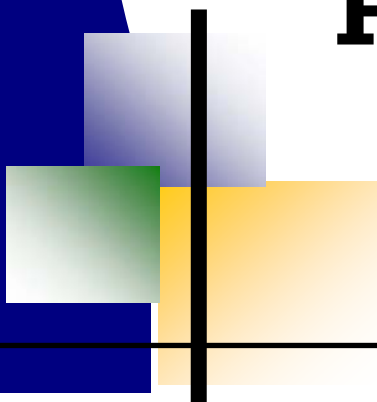# Office of the City Auditor

2011 Annual Report
February 1, 2012

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1.   Message from the City Auditor

I am pleased to present the Office of the City Auditor's (OCA) Annual Report for the year ended December 31, 2011. The nature of our work, as an independent audit office responsible for all internal auditing activities within City Programs and City Agencies, means we face new and interesting challenges each year. Recommendations contained in our 2011 audit reports continue to provide City Programs opportunities for greater accountability, cost-effective municipal services, and ethical practices.

Greater oversight over audit recommendations is occurring

While the process and factors influencing governance in a municipal environment differ from those in a corporate environment, sound governing practices are critical for both environments. In the municipal environment, they are the fundamental means by which citizens gain confidence that the City's priorities reflect their needs and that services and facilities are effectively overseen by their elected officials. By identifying significant issues and providing practical recommendations to improve the City's operations and services, our audits are a cornerstone for good governance within the City of Edmonton. Through providing independent, objective assurance and advisory services to promote efficient, effective and economical City operations, we help to achieve accountability and integrity, improve operations, and instil confidence among citizens and stakeholders.

In compliance with professional auditing standards, we are required to follow-up on the implementation status of recommendations from previous audit reports. In 2011, I was very pleased with Audit Committee's increased level of oversight to ensure that the Administration implements our audit recommendations in a timely manner. In response to a motion made in 2010, we provided two reports to Audit Committee in 2011 that specifically addressed outstanding recommendations that were more than two years past the planned completion date. This higher level of scrutiny on all audit recommendations is an example of good corporate governance, which assists City Council with holding the Administration accountable for its use of taxpayer funds. In 2011, we also noted a much greater commitment by the Administration to be proactive in ensuring that actions to implement recommendations are timely and complete.

City recognizes the need for better project management practices

Citizens lose confidence in government when they see capital projects that result in lower quality, higher cost, longer schedule or change in scope compared to what was planned or budgeted. Over the past 5 years, we have issued a number of reports that recommended improvements to the City's project management practices. We have made several recommendations about strengthening governance, business case analyses, project management, and cost estimating practices.

In 2011, we examined how effectively the City managed a sample of major road projects. We found that the City had made limited progress in developing a corporate project management framework and that many of our observations were similar to those from earlier audits. We observed inconsistent project management practices, which limited the City's ability to demonstrate that projects are being delivered in a cost-effective and efficient manner. There was a strong reaction from both City Council and the public to our Capital Construction Audit, Roads Design and Construction Branch

report. The Administration took our Capital Construction Audit report seriously and immediately took a number of steps to improve its project management practices. They have taken action to develop a fully-functioning Project Management Office. This office will be responsible for developing best practice cost estimation processes and procedures. Another objective of the Project Management Office is to provide timely reporting on project costs, scope, timeliness and any other relevant project parameters. In addition, Financial Services requested that departments develop business cases that fully justify the need for each project proposed for the 2012 to 2014 Capital Plan. This will help the decision-makers make fully-informed decisions about whether or not to fund or proceed with specific projects.

Working to ensure Edmonton's financial sustainability

The City's strategic financial sustainability goal requires a delicate balance between investments to diversify revenue streams and the benefits realized from these investments. Over the past few years, the City has significantly increased capital budget investments. It has also committed budget funding to advance its goal of financial sustainability. However, these actions have also increased the City's debt levels and financing costs. Rising City debt levels must be closely monitored in order to ensure that the City complies with Provincial legislation and its own policy. Additionally the benefits actually realized from City investments must also be verified to ensure that the City is achieving its strategic goals.

A significant portion of our audit resources are dedicated to value-for-money audits that identify and assess strategic, operational, and financial risks and assess business entity performance. We conduct value-for-money audits at service, program, and corporate levels. During the planning phase of all value-for-money audits, we identify long-term capital and operating expenditures and incorporate this information into our assessments. Our assessments indicate whether the business entity is using its resources in an effective, efficient, and economical manner and whether appropriate value-for-money is achieved. Over the past six years, we have conducted Branch-level audits and corporate audits such as the Information Technology Corporate Audit. We will be conducting additional corporate-level audits including City Productivity in 2012 and Performance Measures Verification in 2013.

Continuing to enhance the efficiency of our audit processes

Our ability to critically review our processes, improve our efficiency, and maintain quality in our audits is of paramount importance. We use a structured, yet flexible approach, to maximize the value the City receives from our audits. It is this ability that has enabled us to achieve our goal to deliver high quality, innovative and cost-effective audit services.

We have developed strong relationships with each of our stakeholders. Since we ask tough, probing questions of management during each of our audits, strong relationships are the foundation upon which we can effectively encourage acceptance and implementation of our more challenging recommendations.

As an independent audit office reporting on the efficiency, effectiveness, and economy of City operations, we, too, must operate in a cost-effective and clearly accountable manner. In 2012, we will continue to evaluate our own internal audit processes and look for ways to shorten reporting time, increase the use of technology, and challenge our team to increase our efficiency.

2.   City of Edmonton Audit Profile

City Council is responsible for determining the needs of the citizens of Edmonton and the City Administration is responsible for providing the services and activities required to satisfy these needs. Audit Committee and City Council rely upon the OCA to provide an objective and constructive assessment of how efficiently, effectively, and economically the City Administration is fulfilling its mandate in accordance with City Council's directives and policies. The scope of our audit work may include all phases of City activities in which City Programs or City Agencies provide services to citizens. This requires going beyond accounting and financial records to understand the operations under review.

Our Mission

We strive to add value to the City of Edmonton and its citizens by promoting accountability, cost-effective municipal services, and ethical practices.

Our Goals

To achieve this mission, we have established the following goals:

• Working with Council and Management to improve the effectiveness of the City's risk management, control and governance processes.

• Providing independent, objective assurance and advisory services to promote efficient, effective and economical City operations.

• Promoting an ethical public service environment.

• Delivering high quality, innovative and cost-effective audit services.

• Communicating significant observations and information to Council, Management and the public in a timely manner.

• Maintaining a respectful, team-oriented workplace that helps individuals reach their career potential and achieve personal growth goals.

Authority and access

Pursuant to section 203 of the *Municipal Government Act*, Edmonton's City Council has proactively established the City Auditor position as a designated officer for the purpose of internal auditing. The City Auditor's powers, duties and functions are detailed in City of Edmonton Bylaw 12424, *City Auditor Bylaw* (Bylaw)*.* The City Auditor is independent of City Administration and is accountable to City Council through Audit Committee for the exercise of all delegated powers, duties and functions. The Bylaw provides the necessary authority to conduct audits and investigations of any City operation. It also ensures that the City Auditor has unrestricted access to all information that is required during the conduct of any project and to all City-owned and/or operated facilities. Further, the Bylaw ensures that the City Auditor's recommendations are acted upon by requiring the City Manager to submit action plans to strengthen municipal operations and address any opportunities for improvement.

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. 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's activities by outside professionals.

Professional organization ethics

We have fully aligned our internal *Audit Guidelines* with the *Standards.* Audit staff members are required to follow our *Audit Guidelines* as well as the strict standards established by their professional associations, including the requirement to adhere to the City's and their own associations' Codes of Ethics and Professional Conduct. To provide flexibility and diversified strength, our staff members are active in professional organizations that represent auditors, accountants, engineers, public managers, and information technology professionals.

Independent Quality Assurance Review

The *Standards* and the Bylaw both require the OCA to undergo an external independent quality assurance review at least once every five years. In 2010/2011, the City engaged PricewaterhouseCoopers LLP to perform an External Quality Assessment of the Office of the City Auditor. The assessment evaluated compliance with the IIA standards and compared the Office of the City Auditor to leading practices in public and private sector organizations. We achieved the highest rating an audit office can earn regarding compliance with the *Standards*.

Professional internal audit staff

The extensive variety of skill sets offered by staff members enables us to conduct most of our work with internal resources, rather than hiring external resources on a regular basis. Collectively, OCA staff members hold one or more of the following professional certifications/designations: Certified Fraud Examiner, Certified in Control Self Assessment, Certified Information Systems Auditor, Certified in Governance of Enterprise Information Technology, Certified Internal Auditor, Certified General Accountant, Certified Management Accountant, Chartered Accountant, and Professional Engineer.

Independent evaluation of potential audits by risk level

Each year, the OCA independently evaluates all potential audit projects in light of the level of risk that they pose to the City. From that evaluation, the OCA develops an Annual Work Plan that is presented to Audit Committee for review and input. It is then submitted to City Council for approval. Items can be added to the OCA's Annual Work Plan independently by the City Auditor or by City Council acting as a whole.

Each individual audit is also risk-based. Because our audit resources are limited, we complete an objective assessment of each selected business unit or process to focus the audit on the areas having the greatest potential to positively impact City services.

Audit Governance is the responsibility of multiple parties

Figure 1 provides a high-level overview of audit roles, responsibilities, and the interrelationships of City Council, Audit Committee, Management, the City Auditor, and the external auditor. The goal of each group, both individually and collectively, is to ensure that the City effectively achieves its goals while providing assurance that operations are being conducted appropriately and cost-effectively.

Figure 1 – Audit Governance Relationships

City Council
- Provides the highest level of governance
- Participates in developing and evaluating the municipality's policies and programs
- Establishes and supports audit functions
- Evaluates audit effectiveness
- Ensures management accountability

Audit Committee
- Operates as a Standing Committee of City Council
- Provides oversight and consideration of audit matters brought forward by the City Auditor, the External Auditor, and the Administration
- Oversees financial reporting, risk management, management's internal controls, organizational values, and ethics

External Auditor
- Conducts audits of financial statements and other financial information as required
- Provides guidance regarding emerging accounting and audit issues

City Auditor
- Assists Council in holding itself and the administration accountable
- Provides independent, unbiased and informed opinions
- Performs several types of audits (performance and value for money, cash-handling and compliance, and information technology audits and fraud and ethics investigations)
- Manages the City's Fraud and Misconduct Hotline
- Operates under a public reporting protocol

Management
- Develops and maintains systems of internal control
- Provides support to audit activities
- Works with auditors to identify resolutions
- Implements recommendations as appropriate

- - - - - - -   Audit Relationship
——————   Authority Relationship

3.   Projects Completed in 2011

This section highlights our audit activities for the year 2011. Our 2011 Annual Audit Plan was endorsed by Audit Committee on November 10, 2010 and approved by City Council on November 26, 2010. In addition to the projects in our Annual Audit Plan, we undertook a number of emerging requests and investigations. All of our audit work, whether pre-planned or not, is subject to a risk assessment process, by which we prioritize our workload.

Copies of our public audit reports are on our website: http://edmonton.ca/auditor. The following projects were completed in 2011:

3.1.   Roads Design and Construction Branch

The objectives of this review were to assess the Roads Design and Construction Branch's approach toward managing capital and operating funds, its project management practices, and the overall efficiency and effectiveness of its service delivery. Our evaluation of efficiency and effectiveness included reviewing the Branch's management of project schedules, budgets, resourcing levels, scope creep, and quality.

We made seven recommendations that focused on improving the operating and capital budget processes and improving the City's project management practices.

Implementation of these recommendations will enhance the City's ownership and project management abilities, ensuring that projects are managed effectively and efficiently.

3.2.   Waste Management Services Audit

The objectives of this audit were to review and assess Waste Management Services' legislative framework and compliance; the sufficiency and reliability of Waste Management Services key performance measures; the financial sustainability of Waste Management Services in the delivery of waste management services; the effectiveness and efficiency of waste collection operations, and the effectiveness of Waste Management Services' strategy to pursue a greater market share of commercial waste collection and disposal.

We made six recommendations that focused on enhancing Waste Management Services' regulating documents by including performance measures to monitor cost-efficiency and descriptions of major customer groups for cost allocation purposes; improving the Residential Waste Diversion Rate calculation; reviewing the current billing agreement, including monitoring of bad debt levels; reviewing opportunities to reduce non-collectable collection hours; and developing a process to identify, assess, prioritize, and update potential revenue opportunities.

Implementation of these recommendations will enhance the governance, financial sustainability, effectiveness and efficiency of Waste Management Services' operations.

3.3.   Community Facility Services Branch Audit

The objectives of this audit were to determine whether community facilities are operated in an efficient and effective manner and whether the Branch has relevant and sufficient performance measures to demonstrate achievement of its objectives.

We made seven recommendations that relate to improving communication between Branch sections; improving the process to ensure facilities are well maintained; providing operations staff with actual utility consumption data; assessing staff training requirements; developing a systematic process to assess, order, receive, and track material needs; setting budgets for each facility; and ensuring that performance measures are relevant and sufficient.

Implementation of these recommendations will help to enhance the effectiveness and efficiency of operating community facilities.

3.4.   Software License and Hardware Use

The overall objective of this audit was to determine if the City has software licenses or computer hardware that are not being used by employees. We made two recommendations that will assist with optimizing the use and costs of software licenses.

Implementation of these recommendations will lead to savings if the software programs that are rarely and not used are removed from the host computers.

3.5.   Edmonton Public Library – Contracted Custodial Services Review

The objective of this review was to assess the efficiency and effectiveness of the service delivery models used in meeting the Edmonton Public Library's custodial needs.

We made two recommendations focused on leveraging the City's buying power when tendering custodial services and defining roles and responsibilities in terms of contract responsibilities and protocols for managing custodial issues. Implementation of these recommendations will provide an opportunity to reduce annual custodial costs, while achieving a higher level of customer service.

3.6.   Corporate Procurement Card – Duplicate Payments Review

The objectives of this audit were to analyze payment data to identify duplicate corporate procurement card payments and to assess the internal controls within the City's corporate procurement card duplicate payment recovery process.

We made one recommendation to improve the effectiveness of the corporate procurement card payment process and to ensure that the transaction data can be used for continuous monitoring on a go-forward basis. We believe these improvements will enhance the effectiveness and efficiency of corporate procurement card controls, specifically cardholder review and supervisor approval.

3.7.   Fleet Services Tools Audit

The overall objective of this review was to assess the efficiency, effectiveness, and controls over the purchasing, inventory management and disposal processes of small shop tools and equipment used by Fleet Services.

We made seven recommendations that focused on improving the purchasing, inventory management, and disposal processes relating to small shop tools and equipment.

Implementation of the recommendations will result in more effective and efficient processes, strengthened controls, and improved accountability. Other potential benefits include cost savings and more accurate and reliable tool inventory information for Fleet Services and the City as a whole.

3.8.   2010 Municipal Election

The objective of this review was to provide assurance that the 2010 Municipal Election planning and execution were conducted in accordance with legislation, in a manner that ensured the accuracy and auditability of the vote, and in compliance with the City's election procedures.

We were able to confirm that the 2010 Municipal Election was carried out in compliance with legislative requirements and in a fair and equitable manner. We provided four recommendations aimed at further improving election processes.

Implementation of the recommendations will lead to improvement in future elections relating to core staffing levels, training, logistics, and system validation.

3.9.   Counterfeit Edmonton Transit Pass Investigation

The objective of this project was to assist Corporate Security with its investigation into the sale of counterfeit Edmonton Transit monthly passes.

We compiled and provided Edmonton Transit and Corporate Security the monthly sales history for businesses we believed could be selling counterfeit passes. We also attempted to determine the amount of lost revenue due to the sale of counterfeit passes. We found that the sale of adult monthly passes decreased in 2010 compared to 2009. However, because there were many factors that led to this decrease, the City's data was not sufficiently detailed for us to determine how many counterfeit passes were sold.

We do know that one person sold 351 counterfeit passes between November 2010 and February 2011. If those passes had been legitimate, Edmonton Transit would have earned an additional $29,000 in revenue.

4. Recommendation Follow-up Process

Following up on audit recommendations and management's action plans is an essential element of an effective audit process. Only by having an effective follow-up process can Audit Committee, City Council, Management, and the OCA be assured that implementation of prior recommendations has had the desired impact.

Our follow-up process and reporting on the status of implementation of actions fulfills the following requirements:

1. International audit standards state: *The chief audit executive must establish a process to monitor and ensure that management has effectively implemented or that senior management has accepted the risk of not taking action.*

2. The Audit Committee Bylaw section 10(3)(b) states: *Committee has authority to: review whether Administration has taken appropriate corrective action in response to recommendations made in Office of the City Auditor reports.*

4.1. Follow-up Results

In 2008, we enhanced the follow-up process to provide more timely information on all outstanding recommendations. The process has evolved and is now more proactive, with both the City Manager and OCA ensuring that actions to implement recommendations are timely and complete. The City Manager ensures that the Administration is taking action and reporting the implementation status on a timely basis. The City Auditor evaluates the actions taken to determine if the intent of the recommendation has been addressed, and provides Audit Committee with semi-annual reports on the status of all outstanding recommendations.

Since enhancing the follow-up process, we have seen an increase in the percentage of recommendations that are being closed in a timely manner. We believe this improvement is a reflection of senior management's commitment to implement actions that address our recommendations in a timelier manner. We also note that there is a clear commitment on the part of Audit Committee to fulfill its oversight role and ensure that Administration has taken appropriate corrective action in response to recommendations made in our reports.

On April 12, 2010, the Audit Committee passed a motion that requires the OCA to specifically report on recommendations that are more than two years past the planned completion date. Since that time, the actions taken by the Administration have allowed the closure of 110 recommendations. Recommendations closed in 2011 had the following breakdown:

- 45 were more than 2 years past due
- 44 were 1-2 years past due
- 19 were less than 1 year past due, and
- 2 were not yet due

The table below illustrates the total number of recommendations we have reviewed since May 2008, the number and percentage closed in each reporting period, and the number and percentage that remained in progress at the end of the period.

Recommendation Closure Trend

Reporting Period End	Recommendations added since last reporting period	Total Recommendations	Closed During Period	In progress
May 2008	N/A	68	9 *13%*	59 *87%*
March 2010	24	83	29 *35%*	54 *65%*
November 2010	74	128	66 *52%*	62 *48%*
July 2011	25	87	44 *51%*	43 *49%*

As of June 2011, only six recommendations that are more than 2 years past the planned completion date remain in progress. This is down from 37 at the start of the last reporting period. As well, only two recommendations remain in progress one to two years past the planned completion date. This is down from 54 at the start of the last reporting period. Overall, the percent of recommendations that remain in progress past the planned completion date has decreased significantly.

In 2011, we closed 44 recommendations. Closure of recommendations is based on our review of supporting documentation demonstrating that the actions agreed to have been taken and the intent of the recommendations had been addressed. We believe that the actions taken by the Administration have strengthened internal controls and mitigated related risks.

5.   Other Audit Activity in 2011

This section summarizes the additional significant activities and initiatives we were involved in during the year.

5.1.   New Fraud and Whistleblower Directives

In 2010, the Office of the City Auditor conducted a Fraud Risk Management Review. The review determined that overlap existed between reporting of fraud, misconduct and workplace issues, and that greater clarity was required related to roles and responsibilities outlined in the *Fraud and Misconduct* Policy. The first recommendation from this project was to review and update the City's *Fraud and Misconduct Policy* to create an effective framework for Fraud Risk Management. This review was undertaken in consultation with the Law Branch and the City's subject matter experts on the *Freedom of Information and Protection of Privacy Act* (FOIP). Feedback was also sought from a focus group with representatives from all City departments. In October 2011, City Policy C522, *Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection* was repealed and replaced with two Administrative Directives.

The *Fraud Administrative* Directive provides a clear definition of fraud and requires employees to report all instances of suspected fraud in good faith. The Procedure outlines the avenues available for employees to report suspected fraud, the process, and responsibilities for completing investigations of suspected fraud within the City. In order to ensure that whistleblower protection is extended to all employees who make reports in good faith or participate in investigations, proceedings or hearings with respect to the conduct of City employees, a *Whistleblower Protection* Administrative Directive has been introduced, separate from the Fraud Directive. The *Whistleblower Protection* Directive and Procedure establish a process for the reporting and resolution of retaliation complaints. The new Administrative Directives effectively respond to the issues identified in the Fraud Risk Management Audit of 2010.

5.2.   Generic IDs Assessment

Generic (Shared) ID refers to a Microsoft Windows account, which is created and supported to facilitate multiple employees logging into the City of Edmonton computers using this common ID and password. The risk associated with this practice is that generic IDs do not allow for the identification of the individual employees who can use the IDs. Therefore, the City cannot hold individuals accountable for any inappropriate transactions originating from those accounts and, through the network, on the applications they can access without additional sign on.

The OCA, in collaboration with the Information Technology Branch and Customer Information Services (Inside Information), reviewed the City's existing use of generic IDs. The overall objective was to limit or eliminate such access to minimize risk to the City, while ensuring that alternate options were provided to ensure that business processes are not impacted. Of the 388 generic IDs selected for review, 258 (66%) have been deleted or disabled. Justifications have been provided by operating areas for the remaining 130 IDs (34%).

5.3.   Corporate Performance Measurement and Reporting System

We provided proactive risk and control-related advice to the governance committee and project team responsible for implementing the Corporate Performance Measurement and Reporting (CPM) System. Our objective was to facilitate the identification of potential risks and the implementation of automated and procedural controls in the CPM system to protect the City's interests. We participated as an advisor only, and did not make decisions or set direction for the implementation process, which is Administration's responsibility. As conveyed to the Administration, this advisory role will not preclude the OCA from using other audit staff to undertake audits of the CPM system and initiative in an objective manner.

We recommended that the project team incorporate control-related deliverables in the system development methodology. Members of the CPM Steering Committee are also aware of the required actions. Follow-up on the status and completion of the control-related deliverables will allow the Steering Committee to ensure that all major risks are addressed prior to system implementation.

5.4.   Police Commission Self Assessment

Since 2007, we have 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. In 2011, as in previous years, Commission members completed two surveys: the Commission Evaluation Survey and the Chair Evaluation Survey. In addition, it requested feedback on its performance from 13 members of the Edmonton Police Service. We received and consolidated the 2011 Edmonton Police Commission self-assessment surveys and prepared a report of survey results for the Commission's consideration.

5.5.   Employee Diversity and Engagement Survey

In May 2011, we received the results of a biennial, comprehensive Employee Survey that integrates Engagement, Diversity, Inclusion, Workplace and Culture. The survey was administered to 10,372 City employees from November 24th to December 17th, 2010. The survey consisted of 28 questions related to Engagement, Workplace and Culture, 10 self-report census questions related to Diversity in the workforce, 4 questions related to respectful workplace practices and a comments section. The response rate for the OCA was 100%. The OCA scored above the benchmark and the City's score in all sections. The overall Employee Engagement score for the OCA was 99% favourable as compared with the Canadian public sector benchmark of 63% and the City's overall score of 67%.

Further analysis was conducted based on the general "themes" of the survey questions, indicating that relative to the benchmark and the City scores, all themes measured are areas of strength for the OCA. These themes include: Innovation, Work Environment, Customer Service, Immediate Manager, Senior Leadership, Teamwork, Professional Growth and Information and Communication.

5.6. Sharing of Audit Best Practices

We strive to provide national and international leadership in the government auditing profession. In 2011, we were involved in the following activities and initiatives.

- Audit staff members actively support the auditing profession by serving on boards of directors or committees of professional audit-related organizations including the Institute of Internal Auditors Edmonton Chapter, the Association of Local Government Auditors, and the Information Systems Audit and Control Association.

- Audit staff certified by the Institute of Internal Auditors delivered professional training courses and participated in quality assurance reviews of other internal audit shops.

- As part of the Canadian Comprehensive Auditing Foundation's International Fellowship Program, we provided two 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.

- The City Auditor and a Senior Audit Coordinator with the OCA made a presentation to 22 auditors from the National Audit Office of the People's Republic of China. This audit office is charged with measuring financial performance and degree of regulatory compliance of Ministries and state-owned enterprises across China. The participants from China were interested in our methodologies for determining economy, efficiency, and effectiveness in our performance/value for money audits.

- Two OCA staff met with representatives from Habitat for Humanity. Habitat had started to implement Enterprise Risk Management (ERM) and requested a meeting with our office to discuss the City's ERM processes. In addition, we also shared information on conducting investigations.

- The Edmonton Chapter of the Institute of Internal Auditors organized a training week for March 8 to 11, 2011. An OCA staff member was the Chair of the Organizing Committee. A total of 114 people (including 25 people from outside the greater Edmonton area) attended the training week.

5.7. Audit Recognition

In May 2011, the Association of Local Government Auditors (ALGA) presented our office with a Knighton Award for our 2010 *Overtime Review* report. This is the second Knighton Award won by our office, the first being in 2009 for our 2008 report, *23rd Avenue and Gateway Boulevard Interchange Project Review.* ALGA currently represents approximately 300 local government audit organizations. To encourage excellence among local government auditors, ALGA created the Knighton Award to recognize the best performance audit reports produced by local government audit organizations in the previous year. In making the award, the judges commented:

> *The Office of the Auditor's Overtime Review report was well organized, clear and concise. The audit contained high quality analysis with a good balance of quantitative and qualitative information. The report made good use of case studies and did a great job of presenting support for its conclusions. Recommendations were appropriate and had the potential for significant impact.*

6.   2011 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 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

The City of Edmonton introduced a combined Fraud and Whistleblower Policy in 2006 and in 2007, the City's Fraud and Misconduct Hotline was implemented as an additional channel for employees to confidentially and anonymously report suspected fraud and significant misconduct by City employees. In 2011, the original City Policy C522 – *Fraud and Misconduct*, was repealed and replaced with two distinct administrative directives to help City employees see their responsibilities and the processes more easily.

The new *Fraud* Administrative Directive outlines the process for employees to report suspected fraud and for the Office of the City Auditor to investigate. The City also now has a separate *Whistleblower Protection* Administrative Directive that outlines the process to report any retaliation an employee may experience and how the City will investigate. Nothing has changed in the way employees report concerns, including the ability of employees to use the City's Fraud and Misconduct Hotline.

6.2.   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.

Hotline reports are classified into 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.

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 initiate an investigation. Reports on operational matters are referred 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 2011 investigative work.

6.3.   Hotline Activity

The following table summarizes the reports received by the Hotline and the OCA for 2011 by report category. For comparison purposes, summaries for 2008, 2009 and 2010 have also been provided.

Reports received by the Hotline and the OCA – 2008 to 2011

Report Category	2008	2009	2010	2011
Financial Reporting and Accounting	0	1	1	1
Health and Safety, Environment	2	0	1	5
Unethical Conduct and Conflict of Interest	10	9	13	18
Manipulation or Falsification of Data	0	2	0	1
Harm to People or Property	3	5	5	3
Theft, Embezzlement, Fraud	5	12	7	10
Violation of Laws, Regulations, Policies, Procedures	11	9	7	4
Miscellaneous	2	6	11	8
Total	**33**	**44**	**45**	**50**

In 2011, a total of 50 reports/complaints were received and reviewed. Forty-three of the reports were received through the hotline, of which 9 (21%) were through live agents, 32 (74%) were through the online web service, and 2 (5%) were through the hotline voice mail service. The remaining 7 reports/complaints were received directly by us. All but 3 of the reports were closed as of the year-end.

6.3.1.   Disposition of Reports/Complaints

The OCA screens the hotline 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.

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. Despite our attempts to obtain additional information through the hotline system, we were unable to take action on some reports due to insufficient information. 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 operational matters 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 50 reports/complaints we received in 2011. For comparison purposes, a summary for 2010, 2009 and 2008 has also been provided.

Disposition of Reports/Complaints – 2008 – 2011

Description	2008	2009	2010	2011
No action taken (insufficient information, comments and inquiries on the hotline, follow-up on previously submitted report, etc.)	9	5	9	10
Tips provided that will be used in future audits	3	4	3	4
Referred to the City Manager (operational matters, retaliation complaints, etc. that are outside the scope of the OCA)	7	19	14	17
Reports/Complaints Investigated by the OCA and the Administration (Corporate Security, Labour Relations, etc)	14	16	19	19
Total	**33**	**44**	**45**	**50**

6.3.2.   Investigation of Reports and Complaints

In 2011, the OCA and Administration investigated 19 reports/complaints. We have closed all but 2 of the investigations. 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.

6.4.   Outcomes of the Completed Investigations

Of the 19 complaints that were investigated, 17 were closed and 2 investigations were still in progress at year-end. Of the 17 investigations that were closed, 6 allegations could not be substantiated and confirmed based on the information available. Therefore, no further action was taken. The remaining 11 allegations were either confirmed or led to recommendations based on additional findings that came about through the investigation. The following is a summary of the outcomes:

Non-compliance with several Administrative Directives

We received an allegation that a work area had a number of instances of non-compliance with certain administrative directives and procedures, including the City's *Employee Code of Conduct* and *City Employees – Contracts with the City*. In one case, an employee with responsibility for recommending City contract awards did not disclose relationships that could at least appear to be a conflict of interest. In another case, we confirmed that the area supervisor approved Corporate Procurement Card transactions without sufficient supporting documentation to justify the purchases. In total, non-compliance with six Administrative Directives was identified and recommendations were made to minimize the risk of reoccurrence.

Need for stronger controls over re-imbursements for Private Vehicle Use

A complaint was received about potentially fraudulent claims for re-imbursements of private vehicle use. It was alleged that eight people employed within one work area were charging the City for more miles then they were entitled to. We did determine that the area had good controls over the recording and approval of private vehicle reimbursements on the paper claim form. However, the area did not have a strong control to ensure what was approved on the paper claim form was entered correctly into the City's payroll system (PeopleSoft). We found five claims where the amount recorded in PeopleSoft was 10 percent higher than what was approved on the claim form. Based on this finding, we believe that there is a risk that employees could be incorrectly claiming private vehicle re-imbursements, leading to the City overpaying or underpaying employees. In addition to recommending that the area improve the controls over ensuring that the private vehicle use approved by the supervisor agrees to what is entered into PeopleSoft, we also have included a corporate review of private vehicle reimbursements in our 2012 Annual Plan.

Inappropriate employee conduct

It was alleged that an altercation occurred between two City employees at the workplace. Based on the information gathered during the investigation, it was determined that an inappropriate interaction occurred between the two employees. Both parties conducted themselves contrary to the *Code of Conduct* and the *Respectful Workplace* directives. In response to this misconduct, both employees were issued letters of expectation and cautioned about appropriate conduct in the workplace and the City's expectations on a go forward basis.

Misuse of electronic devices

A complaint was received that an employee had used a City-issued Blackberry to record a video of the employee and the employee's coworkers behaving inappropriately during work hours. It was determined through reviewing the Blackberry that the complaint was regarding a video of people riding a pump jack. There was no conclusive evidence on the video of who the people riding the pump jack were. However, it was determined that there was inappropriate use of the Blackberry as per Administrative Directive A1429C *Acceptable Use of Communication Technology*. The employee was issued a two-day suspension and a letter of expectation. In addition, the applicable work area has posted all directives and policies that are applicable in this situation.

Theft of City Assets

An employee reported a theft of $229 from a locked desk drawer. The cash was the property of the City of Edmonton as it related to reimbursements for long distance charges made from a City-issued cell phone. Through the course of the investigation conducted by Corporate Security, it was determined that a breach of the City of Edmonton's *Handling of City Money* Directive (A1200B) had occurred. The main issue related to non-compliant storage of City assets. It was determined that a number of employees had access to the keys to the desk drawer. The theft of the money could have been mitigated had the money been immediately deposited into a safe. A number of recommendations were made to ensure that the work area will, in the future, be in compliance with the Administrative Directive *Handling of City Money*.

Misuse of City Assets

A complaint was received that a City of Edmonton Supervisor had used City staff members during their shift to move a piano that the Supervisor had purchased for personal use. A review of the situation confirmed that the Supervisor did use two City employees to assist with moving a piano. It was also determined that a City vehicle was used to move the piano. A letter of reprimand was issued to the Supervisor.

Inappropriate time and car allowance approval processes

A complaint was received regarding the time approval and car allowance approval processes utilized within a work area. It was alleged that an individual delegated time and car allowance approval responsibility and shared their password with some of the employee's direct reports. It was determined that a detailed paper process was in place to parallel the electronic approval processes, which mitigated the risk of inappropriate time and car allowance reporting. A change to the time approval procedure was recommended to correct the practice of sharing a confidential password, and to remove any perception of impropriety.

Cash handling concerns at a City of Edmonton facility

A City of Edmonton employee alleged that after visiting a City of Edmonton facility and paying for some services that the cashier did not use the till or issue a receipt. Corporate Security was able to identify six cashiers that could have worked during the time period that the employee claimed the incident took place. A cash analysis was conducted for all the employees that could have worked during the alleged incident. While no confirmation of the allegation occurred, there were a number of other concerns that were identified. A number of recommendations were provided to mitigate the risk associated with the anomalies that were discovered.

Preferential scheduling of overtime

It was alleged that a supervisor was in a romantic relationship with a subordinate and this was leading to favouritism in the assignment of overtime. A review of the subordinate's overtime records indicated that the employee had not received any overtime for several months prior to the complaint. Therefore the allegation of preferential scheduling of overtime was unfounded. However, the work area did address the working relationship between the two employees to ensure there was no longer any direct supervision by the supervisor over the employee in question.

Theft of material at City facility

While conducting an access card audit at a City facility it was found that a City employee was accessing the facility during suspicious times and days. Further investigation by Corporate Security revealed that the employee was entering the City facility with his personal vehicle and then leaving with what appeared to be coils of copper wire which was later sold to a scrap dealer. As a result of the investigation the employee was terminated of his employment with the City and received charges of Theft Under $5,000 from the Edmonton Police Service. A number of recommendations were provided to mitigate risks of copper theft at this facility in the future.

Misuse of City time and assets

A complaint was received that cited numerous allegations, including ongoing misuse of City time and assets, theft of City property and displaying of inappropriate signs/paraphernalia on City assets. The information gathered during the investigation confirmed serious gaps in both the quantity and quality of work performed by two City employees. The investigation confirmed work procedures were not consistently followed, putting the quality of the work performed into question. A review of the employee's signed work orders revealed that stops were not of long enough duration to allow for the work to be completed as required. As a result of the investigation, both employees were terminated from the City of Edmonton.

7.   Measuring our Performance

We have implemented a range of performance indicators that are designed to provide assessments of both our internal business processes and external outcomes. We measure key quality and efficiency indicators in order to continuously improve our strategic performance and results. 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.

Customer Relationships

Performance Indicator	Industry*	2007	2008	2009	2010	2011
Customer Relationships (client surveys)	(out of 5)					
Communication How well the client was informed of objectives, process, timeframe, and emerging findings.	N/A	4.6	4.6	4.6	4.5	**4.6**
Understanding of client's business How well the audit staff demonstrated their understanding of the client's issues and challenges.	N/A	4.6	4.4	4.5	4.4	**4.3**
Professionalism How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients.	N/A	4.6	4.7	4.6	4.6	**4.8**
Quality of findings Practicality, adequacy, and openness of communication with the clients.	N/A	4.6	4.4	4.5	4.4	**4.3**
Overall average Client's overall assessment of the value received.	4.3	4.6	4.5	4.6	4.5	**4.5**

We strive to deliver high quality, innovative and cost-effective audit services. To accomplish this objective, we place emphasis on the importance of our relationships and communication with audit clients. At the conclusion of all major projects, we issue a customer satisfaction survey to the client to obtain feedback on our performance and to identify areas where improvements in our operations can be made. Our customer satisfaction survey focuses on how well we communicated throughout the audit; our understanding of the client's issues and challenges; the professionalism of our audit staff; and the quality of our findings. Feedback received from Departmental Management Teams is universally supportive of our efforts to accomplish the most benefit for the Corporation as the overall rating of the value received on our 2011 projects was 4.5 out of 5. Moreover, we have been able to maintain consistent performance during the past five years on key customer relationship indicators.

Internal

Performance Indicator	Industry	2007	2008	2009	2010	2011
Internal						
Percent of recommendations accepted A measure of the value provided by the audit.	96%	100%	100%	100%	100%	**100%**
Percent of chargeable time vs. available time A measure of the available time worked on projects.	75%	78%	75%	82%	80%	**79%**
Percent of completed or partially completed projects to number scheduled A measure of office productivity.	91%	91%	90%	95%	94%	**94%**

We have a number of internal measures to monitor our effectiveness and productivity. These include percentage of recommendations accepted, percentage of chargeable time, and audit plan completion.

Recommendations accepted
We are committed to providing recommendations that identify potential efficiency gains, improve operational effectiveness, and provide guidance regarding provision of more economical services to citizens. It is our responsibility to present accurate and convincing information that clearly supports our recommendations. The percent of recommendations accepted by the Administration is an indication of our effectiveness in this regard. Management accepted 100 percent of the recommendations made in 2011.

Productivity – chargeable time
Productive time is considered time spent directly working on audits, investigations, follow-up audits or other audit projects. Our goal is to maintain a 75 percent productivity rate, which is an industry average. We had a productivity ratio of 79 percent in 2011 compared to the industry rating of 75 percent.

Productivity – audit plan completion
We develop the annual audit plan through a formal risk assessment process, with input from City Council, Audit Committee, and Administration. With the exception of four projects, we completed our approved 2011 Annual Work Plan. In addition to the scheduled projects, we also completed a number of projects that were not in the original work plan.

Human Resources

Performance Indicator	Industry	2007	2008	2009	2010	2011
Human Resources						
Days of City-funded training & development A measure of commitment to maintaining and enhancing professional certifications and skills.	**8 – 12**	8.9	9.9	7.0	8.5	**8.5**
Percent of staff certified or with advanced designations A measure of staff qualifications.	**83%**	93%	92%	92%	92%	**92%**
Maintain a positive working climate A measure of the average level of staff satisfaction on several attributes.	**63%**	93%	-	90%	-	**99%**

One of our goals is to maintain a respectful, team-oriented workplace that helps individuals reach their career potential and achieve personal growth goals. Strategies to help achieve this goal include the encouragement to pursue training, and professional certifications, and to foster a positive working climate.

Training
Training is vital to the OCA as it keeps us fresh professionally and on the cutting edge of technology. Moreover, internal auditing standards require that our staff complete at least 80 hours of continuing education every two years. In addition, staff must meet the minimum continuing education requirements to retain their professional certifications. In 2011, our staff completed an average of 64 hours (8.5 days) of professional development by attending courses, seminars, workshops, conferences, monthly professional association luncheons, and in-house training sessions. To help minimize

training costs in 2011, we held two in-house retreats and incorporated topical training courses.

Professional certification
Professional certification is strongly encouraged within the OCA. The extensive variety of skill sets offered by staff members enables us to conduct most of our tasks with internal resources. Ninety two percent of the professional staff members possess one or more certifications or advanced degrees.

Employee satisfaction – maintaining a positive work climate
The City of Edmonton has developed a corporate workforce plan to meet future and current workforce needs. In November/December 2010, staff members from the OCA were among 10,372 City employees that were surveyed in a comprehensive Employee Survey that integrated engagement, diversity, inclusion, workplace and culture. Results from the survey were provided in 2011. The OCA has participated in two previous employee engagement surveys. The City of Edmonton has defined employee engagement as employees who are service oriented, provide meaningful contribution, work collaboratively and are committed to organizational results. In 2011, the overall Employee Engagement score for the OCA was 99 percent favourable as compared with the public sector benchmark of 63 percent and the City overall of 67 percent.

Financial

Performance Indicator	Industry	2007	2008	2009	2010	2011
Financial						
Percent actual vs. budgeted expenditures	**90 to 110%**	90%	90%	90%	97%	**96.2%**
Audit Department staffing A measure of audit staff to organizational staff.	**1 auditor per 816 staff**	N/A	N/A	N/A	1 auditor per 823 staff	1 auditor per 911 staff

As an independent audit office reporting on the efficiency, effectiveness, and economy of City operations, we must operate in a cost-effective and clearly accountable manner. We have two measures to monitor our cost effectiveness. This includes our percentage of actual versus budgeted expenditures. We also benchmark our staffing levels.

Actual versus budgeted expenditures
Approximately 90 percent of the OCA's budget consists of salary and benefits. Recognizing the financial challenges of the City, and as part of the 2011 budget process, we reduced our full time equivalent positions by one in 2011. Our financial objective is to manage our expenditures so actual final year-end expenditures are within +/- 5 percent of budgeted expenditures. Our 2011 results were approximately two percent below budgeted expenditures.

Audit Department staffing
The reduction of one full-time equivalent position in 2011 resulted in the approximate 12 percent change in this ratio in 2011 compared to 2010.

8.   Conclusion

In this annual report, I have reported on the results of projects we undertook in 2011 and provided a report on the Fraud and Misconduct Hotline. I am proud of our accomplishments and our contributions to the City of Edmonton in 2011. 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 2011, 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 role. 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. The continuation of this mutual cooperation is conducive to our common goal of ensuring that the operations of the City of Edmonton are carried out in an efficient, effective, and economical manner.

In closing, I wish to pay tribute to my staff. The goals of the OCA were achieved in 2011 as a result of my staff's hard work, perseverance, and commitment to delivering high quality, innovative, and cost-effective audit services. Their ability to willingly adapt and rise to new challenges and complexities in our work needs to be acknowledged. I am very fortunate to work with the following talented and professional group of individuals.

<u>**Staff of the Office of the City Auditor**</u>
Gordon M. Babey
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