

# **Office of the City Auditor**



## **2012 Annual Report April 5, 2013**



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## 1. Message from the City Auditor

The Office of the City Auditor (OCA) is an essential element of public accountability and transparency for the City of Edmonton. As City Auditor, I am not connected to any City departments. This independence allows my office to be objective, impartial, and resolute when reviewing City-related business and program activities. We post our reports on the City's website to keep citizens of Edmonton informed of our activities.

This report highlights our operating results and activities during 2012. We issued twelve reports in 2012, which are summarized in Section 3. In addition, we were involved in a number of other projects that are summarized in Section 5. The 2012 Fraud and Misconduct Hotline summary is included in Section 6.

We work hard to ensure that our recommendations are relevant, practical, and feasible to implement. We are cognizant of the cost versus benefit of implementation. This awareness resulted in the City Manager agreeing to take action on 100 percent of the recommendations we made in our 2012 audit reports. The recommendations contained in those reports benefit the City in a number of ways including:

- Better oversight of a number of processes and operations,
- Improved efficiency and effectiveness of service delivery, and
- Strengthened controls to safeguard City assets and improve compliance with policies, directives, and guidelines.

One of the challenges that we regularly encounter is trying to audit against relevant performance measures. To help City Council make informed decisions and to achieve optimal results, the Administration needs to incorporate all the elements of performance measurement (inputs, activities, outputs, and outcomes) into a meaningful and comprehensive performance management system. Administration must appropriately balance all the performance measurement elements and regularly report the results to Council. Development of an effective performance management system should lead to allocating resources to programs and services that clearly advance the City's priorities.

As with all levels of Government, the City of Edmonton is facing some tough decisions in allocating scarce resources. The City recognizes this, and has embarked on a budgeting process called *Results and Priority-Based Budgeting*. One of the key elements of a successful results-based budgeting process is collecting, managing, and reporting on both financial and non-financial measures that are clearly related to each program and then allocating resources to the programs and services to best serve the needs of the citizens of Edmonton. To make these decisions, it is important for the Administration to provide reliable and meaningful information to City Council to support its decision-making.

As an independent audit office reporting on the efficiency, effectiveness, and economy of City operations, we must also operate in a cost-effective and clearly accountable manner. In 2013, 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. Our Strategic Framework

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 those needs. Audit Committee and City Council rely upon the OCA to provide an objective and constructive assessment of how efficiently, effectively, and economically the Administration is fulfilling its mandate in the context of City Council's directives and policies. The scope of our audit work can include all phases of City activities through which City Programs or City Agencies provide services to citizens. This requires going beyond accounting and financial records to developing a good understanding of the operations under review.

### Our Vision

Our vision statement defines the focus of the work we do everyday:

***“Committed to adding value”***

### Our Mission

Our mission statement defines our purpose within the organization:

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

### Our Principles

As audit professionals we must uphold the principles of all the professional associations we represent and those of the City of Edmonton. The following principles define our expected behaviour as leaders:

***Integrity  
Objectivity  
Confidentiality  
Competency***

### Our Goals

Our strategic goals identify the things toward which we must strive in order to fulfill our mission:

- 1. To support the City's achievement of its strategic goals.***
- 2. To improve the effectiveness of the City's risk management, control and governance processes.***
- 3. To promote efficient, effective and economical City operations.***
- 4. To promote an ethical public service environment.***
- 5. To deliver high quality, innovative and cost-effective audit services.***
- 6. To maintain 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 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.

### **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 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 Internal Auditor, Certified Fraud Examiner, Certification in Control Self Assessment, Certified Information Systems Auditor, Certification in the Governance of Enterprise Information Technology, Certified General Accountant, Certified Management Accountant, Chartered Accountant, Certified in Risk management Assurance, and Professional Engineer.

### Independent evaluation of potential audits by risk level

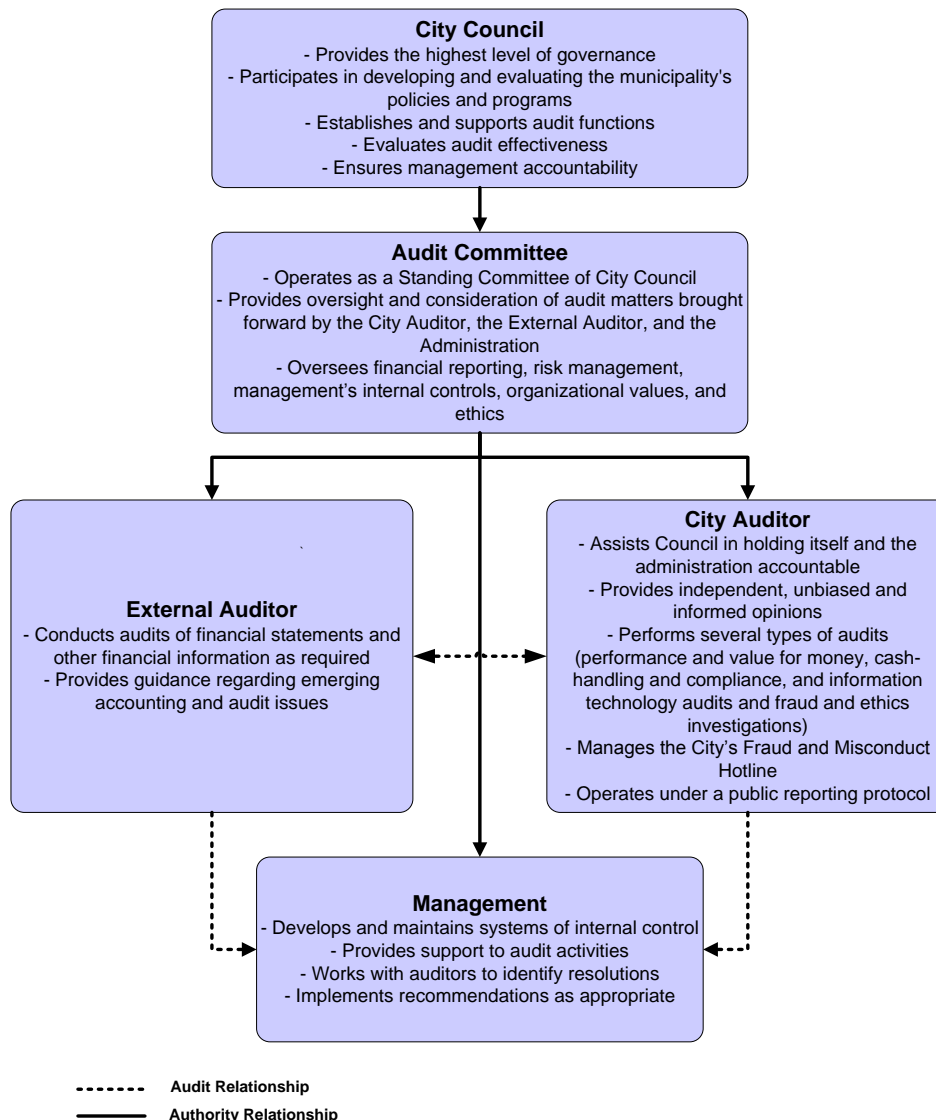
Each year, the OCA independently evaluates all potential audit projects to determine the level of risk that they pose to the City. From that evaluation, the OCA develops an Annual Work Plan that is presented to Audit Committee for review and input. It is then submitted to City Council for approval. Items 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 risk assessment of each selected business unit or process to focus the audit on the areas with 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**





### 3. Projects Completed in 2012

This section highlights our audit activities for the year 2012. Audit Committee endorsed our 2012 Annual Audit Plan on November 7, 2011. 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 2012:

#### 3.1. Contract Tendering Review

The objective of this review was to assess the City's contracting process against the public procurement principles of openness, fairness, transparency, and accountability. We also reviewed the control framework related to the contract tendering process. The primary objective of the City's contract tendering process is to obtain goods, services, and construction in a timely manner and at the best value for money through competitive bidding and contractual agreements. Open tendering is used, especially by the public sector, to gain the benefits of competition for advertised opportunities.

We found that the City's contract tendering process is generally open, fair, transparent, and accountable. We identified four opportunities to further enhance the contracting process. Implementation of these recommendations will further improve the City's governance structure, contracting processes, improve its relationships with both internal clients and the vendor community, and increase contract savings.

#### 3.2. Law Branch Audit

The objective for this audit was to assess whether the Legal Services and Corporate Security Sections of the Law Branch are meeting the needs of the Corporation and are delivering their services in an effective and efficient manner. The Law Branch maintains volumetric measures on workloads that are used to assess and evaluate workload among staff to ensure that client needs are addressed. We found that the Law Branch is effectively meeting client needs and its corporate commitment to help minimize financial loss. Our analysis showed that City lawyers' rates averaged 37 percent of external counselors' rates, which is within benchmark ranges. We also noted that the City makes limited use of external legal counsel, further contributing to the economic delivery of legal services.

The Law Branch does not maintain data or have performance measures to assess service delivery efficiency. We have recommended that a set of performance measures be developed so that the overall value of services rendered by Law Branch can be objectively assessed.

Statistics maintained by Corporate Security show that the security of City facilities and safety of employees and citizens using those facilities has improved. We noted that while there has been a decrease in the overall number of alarms being recorded the number of alarms caused by human error more than doubled from 2011 to 2012. We recommended that Corporate Security continue to work with its clients to reduce the number of alarms caused by human error.

### **3.3. Grant Administration Audit**

The objectives of this audit were to determine whether the City has adequate grant administration practices. To meet this objective, we assessed the City's grant administration practices against audit criteria that are based on research of best practices in grant administration. Our research showed that an effective process for administering grants follows a life-cycle model with six stages. The model begins with the development of an effective framework and ends with reporting the outcomes of the grants.

Of the 21 grants we tested only one met all criteria. Therefore, we made two recommendations to help improve the adequacy of the City's grants administration practices.

Implementation of these recommendations will enable consistent and effective grant administration practices, provide the Administration and Council with assurance that City employees are approving and disbursing grant funds in a transparent, credible, and diligent manner, and reduce the risks to the City of the grant recipient not using funds for their intended purpose.

### **3.4. Information Technology Security Review**

The objectives of this review were to determine whether the City's IT environment incorporates appropriate safeguards to defeat, or detect and mitigate unauthorized external access and cyber attacks. As well to determine whether the City has implemented the procedures and controls necessary to minimize the risk of social engineering techniques being used to compromise its IT environment. To do this we hired external expertise to perform a comprehensive information security assessment of the City's Information Technology (IT) environment from the perspective of an external attacker.

We made three recommendations to strengthen controls. Implementation of these recommendations will help to enhance the City's IT environment and incorporate appropriate safeguards to minimize the risk of unauthorized external access, as well as physical and electronic social engineering attacks.

### **3.5. Edmonton Police Service Payroll Audit**

The objective of this audit was to determine whether the internal controls over the Edmonton Police Service's (EPS) payroll process are effective and whether staff members are complying with payroll policies. We found that the EPS needs to improve controls to ensure that it accurately records and properly authorizes all payroll information. We also found non-compliance with some payroll-related policies.

We made four recommendations to enhance the effectiveness of the EPS's payroll process. Implementation of these recommendations will improve controls over the authorization of regular pay and overtime.

### **3.6. Edmonton Combative Sports Commission Fee Review**

In May 2012, we received a complaint that the Edmonton Combative Sports Commission (ECSC) collected licensing and other fees that exceeded the Council-approved fee schedule for 2011. This review was conducted to assess compliance with the approved fee schedule. Our objective was to determine if the ECSC overcharged individuals and organizations and if so whether they processed appropriate refunds.

In anticipation of a new license fee schedule, the ECSC erroneously applied the 2012 license fee schedule during 2011. The ECSC Executive Director identified 43 license overpayments totaling \$2,625.00 which were refunded. Through our review, we identified an additional 8 license overpayments totaling \$1,415.00 that needed to be refunded. The ECSC has refunded these additional overpayments of license fees to the affected individuals and organizations identified in this review.

### **3.7. City Productivity Audit**

The primary objectives for this audit were to identify high level productivity measures for selected City Branches, to calculate productivity levels at both the activity level and higher organizational levels (including the City as a whole), and to assess the overall maturity of the City's productivity management practices. The overall results show that the City as a whole experienced a 0.8 percent per year gain in productivity over the five-year period of 2007 to 2011. Overall, the short-term gains (3.7 percent between 2009 and 2011; 4.7 percent between 2010 and 2011) are higher than the five-year average.

We also used a productivity maturity self-assessment exercise to raise the awareness and importance of productivity measurement in the broader context of the City's performance management and budget improvement initiatives. Based on our observations, the City has good productivity management practices in several areas. Some Branches, however, still do not have meaningful productivity measures and the majority of Branches still need to establish productivity targets. We have recommended that the City fully integrate meaningful productivity measures into its efforts to improve the City's performance and budget management systems.

### **3.8. South LRT Insurance and Damage Claims Process Review**

During and following the construction of the South LRT extension (SLRT) a number of homeowners filed property damage claims that they associated with construction activity. The objective of this review was to determine whether the claims handling process was transparent and was clearly communicated to residents of affected communities. The damage claims process used in the SLRT project demonstrated strong support for protecting the City's financial interest. However, our observations showed that the insurance claims processing practices were not formally communicated to residents in the affected communities.

We made two recommendations to enhance communications. Implementation of those recommendations will increase the transparency of the claims process and demonstrate that the City is committed to the fair treatment of its citizens.

### **3.9. Development Permit Fee Collection Review**

The overall objective of this review was to assess the effectiveness of controls over the development permit fee collection process used by the Development Permits and Central Planning Section of the Current Planning Branch. The observations we made during this review indicate that the Current Planning Branch is not maximizing revenue from development permit fees. We believe there is a potential for the Current Planning Branch to increase its annual revenues if fees are recorded, managed, and collected appropriately.

We made six recommendations to improve the development permit fee collection process. Implementation of these recommendations will result in improved risk management, strengthened internal controls, and improved accountability.

### **3.10. Drainage Services Branch Audit**

The primary objectives for this audit were to determine whether the Branch is performing drainage planning effectively and performing drainage operations effectively and efficiently and whether there is a system in place to address future staff requirements in the Drainage Operations Section. We found that overall the Drainage Planning Section is performing effectively. However, we made one recommendation to improve its communication and integration with other City Departments and within the Drainage Services Branch.

We made five recommendations to improve or enhance the effectiveness and efficiency of drainage operations. The recommendations related to: improving data collection and analysis, improving the use of technology, optimizing the use of staff time, determining and tracking staff training requirements and updating the Drainage Operations Operational Handbook, and developing a formal process to deal with initial complaints and allegations of unacceptable or unethical behaviour from staff. We also found that Drainage Operations has reliable data to show future staff retirements but recommended that they develop a formal process to address these requirements.

### **3.11. Private Vehicle Reimbursement Audit**

The objectives of this audit were to determine whether the Private Vehicle Reimbursement Directive is adequate, whether staff are monitoring and complying with the Directive, and if the use of private vehicles is cost effective. The Directive provides definitions and establishes the guidelines for all City employees to claim reimbursement for the use of their private vehicles. We assessed the adequacy of the Directive and found areas where it should be improved or updated. In order to assess compliance with the Directive, we tested a sample of private vehicle reimbursement claims from 2011. We found non-compliance with some parts of the Directive.

We made four recommendations to the Chief Financial Officer that will lead to a clearer Directive, improved compliance with the Directive, improved monitoring, and improved cost effectiveness of the use of private vehicles.

### **3.12. Multi-Sport Tournament Recreation Site (MTRS) Contract Review**

The Multi-sport Tournament Recreation Site (MTRS) project began in 2008. It is located at the corner of Ellerslie Road and 50<sup>th</sup> Street. The City designed the site to accommodate field sports such as soccer and rugby including parking, dressing rooms, concessions, stands, and playground facilities. The objective of this review was to conduct a detailed financial reconciliation and analysis of the original contract, change orders, contract inspector quantity reports, vendor invoices and City payment records. During our review, we also assessed the Parks Design and Construction Section's contracting activities for this project against established City contracting and project management practices.

The manner in which the MTRS contract was managed did not comply with many of the City's project management and contracting practices. As part of our 2013 Annual Work plan, we will be conducting another review of the project management and contracting processes within the Branch. Our objective will be to ensure that the deficiencies identified in this report have been addressed through the Branch's revised project management practices that were put in place in late 2012 and early 2013.

## 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.*

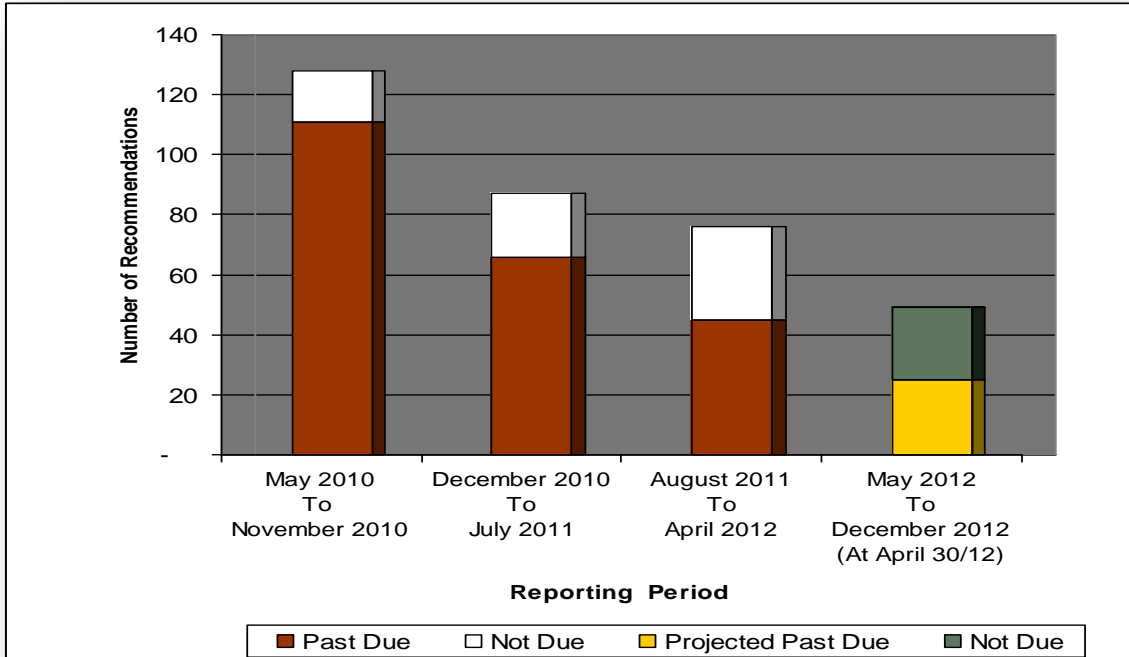
### 4.1. Follow-up Results

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 actions taken to determine whether the intent of the recommendations has been addressed and provides Audit Committee with regular 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 actions in response to recommendations made in our reports.

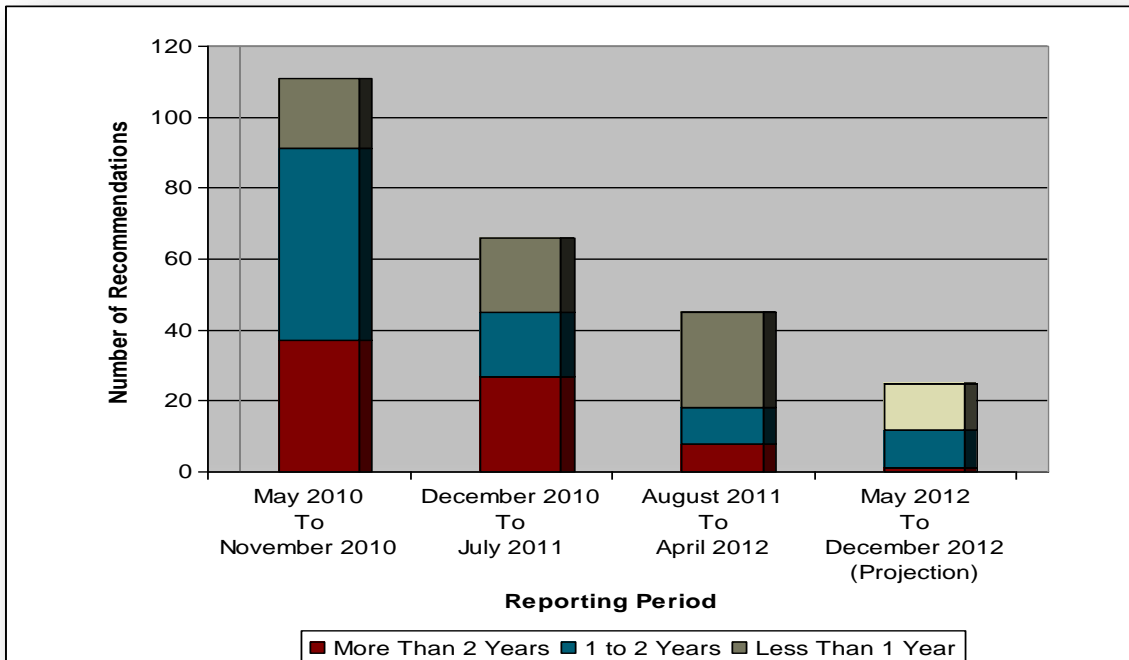
The Administration's efforts to implement corrective actions in a more timely manner have resulted in a significant reduction in the number of outstanding recommendations over the past three years. Chart 1 shows that the number of recommendations not implemented by the original estimated completion date provided by the Administration (past due) decreased from 111 in 2010 to 45 in 2012.

**Chart 1 – Outstanding Recommendations  
(Past Due and Not Due)**



The focus of the Administration’s efforts has been to close recommendations that have been outstanding for the longest period of time. Chart 2, illustrates the aging of recommendations that are past due.

**Chart 2 – Aging of Recommendations Past Due**



The chart shows that the number of recommendations more than two years past due have decreased from 37 in 2010 to 8 in 2012.

## 5. Other Audit Activity in 2012

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

### 5.1. Fraud Awareness Communication and Training

The City Manager and the City Auditor partnered to establish and implement a corporate communication and training strategy to improve fraud awareness within the City. The ultimate goal is for City employees to become fully aware of the City's expectations of adhering to high moral principles in the work they do. To reinforce key messages to employees, Corporate Communications posted a joint message from the City Manager and City Auditor on the City's intranet. In addition, the December 11, 2012 employee payroll stub included an insert on red flags (warning signs). Incidents of fraud and other economic crimes can often be prevented or detected by identifying the red flags associated with them.

The Code of Conduct will continue to guide employees on expected rules of behaviour. A Committee was formed consisting of the City Auditor, the General Manager of Corporate Services (who represented the Corporate Leadership Team), and members from Human Resources, Corporate Security, Treasury Management, Corporate Communications and Information Technology. Its role was to determine the most effective and efficient method of providing fraud awareness and training to employees. The Committee's recommendation was for Human Resources to incorporate the key messages in their planned Code of Conduct training and other related initiatives. All key messages prepared by Committee members have been passed on to appropriate Human Resources staff. This will ensure that messages to employees and supervisors are consistent and the training initiative is sustained to meet the City's current and ongoing needs

### 5.2. 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 2012, 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 17 members of the Edmonton Police Service. The Commission Chair and Executive Director chose the 17 members to complete the survey because they have regular involvement with the Commission.

We received completed Commission Evaluation Surveys from all nine Commission members and completed Chair Evaluation Surveys from eight Commission members. The Chair abstained from participating in the Chair Evaluation Survey. We also received completed Feedback Surveys from 13 of the 17 Edmonton Police Service members who received the survey. We consolidated the 2012 Edmonton Police Commission assessment surveys and prepared a report of survey results for the Commission's consideration. We presented the results of the assessment to the Police Commission at their regularly scheduled December 13, 2012 meeting.



### **5.3. Audit of Cornerstones Grant**

In October 2011, Housing and Sustainability Branch staff became concerned that the City may have over-funded a project that was provided Cornerstones Grant funding. They approached our Office about exercising the “right to audit” clause in the funding agreement.

On December 7, 2011, we initiated an operational and financial audit of the financial and accounting records of the project. Our objective was to determine whether there were any surplus Cornerstones grant funds that the organization did not use for the project. This audit was completed in early 2012. The results of our audit showed that the City had over-contributed \$2,515 to the Project. The Housing and Sustainability Branch has requested that the overpayment be refunded to the City.

### **5.4. Community and Recreation Facilities Branch Cashier Analysis**

We support the Community and Recreation Facilities Branch by providing them with an analysis of cashier transactions on a quarterly basis. Using special audit software we are able to determine the number of transactions completed by each cashier at each location. We then determine the number of transactions that were voids, no sales (i.e., opening the till to provide change), refunds, or cash sales. We also determine the number of times each cashier’s till was over or short at the end of their shift compared to the actual number of shifts they worked. The Branch uses this information to identify anomalies or potential training requirements.

### **5.5. Performance Audit Presentation – Republic of South Africa**

On May 15, 2012, the City Auditor, Deputy City Auditor and OCA’s Executive Assistant made a presentation to seven Members of the Provincial Legislature and three staff members from the Eastern Cape Provincial Legislature of Bhisho. The Eastern Cape is a province that forms the southeast part of South Africa. Bhisho is the capital of the province. The delegates were part of a study visit to British Columbia and Alberta to broaden their understanding on how oversight of the use of public resources is performed in the two Canadian provinces. The participants from South Africa were particularly interested in our methodologies for determining economy, efficiency, and effectiveness measures in our performance/value-for-money audits. Our office was honoured to be selected as part of their study tour.

### **5.6. International Fellowship Program - Vietnam**

We are pleased to report that the two Auditors from the State Audit Office of Vietnam who joined our office in November 2011 successfully graduated in May 2012 from the Canadian Comprehensive Auditing Foundation’s (CCAF) International Fellowship Program. As part of this program, we partnered with the Auditor General of Alberta to assist the auditors from Vietnam with learning about all aspects of value-for-money auditing. As part of the graduation proceedings, the City Auditor and the OCA’s Executive Assistant attended a ceremony on May 17, 2012 for the two Auditors that was held at the Provincial Auditor General’s Office.

### **5.7. Internal Audit in the Municipal Sector Presentation**

The Institute of Internal Auditors (IIA) is an international professional association of more than 170,000 members in 165 countries that acts as the internal audit profession's global voice, chief advocate, recognized authority, acknowledged leader and principal educator. The IIA Edmonton Chapter has more than 300 members representing major industry, government, and public practice in Edmonton and northern Alberta.

The City Auditor was the guest speaker at the IIA Edmonton Chapter's March 20, 2012 professional development luncheon. The City Auditor's topic was the principles of openness, transparency, and accountability of internal audit in the municipal sector.

## 6. 2012 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 categories of cases resolved during the year.

### 6.1. Background

The City of Edmonton introduced a combined Fraud and Whistleblower Policy in 2006. 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 understand 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 those reports. The City now also 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 those reports. 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 anonymously answer additional questions to validate the information provided and to

gather pertinent information should an investigation be initiated. Automatic email notifications immediately alert authorized OCA employees when newly submitted or updated reports are received. All information is 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 or not 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 for 2012 have been included in the following Fraud and Misconduct Hotline Summary to provide comprehensive information on our 2012 investigative work.

### 6.3. Hotline Activity

Table 1 summarizes the reports received by the Hotline and the OCA for 2012 by report category. For comparison purposes, summaries for the previous four years have also been provided.

**Table 1 – Reports received by the Hotline and the OCA (2008 to 2012)**

Report Category	2008	2009	2010	2011	2012
Financial Reporting and Accounting	0	1	1	1	0
Health and Safety, Environment	2	0	1	5	1
Unethical Conduct and Conflict of Interest	10	9	13	18	10
Manipulation or Falsification of Data	0	2	0	1	2
Harm to People or Property	3	5	5	3	1
Theft, Embezzlement, Fraud	5	12	7	10	12
Violation of Laws, Regulations, Policies, Procedures	11	9	7	4	11
Miscellaneous	2	6	11	8	1
<b>Total</b>	<b>33</b>	<b>44</b>	<b>45</b>	<b>50</b>	<b>38</b>

In 2012, a total of 38 reports/complaints were received and reviewed. Thirty-six of the reports were received through the hotline, of which 14 (39%) were through live agents and 22 (61%) were through the online web service. The remaining 2 reports/complaints were received directly by us. All but 2 of the reports were closed as of the year-end.

#### Disposition of Reports/Complaints

We screen all 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 those 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 our 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, and appropriate departmental staff as required.

A number of reports that pertained to operational matters falling 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. Table 2 summarizes the disposition of the 38 reports/complaints we received in 2012. For comparison purposes, a summary of the previous four years has also been provided.

**Table 2 – Disposition of Reports/Complaints (2008 – 2012)**

Description	2008	2009	2010	2011	2012
No action taken (insufficient information, comments and inquiries on the hotline, follow-up on previously submitted report, etc.)	9	5	9	10	6
Tips provided that will be used in future audits	3	4	3	4	2
Referred to the City Manager (operational matters, retaliation complaints, etc. that are outside the scope of the OCA)	7	19	14	17	15
Reports/Complaints Investigated by the OCA and the Administration (Corporate Security, Labour Relations, etc)	14	16	19	19	15
<b>Total</b>	<b>33</b>	<b>44</b>	<b>45</b>	<b>50</b>	<b>38</b>

## Investigation of Reports and Complaints

In 2012, the OCA and Administration investigated 15 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 that 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 15 complaints that were investigated, 13 were closed and 2 investigations were still in progress at year-end. Of the 13 investigations that were closed, 6 allegations could not be substantiated or confirmed based on the information available. Therefore, no further action was taken. The remaining 7 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:

#### Claiming sick benefits while working another job

A complaint was submitted alleging that an employee was had another job while in receipt of sick benefits from the City. An investigation was done to determine if the employee was working elsewhere while collecting benefits. It was determined that the employee was working at a sporting goods store during the time period that the employee was in receipt of sick benefits from the City. The Administration accepted the employee's resignation in lieu of termination.

#### Need for stronger controls over inventory at a City of Edmonton facility

A complaint was received about an employee potentially using City tools and equipment for personal use. A tour of the City facility where the tools and equipment were stored was conducted. In addition, a review of the inventory procedures at the facility was also conducted. The investigation did not conclusively indicate that any of the tools and equipment were being inappropriately used. However, it was agreed that the inventory processes to protect City assets could be improved. Corporate Security agreed to perform an inventory risk assessment and provide recommendations to tighten and regulate the use of the tools and equipment at the facility.

#### Attempted theft at City of Edmonton facility

It was alleged that there was a theft during the early morning hours at a City of Edmonton facility. An investigation revealed that an intrusion alarm actually scared the suspect away. However, as a result of this incident and investigation, Corporate Security made seven recommendations to improve the security at the City of Edmonton facility.

### **Inappropriate time entry processes**

A complaint was received regarding the time entry process utilized within a work area. It was alleged that an individual used City time for personal business and that the time was entered as if the individual had worked a full day. An investigation did confirm that the time entered within the City's time entry system was showing the individual as working. The investigation also revealed that the employee did in fact take 2 hours of City time to conduct some personal business. However, it was also determined that the employee also made up the 2 hours on the following two days. While no disciplinary action was required for the City employee, the employee was counselled on the importance of maintaining regular hours of work, and documenting their time when off-site on non-City business.

### **Preferential scheduling**

It was alleged that a supervisor was best friends with a subordinate and this was leading to favouritism in the assignment of work. The complainant indicated that the start time for one individual was inconsistent compared to other employees in the work area and that the employee was not working the required 40 hours per week. The concern was that the work area was then short-staffed on certain evenings and weekends. It was confirmed that the individual's start time was one hour earlier than the other employees in the work area. However, this was necessary in order to accommodate the individual's child care situation. While the individual was working the required 40 hours, it was recommended that a review of scheduling options be conducted to determine an appropriate and efficient alternative for evening and weekend coverage in the work area.

### **Inappropriate usage of email**

It was confirmed that an employee was sending out a significant amount of personal email which is a violation of the City of Edmonton's Administrative Directive A1429, *Acceptable Use of Communication Technology*. The employee's Manager discussed this with the employee and outlined the expectations regarding proper computer and email use.

### **Non-compliance with Business Expense Administrative Directive**

We received an allegation that an individual was submitting Corporate Procurement Card (CPC) transactions without sufficient supporting documentation to justify the purchase. We analyzed the transactions for compliance with the CPC Guidelines and with the *Employee Business Expense Administrative Directive*. Approximately 23 percent (27 out of 155) of the CPC transactions we reviewed did not comply with the Guidelines and/or Directive as there was no original itemized receipt or insufficient detail was provided. In addition, we found some recurring non-compliance issues with the Employee Business Expense Directive in the area of hosting expenses. These included not recording the individuals present and the business reason for hosting on the meal receipt. The employee's manager was provided the results of our investigation. They took the responsibility of ensuring that the transactions were for business purposes. While the transactions were confirmed for business purposes, the manager provided direction to the work area on the importance of ensuring that all CPC transactions have adequate details on receipts so that a reviewer of the receipts can determine why the money was spent.

## 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 maintained consistent performance during that time.

### 7.1. Customer Relationships

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. Table 3 shows our results for these indicators over the past five years and compared to the industry standard, if available.

**Table 3 – Customer Satisfaction Survey Results**

Performance Indicator	Industry	2008	2009	2010	2011	2012
<b>Communication</b> How well the client was informed of objectives, process, timeframe, and emerging findings.	N/A	4.6	4.6	4.5	4.6	4.6
<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	4.5	4.4	4.3	4.4
<b>Professionalism</b> How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients.	N/A	4.7	4.6	4.6	4.8	4.8
<b>Quality of findings</b> Practicality, adequacy, and openness of communication with the clients.	N/A	4.4	4.5	4.4	4.3	4.5
<b>Overall average</b> Client's overall assessment of the value received.	4.3	4.5	4.6	4.5	4.5	4.6



The overall rating of the value received on our 2012 projects was 4.6 out of 5. Moreover, we have been able to maintain consistent performance during the past five years on key customer relationship indicators.

## 7.2. Internal

We also 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. Table 4 shows our results for these indicators over the past five years and compared to the industry standard.

**Table 4 – Effectiveness and Productivity Results**

Performance Indicator	Industry	2008	2009	2010	2011	2012
<b>Percent of recommendations accepted</b> A measure of the value provided by the audit.	96%	100%	100%	100%	100%	100%
<b>Percent of chargeable time vs. available time</b> A measure of the available time worked on projects.	75%	75%	82%	80%	79%	80%
<b>Percent of completed or partially completed projects to number scheduled</b> A measure of office productivity.	91%	90%	95%	94%	94%	96%

### 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 we made in 2012.

### 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 the industry average. Our productivity ratio was 80 percent in 2012.

### Productivity – audit plan completion

We develop our annual audit plan through a formal risk assessment process, with input from City Council, Audit Committee, and Administration. With the exception of one project, we either completed or were near completion of all projects approved in our 2012 Annual Work Plan. In addition to the scheduled projects, we also completed a number of projects that were not in the original work plan.

### 7.3. Human Resources

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. Table 5 shows our results for these indicators over the past five years and compared to the industry standard.

**Table 5 – Human Resource Related Results**

Performance Indicator	Industry	2008	2009	2010	2011	2012
<b>Average days of City-funded training &amp; development</b> A measure of commitment to maintaining and enhancing professional certifications and skills.	8 – 12	9.9	7.0	8.5	8.5	8.3
<b>Percent of staff certified or with advanced designations</b> A measure of staff qualifications.	83%	92%	92%	92%	92%	92%
<b>Maintain a positive working climate</b> A measure of the average level of staff satisfaction on several attributes.	68%	-	90%	-	99%	93%

#### Training

Training is vital because it keeps us fresh professionally and with technology. Internal auditing standards require that our staff complete at least 80 hours of continuing education every two years. In addition, staff must satisfy continuing education requirements to retain their professional certifications. In 2012, our staff completed an average of 62 hours (8.3 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 2012, 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

In 2012, staff members from the OCA were among all City employees that were surveyed in a comprehensive Employee Survey that integrated employee engagement, diversity, inclusion, workplace and culture. Feedback from the survey provides a catalyst for action on many aspects of organizational health including employee perceptions of work environment, satisfaction, pride and corporate culture. In 2012, the overall Employee Engagement score for the OCA was 93 percent favourable as compared with the City's overall average of 67 percent.

#### 7.4. Financial

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. Table 6 shows the results of our cost effectiveness indicator over the past five years and compared to the industry standard.

**Table 6 – Cost Effectiveness Results**

<b>Performance Indicator</b>	<b>Industry</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Percent actual vs. budgeted expenditures</b>	<b>90 to 110%</b>	90%	90%	97%	96.2%	<b>92%</b>

Approximately 91 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. In 2012, we maintained our staffing levels while continuing to operate in a cost-effective and accountable manner. Our 2012 actual results were approximately eight percent below budgeted expenditures. This was due to two maternity leaves that occurred in 2012.

## 8. Conclusion

In this annual report, I have reported on the results of projects we undertook in 2012 and provided a report on Fraud and Misconduct Hotline activities. I am proud of our accomplishments and our contributions to the City of Edmonton in 2012.

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 2012, 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 2012 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.

### Staff of the Office of the City Auditor

Gordon M. Babey  
Chrisy Burton  
Bill Cook  
Queena Dong  
Paul Ebenezer  
Leslie Glasbeek  
Sophia Kasozi  
Larry Laver  
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