



Office of the City Auditor

Activity Report

October 31, 2008



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1. Introduction

Section 10(4) of Bylaw 12424, *City Auditor Bylaw*, requires the City Auditor to submit periodic reports summarizing the status of projects and the budget performance of the Office of the City Auditor (OCA). The OCA reports the status of projects in two different ways; (1) Branch Audit reports and projects of special interest are standalone reports for discussion at Audit Committee, (2) all other reports are aggregated into a periodic *OCA Activity Report* for discussion at Audit Committee. Our practice is to circulate all formal audit reports to each member of Council.

This *OCA Activity Report* provides the Audit Committee with the following information:

- Section 2 Progress Monitoring - an update of our progress toward completion of our Annual Work Plan
- Section 3 Summary of Investigations - summaries of Investigation Reports that we have previously submitted to Members of Council
- Section 4 Other Completed Projects - summaries of three other completed projects that we have previously submitted to Members of Council
- Section 5 In Progress Status Reports - a brief status report of audits in progress
- Section 6 Other Audit Services - a highlight of our other current activities and initiatives

2. Progress Monitoring

This section of the report provides an update of our progress toward completion of our Annual Work Plan. The purpose of this section is to assist Audit Committee and Council in their governance role by enabling them to effectively monitor the OCA's progress towards completing the approved Annual Work Plan.

Table 1 on the following page is divided into project categories to provide a better sense of the type of work that is associated with each project. Table 1 highlights our audit activity for 2008 up to the end of October. It also indicates the reports that we presented at each of the four previous Audit Committee meetings in 2008. Our audit projects have covered a diverse range of the City's operations and are consistent with our guardian and agent of change roles.

Since our last Activity Report (presented at the June 17, 2008 Audit Committee meeting), we have completed seven projects:

- 23rd Avenue & Gateway Boulevard Interchange Project Review
- Investigation into Misuse of Petty Cash (Section 3)
- Investment Funds Transfer (Section 3)
- Ongoing Investigation (Section 3)
- First Place Edmonton Housing Unit Draw (Section 5)
- Edmonton Police Governance 2nd Follow-up (Section 5)
- Kinsmen Sports Centre – Cash Handling Review Follow-up (Section 5)

One of these projects, the 23rd Avenue & Gateway Boulevard Interchange Project Review, was discussed at the September 18, 2008 Audit Committee meeting as a standalone report. At this Audit Committee meeting, we are summarizing within this *OCA Activity Report*, three investigations (Section 3) and three other completed projects (Section 5) that have not been presented to Audit Committee.

Table 1 – 2008 Annual Plan Progress Monitoring

#	Project Title	Project Status	
		Completed Audit Committee Discussion Date	In Progress
OCA Governance Reporting			
1	2007 Annual Report	April 15, 2008	
2	Office of the City Auditor Activity Report – November/07 to March/08 overview	April 15, 2008	
3	Office of the City Auditor Follow Up Activity Report	June 17, 2008	
4	Office of the City Auditor Activity Report – October 31, 2008	November 25, 2008	
5	2009 Annual Work Plan	November 25, 2008	
6	2009 Office of the City Auditor Budget	October 16, 2008 Budget Meeting	
Branch Audits			
7	Land and Buildings Branch Audit	February 26, 2008	
8	Human Resources Branch Audit	April 15, 2008	
9	Land Use Policy Planning Audit		✓
Prioritized Projects			
10	2007 Municipal Election	April 15, 2008	
11	Ice Allocation & Booking Process Review	April 15, 2008	
12	23 Avenue & Gateway Boulevard	September 18, 2008	
13	Waste Collection Cost Allocation Review		✓
14	Expense Claim Review		✓
15	Fire Prevention Unit		✓
16	Payroll – Employee Time Review & Approval		✓
17	Privacy Controls Audit		✓
18	External Audit Support		✓
Information Technology Audits			
19	MainLink Post Implementation Review	February 26, 2008	
20	Integrated Identity Management		✓
21	IT Control Framework (COBIT) Reassessment		✓
Investigations			
22	Investment Funds Transfer	November 25, 2008	
23	Investigation into the misuse of Petty Cash	November 25, 2008	
24	Ongoing Investigation	(See Section 3.3)	
25	Fraud and Misconduct Hotline Administration – Ongoing		✓
26	Fraud Prevention Training & Awareness Program		✓

#	Project Title	Project Status	
		Completed Audit Committee Discussion Date	In Progress
Cash Handling Audits			
27	North Eco Station Cash Handling Review	April 15, 2008	
28	Mitchell Transit Garage Cash Handling Review	April 15, 2008	
29	Coin Processing Centre Cash Handling Review	See Note ¹	
Emerging Requests			
30	P3 Benefits and Risks	June 17, 2008	
31	Photo Enforcement and Fines Replacement - Risk and Control Advice		✓
32	First Place Edmonton Housing Unit Draw	November 25, 2008	
33	Bylaw Community Standards Grant Phase 1 – Risk and Control Advice	April 15, 2008	
34	Police Commission Self Assessment		✓
35	International Fellowship Program		✓
Follow-up Reviews			
36	Edmonton Police Service Overtime Review Follow-up	April 15, 2008	
37	South Eco Station Cash Handling Review Follow-up	June 17, 2008	
38	ETS Fare Evasion Review Follow-up	June 17, 2008	
39	Transit Information Centre Cash Handling Review Follow-up	June 17, 2008	
40	Property Assessment Data Follow-up	June 17, 2008	
41	Rundle and Hawrelak Park Concessions Review Follow-up	June 17, 2008	
42	Professional Services Agreements Sole Source Review Follow-up	June 17, 2008	
43	City Archives Cash Handling Review Follow-up	June 17, 2008	
44	Corporate Procurement Card Program Review Follow-up	June 17, 2008	
45	Assessment and Taxation Branch Review Follow-up	June 17, 2008	
46	Edmonton Police Governance Follow-up	November 25, 2008	
47	Kinsmen Sports Centre – Cash Handling Review Follow-up	November 25, 2008	
48	Development Compliance Branch Review Follow-up		✓

¹ This report is confidential. It is protected under the provisions of Sections 24 and 25 of the *Freedom of Information and Protection Privacy Act*.

3. Summary of Investigations

The City of Edmonton is committed to the principles of corporate accountability, transparency, responsibility, and sound ethical operating practices. City Policy C522 – *Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection* sets out the City's guidelines on reporting and investigating alleged fraud and misconduct. According to this policy, the City Auditor is responsible for investigating allegations of fraud and misconduct. In addition, the City Auditor is responsible for reporting the results of such investigations in accordance with Bylaw 12424, *City Auditor Bylaw*. A summary of investigation reports completed during this reporting period are provided below.

3.1. Investigation into Misuse of Petty Cash

A City Branch (*Branch X²*) requested that we review an allegation of fraud and/or misconduct regarding a petty cash fund. According to the allegation, an employee of *Branch X* who had custody over a petty cash fund was suspected of using this fund inappropriately. Our investigation focused on a review of petty cash procedures and practices, and interviews with key City of Edmonton staff. Our reconciliation of the petty cash fund determined that a total of \$252.19 was unaccounted for. There was no documentation to account for the missing \$252.19; therefore, the employee responsible for the petty cash fund of *Branch X* was in non-compliance with the City's Code of Conduct and the City's Imprest Funds (Petty Cash) procedures. As a result of our investigation, Branch X sought advice from the Human Resources Branch to ensure they handled this incident in accordance with established City of Edmonton disciplinary procedures and that the employee involved was disciplined in accordance with the City's disciplinary policies. In addition, our investigation concluded that there were a number of opportunities to improve the controls over petty cash in other areas of the City.

3.2. Investment Funds Transfer

On May 1, 2008 the Treasury Management Section contacted the OCA to review its funds transfer process in light of an attempted fraud incident. An unsuccessful attempt was made to transfer \$3,000,000 in funds from the Custodian of one of the City's External Investment Managers. Within the City of Edmonton, wire transfers are facilitated by the City's Investment Management business unit and the City's Custodian for several purposes including:

- Transfer of funds from the City's Bank Account to the City's Custodian for investment purposes.
- Transfer of funds from the City's Custodian to the City's Bank Account if cash is needed.
- Transfer of funds between investment funds for investment re-balancing purposes.

² This report does not reveal the identity of the Branch in order to maintain confidentiality. While the report outlines investigation results, it refers in generic terms to the Branch as "Branch X."

Our objective for this review was to determine whether adequate controls exist relating to the process of funds transfers to and from City of Edmonton investment accounts. The fraud attempt demonstrated that in this instance the controls successfully prevented a theft. Based on our assessment of the controls, the likelihood of this kind of fraud being successful is low; however, it is still important that all parties have adequate insurance coverage should such an attempt actually succeed. We therefore recommended that the City's Investment Management business unit require appropriate insurance coverage in future contracts with External Managers and that the City receive a certificate of insurance demonstrating the required coverage prior to contract execution. We also recommended that the Administration review and adjust the City's level of insurance coverage for wire and computer fraud loss.

3.3. Ongoing Investigation

In September 2008, Community Services sought our assistance in regards to an apparent theft of cash at one of their facilities. We conducted a preliminary review of the allegations. After evaluating the indicators, we determined that an investigation was warranted. Our investigation focused on the identification of control weaknesses as well as assessing the losses sustained. We have provided a report to both Community Services and Corporate Security which makes a number of recommendations designed to strengthen internal controls. Our investigation also determined that sufficient evidence existed to warrant reporting this matter to the Edmonton Police Service (EPS). Because the matter is being pursued by EPS, no further information can be released at this time.

4. Other Completed Projects

In addition to the three investigations we completed in this reporting period, we also completed three other projects. This section summarizes these three projects.

4.1. First Place Edmonton Home Ownership Unit Draw

The City of Edmonton has initiated First Place – An Edmonton Home Ownership Program in partnership with the Government of Alberta, Edmonton Catholic School District and Edmonton Public School Board. This program is designed to help qualified first-time home buyers own their homes. It is intended to develop moderately priced two or three bedroom town homes in mature, serviced neighbourhoods for purchase by households that meet prescribed eligibility criteria. Two pilot sites were selected for implementation and the City will use the experience gained to enhance the implementation process for the remaining sites. The City's Working Committee requested us to provide proactive risk and control-related feedback on the unit draw process and observe the unit draw for the pilot sites. We confirmed that the unit draw process was accurate, fair and equitable, and was conducted in accordance with agreed upon procedures.

4.2. Edmonton Police Governance 2nd Follow-up

We issued the Edmonton Police Governance Audit Report on April 20, 2005. That report contained 31 recommendations; 14 were directed to the City of Edmonton (the City) and 17 to the Edmonton Police Commission (the Commission). The objectives of that audit were to review the governance roles, responsibilities and relationships of City Council, the Police Commission and the Police Service as they related to the policing program in Edmonton. Our first follow-up report issued on March 9, 2007 found that the City had completed actions to address all of the recommendations directed to them and the Commission had completed actions for 11 of the 17 recommendations directed to the Commission and was in the process of implementing the remaining six. The results of the second follow-up confirm that the Commission has now fully completed all actions to address the remaining recommendations.

4.3. Kinsmen Cash Handling Review Follow-up

We issued the Kinsmen Cash Handling Review report on May 9, 2005. The primary objective of that review was to assess the level of compliance with established City policies and procedures for cash handling and to evaluate the adequacy and effectiveness of controls over cash handling at the Kinsmen Sports Centre with the intent to minimize loss of revenue resulting from theft or error. We identified one opportunity for improvement, that recurring reports be generated to show patterns of cashiers' use of cash registers and that abnormal results be investigated. The Branch has implemented the recommendation contained in our original report. In addition to their other controls, this will make them aware of inappropriate cash register usage and find indicators of cash handling problems or potential frauds.

5. In Progress Status Reports

We have a number of projects in various stages of completion. By the end of 2008 or early 2009, we will issue a formal report to Council for each of the following projects.

5.1. Waste Collection – Cost Allocation Review

The primary objective of this review is to assess the City of Edmonton's methodology of internally allocating costs for the residential curb-side waste collection program to contractor or City resources. The cost allocation process provides Waste Management with essential management information for a wide range of purposes including assisting management with budgeting and strategic planning. This review is also assessing the process of charging administrative processing fees for contracted service delivery complaints.

5.2. Employee Business Expense Review

The primary objective of this project is to review the City's processes and controls over employee expenses and payments to assess whether corporate policies and procedures are adequate and being followed. As part of this review, we are testing a sample of completed employee business expense payments.

5.3. Fire Prevention Unit

Fire Prevention is part of the Fire Rescue Branch in the Community Services Department. Fire Prevention's objectives are to create safer communities, raise education and awareness within the community, provide a consistent greater application of the Fire Code in the community and maintain highly trained staff. The primary objective of this audit is to determine if the district Fire Prevention Officers perform fire inspections in an efficient and effective manner.

5.4. Employee Time Entry and Approval Audit

The primary objective of this audit is to assess the adequacy of controls over the time entry and approval processes used by selected City departments. We will assess whether the City properly pays employees and recommend enhancements to the current time entry and approval environment (SAP, PeopleSoft, and departmental systems).

5.5. Privacy Controls Audit

The primary objective of this audit is to provide assurance that appropriate safeguards are in place to protect personal information on laptop and tablet computers. These devices are at high risk of being stolen and any personal information employees store on them presents the risk of a privacy breach in violation of The Freedom of Information and Protection of Privacy (FOIP) Act.

5.6. Land Use Policy Planning Audit

The Land Use Policy Planning (LUPP) Branch's primary mandate is to set direction for land use planning within Edmonton. This Branch is responsible for developing and executing the Municipal Development Plan (MDP), which is a requirement of the Municipal Government Act. The MDP is a document that identifies strategic goals and a framework of land use policy plans and guidelines that direct how the City should grow. The primary objective of this audit is to provide assurance that the City's long-term strategic vision for land development is supported by the development and implementation of land use policies.

5.7. Integrated Identity Management

The Integrated Identity Management program is a multi-year initiative championed by the Information Technology Branch (ITB), which will continue into 2009. Its overall goal is to provide the ability for citizens and employees to access City information and services using a single identifier for authorized access to critical systems. In 2008, we provided proactive risk and control related advice to the governance committee consisting of staff from the ITB, business areas and other corporate groups. This will continue into 2009 as two initiatives, Self-Service Password Reset and Single Sign-On are implemented. Our overall objective is to ensure that all potential risks are identified, and automated and procedural controls are implemented to minimize the risk of unauthorized access to City information and services.

5.8. Photo Enforcement and Fines Replacement

On July 17, 2007, City Council at its regular meeting passed a motion to change the current Program Delivery Model for the Automated Traffic Enforcement Program. This was based on Administration's review of the options available in collaboration with the Edmonton Police Service (EPS) and a recommendation that the City change the delivery model from a contractor provided service to one operated by the City of Edmonton and EPS. We are providing proactive risk and control-related advice to the governance committees consisting of staff from the Transportation and Streets Department, EPS, Finance and Treasury, and Corporate Services in meeting their objectives. Our overall objective is to ensure that all risks are identified and controls implemented in the new delivery model; and for the proposed Ticket Administration System, which will manage the ticket processing for the photo enforcement program as well as the municipal bylaw tickets issued by the City through the existing Fines System.

5.9. Development Compliance Branch Follow-up

We are completing a follow-up review to determine the status of the seventeen recommendations contained in the Development Compliance Branch Audit of October 3, 2005.

6. Other Audit Services

In addition to projects that are identified on our 2008 Annual Work Plan, other activities arise during the year. This section summarizes the additional significant activities and initiatives we are involved in.

6.1. 2009 OCA Budget

We have submitted our budget documents through the administrative budget process for formal consideration during City Council's 2009 Budget deliberations. If we are to provide opinions on the achievement of value for money in City operations, it is essential that we also strive to make sure that our own operations are as efficient, effective and economical as possible. We have implemented a number of processes over the past few years to improve our efficiency and effectiveness. We have also completed a detailed line-by-line review of our costs to see where we could operate more economically. This exercise resulted in a cost containment budget for 2009. We are proposing a 2009 budget that is approximately \$5,000 lower than our 2008 budget.

6.2. External Audit Support

We provide assistance to the City's External Auditors, Deloitte, in the audit of the City's financial statements. Coordinating our audit efforts with the external auditor provides benefits to the City, including avoiding duplicate work. We provide Deloitte with copies of our audit reports as required, to help them plan their financial statement audit. We are also using Computer Assisted Audit Techniques (CAATS) to extract the electronic data contained in the City's databases related to journal vouchers. The External Auditor uses this data to do further follow-up of journal vouchers that fall outside of prescribed criteria. The audit software provides a time and cost effective method to extensively test (up to 100%) the City's data.

6.3. Police Commission Self Assessment

Successful governance involves leading by example and setting the tone at the top. A successful Board monitors its progress towards achieving its priorities and strategic plan and periodically assesses whether course adjustments are required. This can be best accomplished through periodic self-evaluations. The Edmonton Police Commission took the proactive step of completing a self-assessment in 2007. The self-assessment process involved having each Commission member complete two surveys – A Commission Self-Assessment Survey and a Chair Evaluation. The Commission has requested us to assist in evolving the process for 2008. We will receive and consolidate the 2008 Edmonton Police Commission self-assessment surveys and prepare a report of survey results for the Commission's consideration.

6.4. Information and Related Technology Control Framework (COBIT) Reassessment

Our 2008 Work Plan makes reference to the OCA planning, organizing and facilitating a risk and control re-assessment by the Information Technology Branch (ITB) in relation to an international set of generally acceptable standards (COBIT). The ITB has been working since 2004 to address 34 action plans outlined in the original assessment. Due to organizational changes, this was not an opportune time for ITB to complete a detailed re-assessment. The focus therefore will be to re-assess the status of implementation of the 34 action plans that were developed by ITB during the 2004 self-assessment sessions facilitated by us, and defer the full re-assessment.

6.5. Hotline Administration

City Policy C522, *Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection* incorporates a hotline as an additional channel for City employees to report suspected fraud and misconduct. The hotline is available 24 hours a day, seven days a week, all year round, by phone or via Internet. Currently, existing internal resources administer the hotline in addition to their normal duties. The annual operating cost of the hotline will be approximately \$21,000 for 2009. We have been able to absorb this cost in our current budget. As part of our Annual Report, we will provide a summary of the annual overall hotline activity.

6.6. Fraud Awareness Training

This is a multi-year project. In 2008 we have researched the content and delivery of other organization's Fraud Prevention & Awareness programs. In 2009 we will work with the Administration and the Edmonton Police Service to redesign and enhance the delivery of the City's Fraud Prevention, and Awareness program.

6.7. International Fellowship Program

The Office of the City Auditor is partnering with the Auditor General of Alberta in the Canadian Comprehensive Auditing Foundation's International Fellowship Program. The International Fellowship Program invites senior auditors from a targeted country's government audit office to acquire knowledge and experience in audit methodologies, techniques and practices for the purpose of transferring these to their colleagues upon their return home. Two participants from the State Audit Office of Vietnam will be joining the Office of the City Auditor from November 10, 2008 to November 28, 2008. At present, the State Audit Office of Vietnam has over 1000 officials and auditors with responsibilities to audit State and Municipal operations. Total personnel are planned to reach 1,350 – 1,500 by the year 2010. We will provide the fellows with an opportunity to understand and become familiar with the City of Edmonton and our audit practices. Both parties will also gain from the experience by learning a different culture.