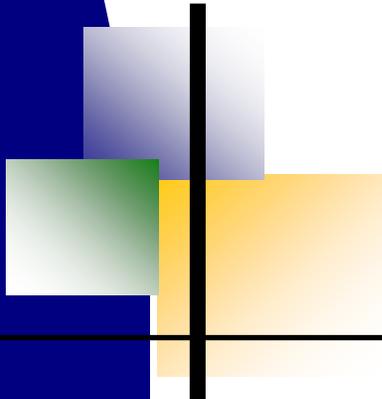


Office of the City Auditor



2013 Annual Report

March 17, 2014



Office of the City Auditor
1200, Scotia Place, Tower 1
10060 Jasper Avenue
Edmonton, Alberta, T5J 3R8

Phone: 780-496-8300

Fax: 780-496-8062

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

Table of Contents

1. Introduction	1
2. Our Strategic Framework	2
3. Projects Completed in 2013	5
3.1. Building Permit and Inspection Services	5
3.2. Automated Photo Enforcement Audit	5
3.3. Fleet Safety Audit	6
3.4. Wichitowin Circle of Shared Responsibility Society Review	6
3.5. Development Securities Review	7
3.6. Fire Rescue Services Branch Audit	7
3.7. Edmonton Transit Administration Review	7
3.8. Capital Project Advisory Assistance	8
4. Recommendation Follow-up Process	9
5. Other Audit Activity in 2013	11
5.1. Audit Management Software	11
5.2. Police Commission Self Assessment	11
5.3. Community and Recreation Facilities Branch Cashier Analysis	11
5.4. 2013 Municipal Election	12
5.5. Investment Tracking System	12
6. 2013 Fraud and Misconduct Hotline Summary	13
6.1. Background	13
6.2. Hotline Operation	13
6.3. Hotline Activity	14
6.4. Outcomes of the Completed Investigations	16
7. Measuring Our Performance	18
7.1. Customer Relationships	18
7.2. Internal	19
7.3. Human Resources	20
7.4. Financial	21
8. Conclusion	22

1. Introduction

I am pleased to present a summary of key activities for the Office of the City Auditor for the year ended December 31, 2013. The Office of the City Auditor holds a unique position in the City of Edmonton. As City Auditor, I am accountable to City Council through Audit Committee, not to City Administration. This independence allows my office to be objective, impartial, and resolute when reviewing City-related business and program activities.

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. Our audits over the past year examined issues such as the use of resources in delivering building permits and inspection services, the performance of the City's automated photo enforcement program, the ability of Fire Rescue Services to effectively address the impact of the City's growth on its responsibility to protect citizens, the effectiveness of the City's Driver Safety Program, and the effectiveness of the Wicahitowin Society's governance and financial policies in managing the City's contributions to the program.

Our recommendations continue to identify opportunities for City programs to deliver greater accountability and more cost-effective municipal services. In 2013, the Administration agreed to implement 100 percent of our audit recommendations. In many instances, the Administration took action prior to our audit reports being discussed at Audit Committee. Prior to 2010, the OCA was issuing more recommendations each year than were being closed, resulting in a backlog of recommendations that had not been addressed in a timely manner. Since then, we have worked with the Administration to steadily reduce the number of outstanding recommendations from 128 in 2010 to 30 at the end of September 2013.

In addition to producing high-impact audit reports and providing a number of advisory services, we had several notable accomplishments during the year, many of which are highlighted within this report. Those accomplishments include incorporating audit management software into our tool set. 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. We are constantly evaluating our own internal audit processes and looking for ways to shorten reporting time, increasing our use of enabling technology, and increasing our efficiency. The audit management software is designed to integrate and automate numerous activities within our process.

In 2013, five OCA staff members successfully completed a rigorous examination process and were awarded the Certified Internal Auditor (CIA) professional designation. The CIA designation is the only globally-accepted certification for internal audit generalists. By completing the CIA examination process, an auditor expands his or her knowledge in the internal auditing field, while demonstrating his or her commitment to the profession.

In 2014, we will continue to focus our audits on promoting strong internal controls that result in secure, efficient, effective and economical City operations and services. This will assist in providing assurance that taxpayer's dollars and resources are protected and used appropriately.

2. 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 appropriately address 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 within the context of City Council's directives and policies. The scope of our audit work can include all phases of 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*. Late in 2014, we will start planning for an external independent quality assurance review to occur in 2015.

Professional internal audit staff

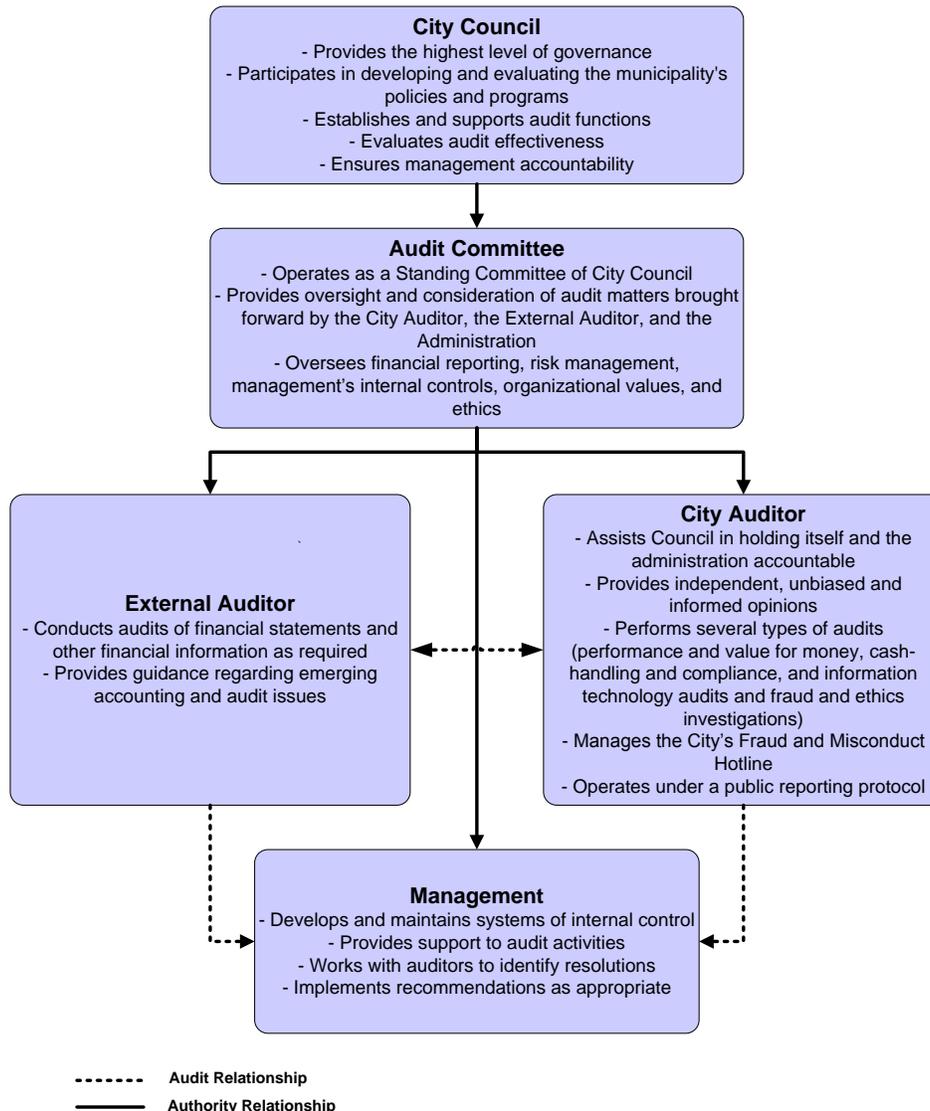
The Certified Internal Auditor (CIA) designation is the only globally-accepted certification for internal audit generalists. By completing the CIA examination process, an auditor expands his or her knowledge in the internal auditing field, while allowing the auditor to demonstrate his or her commitment to the profession. In 2013, five staff members of the OCA successfully completed the CIA examination process and were awarded the Certified Internal Auditor professional designation.

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. In addition to now having nine Certified Internal Auditors, OCA staff members collectively hold one or more of the following professional certifications/designations: Certified Fraud Examiner, Certification in the Governance of Enterprise Information Technology, Certified General Accountant, Certified Management Accountant, Chartered Accountant, Certification in Risk Management Assurance, Master of Business Administration, Master of Public Administration, Mater of Arts, and Professional Engineer.

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 City operations are being conducted appropriately and cost-effectively.

Figure 1 – Audit Governance Relationships



3. Projects Completed in 2013

This section highlights our audit activities for the year 2013. In addition to the projects in our Annual Audit Plan, we undertook a number of emergent requests and investigations.

Copies of our public audit reports are on our website: <http://edmonton.ca/auditor>.

3.1. Building Permit and Inspection Services

The objectives of this audit were to determine whether Building Permit and Inspection Services (BPIS) carries out its operations in an effective and efficient manner and whether it has an effective method of regularly assessing its operational performance.

Overall, we found that BPIS' can improve the effectiveness and efficiency of its current service delivery strategy. We identified five opportunities to improve the effectiveness and efficiency of BPIS' staff delivery of permitting and inspection services. This included enhancing their use of technology and improving staff supervision practices.

We also found that BPIS had not established measurable performance goals or targets to facilitate effective and efficient performance monitoring. We recommended that BPIS implement an effective performance management system. We also recommended that BPIS define and document an achievable service delivery model and adopt a risk-based plans examination and inspection methodology.

Implementing these recommendations will enhance BPIS' ability to achieve its key responsibility of monitoring compliance with Alberta's *Safety Codes Act* and associated codes and standards.

3.2. Automated Photo Enforcement Audit

The Automated Photo Enforcement program includes obtaining violation data, reviewing violations, and issuing tickets using two types of technology. The Intersection Safety Devices capture photos of vehicles that speed through 50 permanently monitored intersections (speed-on-green). They also capture photos of red light violations at those intersections. The Automated Photo Enforcement program also includes mobile speed enforcement vans and trucks (commonly referred to as photo radar).

In June 2010, the City issued an invalid speeding ticket because an Intersection Safety Device malfunctioned and the violation photo reviewers did not detect the error. This resulted in the City refunding \$12.3 million for over 100,000 tickets. During 2011 and 2012, the City made several changes to its processes to avoid issuing invalid tickets in the future. We focused our audit on speed-on-green violations to determine whether the process changes that the City has made since January 2011 had been effective.

We concluded that the changes made to the equipment and procedures since January 2011 have effectively and significantly lowered the risk that a similar situation could develop in the future. However, we made six recommendations to further enhance the overall performance of the City's automated photo enforcement program and help advance its goal of facilitating safer streets.

3.3. Fleet Safety Audit

The objectives for this audit were to determine whether the City driving permit (permit) process is adequate to ensure that only drivers with valid permits are operating City vehicles and whether the City's Driver Safety Program is effective.

We found that not all of the mandatory documents required prior to issuing a permit were in place. We also found that the maintenance of the drivers' information to be inconsistent. Moreover, we identified several weaknesses in the driver' monitoring process. We made three recommendations to improve the processes for issuing permits, maintaining permit information, and monitoring permit validity.

To assess the effectiveness of the Driver Safety Program, we conducted a high-level overview and analysis of Fleet Safety performance measures. Our review of the performance measures suggested that driver safety practices have improved since the total number of traffic infractions and preventable collisions have decreased even though the fleet has grown.

We also surveyed Fleet Safety's Department contacts to evaluate the effectiveness of communication between Fleet Safety and the Departments. We received positive responses overall. Therefore, our assessment was that the Driver Safety Program is effective.

3.4. Wicihitowin Circle of Shared Responsibility Society Review

The Wicihitowin Circle brings together individuals, governments, and agencies in the spirit of helping each other find solutions to increase the quality of life for Aboriginal people in Edmonton. The City of Edmonton is currently the largest funder of the Wicihitowin Circle of Shared Responsibility Society. In March 2012, the City increased its funding to the Wicihitowin Society from \$75,000 to \$500,000 annually for a term of 5 years, expiring on December 31, 2016.

We performed a governance and financial policy review of the Wicihitowin Society. The Wicihitowin Society is governed by a Board of Directors and is incorporated under the Alberta Societies Act. We recommended that the Wicihitowin Society improve on its governance practices by operating in accordance to the obligations and responsibilities of the Alberta Societies Act.

Wicihitowin Secretariat staff members are responsible for the day to day operations of the organization. We recommended that the Wicihitowin Secretariat develop written operating policies and procedures, ensure that they are communicated to staff members, and ensure that staff members comply with them.

The Wicihitowin Secretariat has repeatedly been spending more money than it is receiving, thus the financial viability of the Wicihitowin Society is at risk. We recommended that the Wicihitowin Secretariat review its management of financial matters to ensure that the organization complies with funding agreements and remains a going concern.

3.5. Development Securities Review

The first objective of this project was to identify risks related to the revised engineering drawing review process and any controls or actions being undertaken that would assist in mitigating those risks. We compiled a list of risks that existed within the process, the impact of those risks, and the controls or actions that management was taking to mitigate those risks.

The second objective of this project was to determine whether development securities collected as part of servicing agreements were fair and equitable. Based on the work performed, we concluded that the development securities collected are fair and equitable.

We did, however, recommend that management further explore the viability of allowing developers to post development securities in other formats. We also recommended that segregation of duties issues related to managing securities be resolved.

3.6. Fire Rescue Services Branch Audit

Our objectives for this audit were to determine if Fire Rescue Services had an effective process to address the impact of the City's growth on its ability to protect citizens, if training provided to fire operations staff was adequate and appropriate to meet operational needs, and if Fire Rescue Services practices relating to the management of materials and equipment were effective and efficient.

Overall, we found that Fire Rescue Services does have an effective process to determine where to locate new stations and to manage existing resources. We recommended that Fire Rescue Services improve and communicate its process for identifying training needs for all Operations staff. We made three recommendations to improve the efficiency and effectiveness of Fire Rescue Services materials and equipment management processes. The recommendations were to implement a formal process to track and manage materials and equipment inventory, to ensure all important processes relating to the management of materials and equipment are documented and up-to-date and to automate the ordering process used by fire station staff to obtain materials and equipment from central locations.

3.7. Edmonton Transit Administration Review

This review looked at changes in the numbers of supervisor positions relative to the overall growth in staff positions in recent years within Edmonton Transit. The objective was to determine whether the Edmonton Transit organizational structure was designed appropriately for efficient and effective service delivery.

Between 2007 and 2012, the Edmonton Transit organization grew by 387 positions, 17 of which have supervisor responsibilities. Over the same period, there was a decrease in the number of senior level supervisors and an increase in the number of front line supervisors. We concluded that the current staffing structure continued to support efficient and effective service delivery.

3.8. Capital Project Advisory Assistance

The objective of this type of review is to determine if sound project management practices are being applied consistently throughout the life of a project. The City's 2012-2014 Capital Budget was approved at \$2.8 billion. We proactively reviewed practices for the Waltherdale Bridge Replacement (approved budget \$132 million) and the Light Rail Transit (LRT) NAIT to downtown route (approved budget \$755 million).

The Roads Design and Construction Branch (RDC) has made major improvements to its project management practices for the Waltherdale Bridge Replacement Project in response to recommendations we made in prior audits. Further, the actions of RDC and the Corporate Centre for Project Management to address the opportunities for improvement we identified through our proactive participation in this project demonstrate their commitment to improving their practices.

Based on our observations, we believe the LRT Design and Construction project team has consistently demonstrated application of project management leading practices. Further, the LRT Governance Board provides oversight to ensure that due diligence is applied throughout the life of the project.

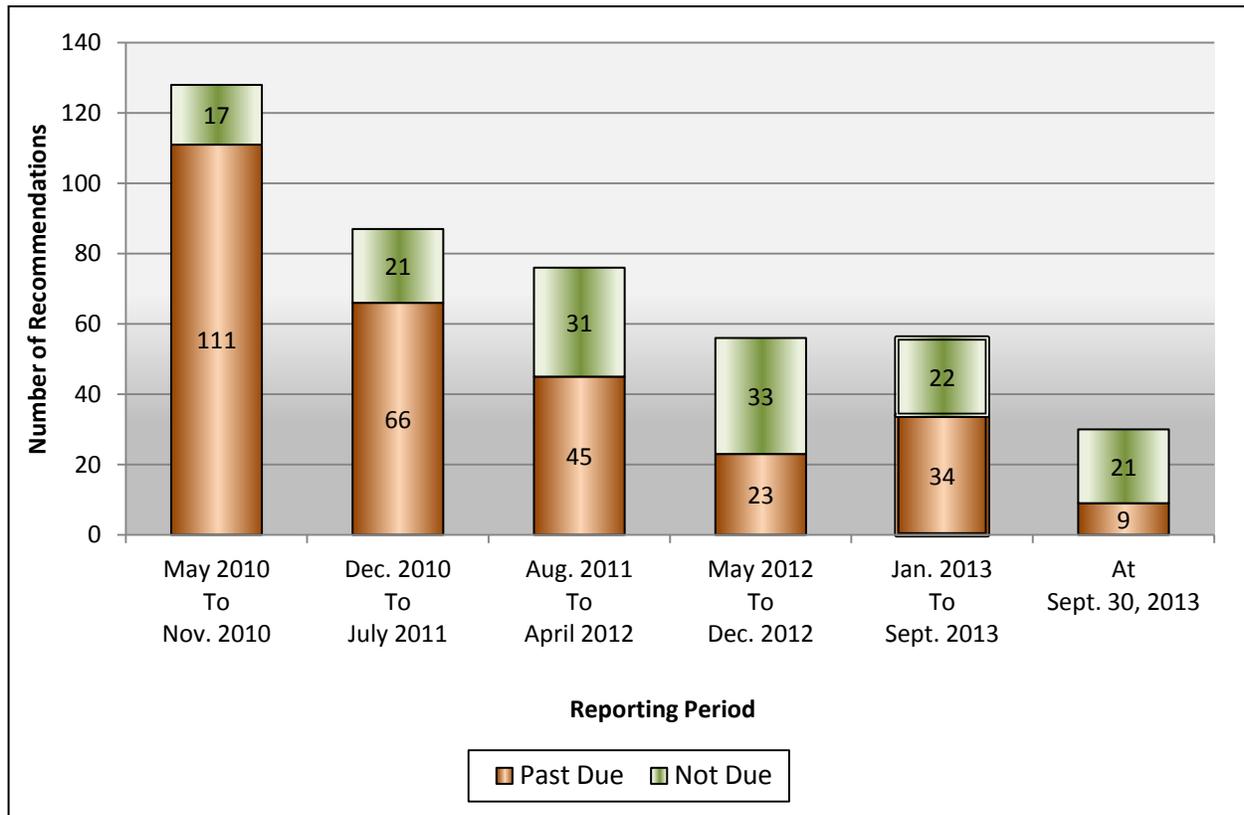
4. Recommendation Follow-up Process

The intent of our follow-up process is to inform the Audit Committee on the adequacy, effectiveness, and timeliness of the Administration’s actions in response to our audit recommendations. Prior to 2010, the OCA was issuing more recommendations each year than were being closed, resulting in a backlog of recommendations that had not been addressed. In November 2010, we reported on the status of 128 outstanding recommendations. Since then, we have worked with the Administration to achieve a continued decline in the number of outstanding recommendations.

In 2013, we provided 2 reports to the Audit Committee on the adequacy, effectiveness, and timeliness of the Administration’s actions on our recommendations. Our first report followed up on recommendations for the period May to December 2012. For this reporting period, we tracked the status of 56 recommendations, 23 of which were past due. Through our review of supporting information, we closed 17 of the past due recommendations and 5 that were not yet due. The actions taken to address those recommendations have benefitted the City in a variety of ways, including process improvements, better control environments, and increased service delivery efficiencies.

Our second report followed up on recommendations for the period January 2013 through September 2013. Chart 1 shows the continuing trend in the number of outstanding recommendations, with the number of outstanding recommendations being reduced from 128 in 2010 to 30 at the end of September 2013.

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



In 2010, there were 128 recommendations outstanding, 111 were past due and 17 had a due date after November 30, 2010. Chart 1 shows that the number of recommendations not implemented by the date provided in the Administration's responses to the original audits (past due) decreased from 111 in 2010 to 23 in 2012. On September 30, 2013, 30 recommendations remained open.

Table 1 shows the percent of past due recommendations closed in each of the last five reporting periods.

Table 1 – Past Due Recommendations Closed

Reporting Period	Number Past Due	Number Closed	Percent Closed
May 2010 to November 2010	111	65	58.6%
December 2010 to July 2011	66	43	65.2%
August 2011 to April 2012	45	27	60.0%
May 2012 to December 2012	23	17	73.9%
January 2013 to September 2013	34	25	73.5%

The Administration has continued to demonstrate its commitment to implementing recommendations in a timely manner. Benefits gained from recommendations closed during this period include enhanced governance, improved efficiency and effectiveness, and strengthened controls.

5. Other Audit Activity in 2013

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

5.1. Audit Management Software

Prior to 2013, the Office of the City Auditor did not use audit management software to manage its internal audit activity. The audit activity was managed using various internally-developed tools utilizing Microsoft Office Professional, Adobe Acrobat, and Microsoft SharePoint. Some of our Microsoft Office systems relied heavily on complex macro programming and were supported by audit staff members. The knowledge needed to maintain these systems would be lost if those staff members left the City. Prior to 2013, our records were fragmented in multiple locations using different software and filing conventions. Audit management software is designed to bring these systems and records together, resulting in improved audit efficiency and consistency.

In 2013, the Office of the City Auditor incorporated audit management software into our tool set. It is designed to integrate and automate numerous activities within our audit process. System capabilities include long range audit planning, electronic working papers, document management, resource recording, recommendation follow-up, and performance management. With the introduction of audit management software in 2013, we were able to standardize and automate numerous quality control activities, including project supervision and review of audit working papers. The system is being used effectively to assist with managing both small and large audits and to more efficiently and effectively plan, monitor, and control our audit projects.

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 the need for adjustments. In 2013, as in previous years, Commission members completed two surveys: the Commission Evaluation Survey and the Chair Evaluation Survey. In addition, the Commission requested feedback on its performance from 13 members of the Edmonton Police Service. The Commission Chair and Executive Director chose the 13 members to complete the survey because they meet regularly with the Commission. We consolidated the 2013 Edmonton Police Commission assessment survey results and prepared a summary report for the Commission's consideration. We presented the results of the assessment to the Police Commission at their regularly scheduled January 16, 2014 meeting.

5.3. 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 specialized audit analysis software, we are able to determine the number of transactions completed by each cashier at each location. We also determine the number of times each cashier's till was over or short of funds at the end of their shift compared to the actual number of shifts they worked. The Branch uses this information to identify anomalies and potential training requirements.

5.4. 2013 Municipal Election

The 2013 Municipal Election Day was October 21. For the past eight elections (since the 1989 municipal election), the City Clerk has asked us to participate at significant points during election planning and to conduct field observations of the election processes during Election Day. We provided control and process-related input as appropriate throughout election planning.

We focused our efforts on those aspects of the election processes that had potential to impact the outcome of the vote, could affect the secrecy of ballots, or were related to legislated requirements for the conduct of the election. This meant that we focused on Nomination Day processes, voting machine logic and accuracy testing, results compilation, and results reporting. On Election Day, we observed the processes at selected voting stations, monitored the process of obtaining the results from each vote tabulator, and monitored the processes of compiling and posting the official results. We also monitored the ballot reconciliation process and the official results report to the Province on the Friday following the election.

5.5. Investment Tracking System

The Investment Management Section initiated a system change to the Investment Tracking System for the City's internally-managed bond portfolios. This change automated the transmission of trade instructions to the City's custodian and facilitated the implementation of electronic settlement of bond investments using the custodian's web-based trade entry system.

At the request of the Branch Manager of Client Financial Services, the OCA participated in the system change in an advisory capacity. Our overall objective was to ensure that controls in the City's investment tracking process were not compromised due to the system change and to ensure that where the functionality could not provide the required controls, procedural changes were implemented to minimize the risk of loss to the City.

6. 2013 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 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, City Policy C522 – *Fraud and Misconduct*, was repealed and replaced with two Administrative Directives to help City employees more easily understand their responsibilities and the processes to follow.

The *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 *Whistleblower Protection* Administrative Directive 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. So far, we have been able to administer the hotline using existing staff, who conduct investigations in addition to their normal duties.

Hotline reports are classified into the following eight categories:

- Financial reporting and accounting
- Health and safety or 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 that we receive 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 to help us ensure that the hotline system is operating as intended.

6.3. Hotline Activity

Table 2 summarizes the reports received by the hotline and the OCA for 2013 by category. For comparison purposes, summaries for the previous five years have also been provided.

Table 2 – Reports received by the Hotline and the OCA (2008 to 2013)

Report Category	2008	2009	2010	2011	2012	2013
Financial Reporting and Accounting	0	1	1	1	0	0
Health and Safety or Environment	2	0	1	5	1	3
Unethical Conduct and Conflict of Interest	10	9	13	18	10	14
Manipulation or Falsification of Data	0	2	0	1	2	0
Harm to People or Property	3	5	5	3	1	1
Theft, Embezzlement, Fraud	5	12	7	10	12	3
Violation of Laws, Regulations, Policies, Procedures	11	9	7	4	11	8
Miscellaneous	2	6	11	8	1	9
Total	33	44	45	50	38	38

In 2013, a total of 38 reports were received and reviewed. Thirty-six of the reports were received through the hotline, of which 9 (25%) were through live agents, 23 (64%) were through the online web service, and 4 (11%) were through the hotline voice-mail service. We received the other 2 reports directly. All but 1 of the 38 reports were closed as of the year-end.

Disposition of Reports

We screen all hotline reports to determine their disposition. Due to the nature of the reports and the knowledge and expertise required, we referred those that pertained to operational matters to the City Manager for investigation. In those cases, we asked the assigned departmental managers to report back to us on the resolution and any actions

taken. We reviewed the results of those investigations prior to closing the reports on the hotline system.

The system's interactive dialogue capability allows us to ask additional questions of the reporter 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. Employees may not provide the requested information because they may not be able to substantiate their complaint or may not check the status of their report on the system. They may also have addressed their concern through other resources 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, Law and Human Resources Branches, and other appropriate departmental staff as required.

We received a number of reports that pertained to operational matters that fell within the jurisdiction of the City Manager. 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 3 summarizes the disposition of the 38 reports we received in 2013. For comparison purposes, a summary of the previous five years has also been provided.

Table 3 – Disposition of Reports/Complaints (2008 – 2013)

Description	2008	2009	2010	2011	2012	2013
No action taken (insufficient information, comments and inquiries on the hotline, follow-up on previously submitted report, etc.)	9	5	9	10	6	6
Tips provided that will be used in future audits	3	4	3	4	2	1
Referred to the City Manager (operational matters, retaliation complaints, etc. that are outside the scope of the OCA)	7	19	14	17	15	17
Reports Investigated by the OCA and/or the Administration (Corporate Security, Labour Relations, etc)	14	16	19	19	15	14
Total	33	44	45	50	38	38

Investigation of Reports

In 2013, the OCA and Administration investigated 14 reports. We also 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 report in the tracking system.

All employees participating in the review and/or investigation of reported 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 14 complaints that were investigated, 13 were closed and 1 investigation was 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 investigations. Following is a summary of the outcomes:

Theft of cash at a City of Edmonton facility

A complaint was received about a number of cash irregularities at a City of Edmonton facility. A joint investigation conducted by Corporate Security and the Office of the City Auditor revealed a significantly low percentage of cash sales compared to other employees working the same shifts at this facility. Our analysis concluded that the best estimate of the losses sustained was about \$1,900. As a result of the investigation, the individual's employment was terminated and charges of Theft Under \$5,000 were laid by the Edmonton Police Service. Six recommendations were provided to mitigate risks of future thefts at this facility.

Theft of City assets and petty cash

It was alleged that an employee had stolen a filing cabinet, an iPad, and petty cash. The information gathered during the investigation led by Corporate Security confirmed that a filing cabinet and iPad were taken home by the employee. In addition, \$100 of the missing \$120 from the petty cash safe was recovered on the desk of another employee. The manner in which the cash was found in combination with the information obtained during the investigation indicated that the same employee who had the filing cabinet and iPad was responsible for the missing petty cash. Based on the theft of City assets, the City terminated the individual's employment.

Inappropriate employee conduct

It was alleged that an employee was using their personal cell phone and accessing FaceTime at their desk while the individual was supposed to be working. It was also alleged that the employee was using their personal laptop to watch movies at their desk. As a result of the investigation, the employee was instructed to not have any personal electronic devices (other than a cell phone for emergencies) at their desk.

Inappropriate use of City vehicles

A complaint was received about City of Edmonton field crews using City vehicles to get their lunches, coffees, and to do personal errands. Management of the work area provided a memorandum to all City employees in the work area indicating that only brief stops are allowed to use restroom facilities and to pick up coffee or lunch while *en route* to a job. It also stressed that the employees are to not exceed break times nor perform personal errands of any kind while on work time and/or in a City vehicle. Since the date of the memorandum, no further complaints regarding the use of City vehicles have been received.

Inappropriate clothing in the work place

It was alleged that an employee was dressed inappropriately while providing customer services at a City facility. The allegation of “inappropriate business wear” was investigated and found to be substantiated. The individual was counselled regarding appropriate business wear. In addition, the business unit’s Dress Code Guidelines and the City’s Administrative Directive A1113 – *Employee Dress Code* were reviewed with the individual.

Preferential treatment of employee

It was alleged that within a City of Edmonton business unit, an employee was directly supervising her sister. It was confirmed that there was a direct reporting relationship between the two sisters; however, one of the employees was on a long-term leave. One of the employees was moved out of the business unit to minimize any perceptions of favouritism.

Inappropriate use of City time and vehicle

We received an allegation that an employee was traveling to and from their place of residence in a City vehicle during the individual’s regular hours of work. It was confirmed that the employee was traveling to their home with a City vehicle during working hours. The Branch Manager agreed to follow-up with the employee and ensure that the appropriate level of discipline was applied. In addition, the business unit agreed to review its procedures and practices related to the use of City vehicles and monitoring of employee activities. It also agreed to implement changes to its current practices to alleviate the potential for improper use of City vehicles and/or time.

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 outcomes. 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 emphasize the importance of our relationships and communications with audit clients. At the conclusion of all major projects, we issue a customer satisfaction survey to obtain feedback on our performance and to identify areas where we can improve our operations.

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 4 shows our results for these indicators over the past five years compared to industry standards, if available.

Table 4 – Customer Satisfaction Survey Results

Performance Indicator	Industry	2009	2010	2011	2012	2013
Communication How well the client was informed of objectives, process, timeframe, and emerging findings.	N/A	4.6	4.5	4.6	4.6	4.9
Understanding of client's business How well the audit staff demonstrated their under-standing of the client's issues and challenges.	N/A	4.5	4.4	4.3	4.4	4.4
Professionalism How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients.	N/A	4.6	4.6	4.8	4.8	4.9
Quality of findings Practicality, adequacy, and openness of communication with the clients.	N/A	4.5	4.4	4.3	4.5	4.2
Overall average Client's overall assessment of the value received.	4.3	4.6	4.5	4.5	4.6	4.6

The overall client rating of the value they received from our 2013 projects was 4.6 out of 5, which is consistent with our 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, chargeable time, and audit plan completion. Table 5 shows our results for these indicators over the past five years compared to industry standards.

Table 5 – Effectiveness and Productivity Results

Performance Indicator	Industry	2009	2010	2011	2012	2013
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 spent working on projects.	75%	82%	80%	79%	80%	79%
Percent of completed or partially completed projects to number scheduled A measure of office productivity.	91%	95%	94%	94%	96%	92%

Recommendations accepted

We are committed to providing recommendations that identify potential efficiency gains, improve operational effectiveness, and provide guidance for providing 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 2013.

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 ratio, which is the industry average. Our productivity ratio was 79 percent in 2013.

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 2013 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 6 shows our results for these indicators over the past five years compared to industry standards.

Table 6 – Human Resource Related Results

Performance Indicator	Industry	2009	2010	2011	2012	2013
Average days of City-funded training & development A measure of commitment to maintaining and enhancing professional certifications and skills.	8 – 12	8.4	9.1	9.6	8.9	10.1
Percent of staff certified or with advanced designations A measure of staff qualifications.	83%	92%	92%	92%	92%	92%
Maintain a positive working climate A measure of the average level of staff satisfaction on several attributes (data from employee engagement surveys).	68%	-	90%	-	99%	-

Training

Training is vital because it keeps us fresh professionally and with technology. Internal auditing standards require that our staff enhance their knowledge, skills and other competencies through continuing professional development. Those staff members who are Certified Internal Auditors are required to complete at least 40 hours (5 days) of continuing education every year. In addition, staff must also satisfy the continuing education requirements of any other professional certifications they hold. In 2013, our staff completed an average of 10.1 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 2013, 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's Employee Satisfaction Survey is conducted every two years. In 2012, OCA staff members were among the City employees surveyed in a comprehensive Employee Engagement Survey that integrated employee engagement, diversity, inclusion, workplace and 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 also operate in a cost-effective and clearly accountable manner. Table 7 shows the results of our cost-effectiveness indicator over the past five years as compared to the industry standard.

Table 7 – Cost Effectiveness Results

Performance Indicator	Industry	2009	2010	2011	2012	2013
Percent actual vs. budgeted expenditures	90 to 110%	90%	97%	96%	92%	94%

Approximately 92 percent of the OCA's budget consists of salary and benefits. In 2013, we maintained our staffing levels while continuing to operate in a cost-effective and accountable manner. Our 2013 actual budget results were approximately six percent below budgeted expenditures.

8. Conclusion

In this Annual Report, I have reported on the results of projects we undertook in 2013 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 2013.

Implementation of the 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 2013, we tackled some issues that were both challenging and highly sensitive. I believe that by reviewing these issues, we were able to provide recommendations that will improve City services and provide better value for citizen's 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 2013 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
Lisa Callas
Bill Cook
Queena Dong
Paul Ebenezer
Leslie Glasbeek
Sophia Kasozi
Larry Laver
Almas Murji (up to March 2013)
Janine Mryglod
Edwin Ryl
Jason Solowan
Thomas Wong



David Wiun
City Auditor