A measure of audit spending ratio.	\$1 : \$1,647	N/A	N/A	N/A	N/A	\$1 : \$1,665

\*Industry is represented by the Association of Local Government Auditors. The latest comparative year is 2010.



## 8. Conclusion

In this annual report, I have reported on the results of projects we undertook in 2010 and provided a report on the Fraud and Misconduct Hotline as well as on our performance in complying with internal auditing standards. I am proud of our accomplishments and our contributions to the City of Edmonton in 2010.

Implementation of recommendations contained in our reports facilitates a more responsive and accountable municipal government.

Consistent with our *Mission*, we believe that Edmontonians want our audit projects to add value to the City of Edmonton by promoting accountability, cost-effective municipal services, and ethical practices. In 2010, we tackled some tough issues that were both challenging and sensitive. I believe that by reviewing these issues, we were able to provide recommendations that will improve City services and provide better value for tax dollars.

I acknowledge the support and keen interest in our work that members of Audit Committee and City Council demonstrate as we support them in their governance roles. I value my strong, open relationship with the Audit Committee and City Council. This relationship is a critical contributor to our success.

I also appreciate the support and the cooperation that is extended to us by the City Administration.

In closing, I wish to pay tribute to my staff. The OCA's greatest strength is the multi-disciplinary teams that conduct such a wide variety of audits. The audit task is never an easy one. Our accomplishments in 2010 would not be possible without the competency and dedication they bring to each of our audit projects. I am very fortunate to work with such a talented and professional group of individuals.

### **2010 Staff of the Office of the City Auditor**

Gordon M. Babey

Chrisy Burton

Bill Cook

Queena Dong

Paul Ebenezer

Leslie Glasbeek

Todd Horbasenko

Sophia Kasozi

Larry Laver

Janine Mryglod

Almas Murji

Edwin Ryl

Thomas Wong

David Wiun