



Office of the City Auditor 2012 Second Quarter Activity Report

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1. Audit Plan Progress Monitoring

Bylaw 15310, *Audit Committee Bylaw*, Section 10(1) states that the “Committee will provide oversight of the City Auditor” and Section 10(2) states that the “Committee will monitor the role and functions of the City Auditor.”

This quarterly report provides the Audit Committee with an update on the Office of the City Auditor’s (OCA) second quarter activities and the status of our 2012 Work Plan activities.

To date in 2012, we have provided the following nine reports to City Council and Audit Committee members.

- 2011 Annual Report – *February 13, 2012 Audit Committee*
- Grant Administration Review – *February 13, 2012 Audit Committee*
- Development Permit Fee Collection Review – *February 13, 2012 Audit Committee*
- SLRT Insurance Review – *April 23, 2012 Audit Committee*
- Edmonton Police Service Payroll Audit – *April 23, 2012 Audit Committee*
- IT Security Review – *April 23, 2012 Audit Committee*
- Follow-up of Recommendations – *June 18, 2012 Audit Committee*
- OCA Second Quarter Activity Report – *June 18, 2012 Audit Committee*
- Contract Tendering Review – *Scheduled for September 10, 2012 Audit Committee*

Table 1, on the following page, provides an update of our progress toward completion of our 2012 Annual Work Plan. The purpose of this table is to assist the 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 is divided into project categories to provide a better understanding of the type of work that is associated with each project. It also indicates when reports were discussed at Audit Committee meetings or when we expect to present reports for discussion.

Table 1 – 2012 Annual Plan Progress Monitoring

✓ - Completed projects and Audit Committee date report discussed
 X – Projects In-Progress or Not Yet Started and expected Audit Committee Date

Project Description	Audit Committee Date				
	Feb 13	April 23	June 18	Sept 10	Nov 13
Value for Money Audits					
Drainage Services Branch Audit – <i>In Progress</i>					X
Law Branch Audit – <i>In Progress</i>					X
City Productivity Assessment – <i>In Progress</i>				X	
Agencies, Boards, and Commissions Oversight and Governance – <i>Not Yet Started</i>					
Development Permit Fee Collection Review – Complete	✓				
Automated Photo Enforcement Audit – <i>Deferred Planned for mid 2013 to allow for the new financial system, organization and procedures to be finalized.</i>					
Development Securities Audit – <i>Not Yet Started</i>					
Private Vehicle Reimbursement Audit – <i>In Progress</i>				X	
Grant Administration Audit – Complete	✓				
Corporate Contracting Tendering Audit – Complete				✓	
Edmonton Police Service Payroll Audit – Complete		✓			
Information Technology Security Review – Complete		✓			
Investigations					
Cash Theft Investigation – Complete <i>Summary included as part of this Activity Report</i>			✓		
Hotline Administration – <i>Ongoing</i> <i>All hotline reports are assessed and investigated to the extent the City Auditor deems necessary.</i>					
Proactive Projects					
Fraud Awareness Communication and Training – <i>Ongoing</i> <i>The communication of the Fraud and Whistleblower Protection Administrative Directives is complete. The Training Strategy is targeted for completion by the end of 2012.</i>					X
Information Governance Review – <i>Not Yet Started</i>					
Enterprise Risk Management Framework - <i>Ongoing</i> <i>We are providing support to the Administration in their efforts to expand the corporate role of ERM.</i>					
Capital Projects Advisory Assistance – <i>Multi-year</i> <i>Summary included as part of this Activity Report</i>			✓		

Project Description	Audit Committee Date				
	Feb 13	April 23	June 18	Sept 10	Nov 13
Emerging Issues					
SLRT Claim Process Review – Complete		✓			
Review of a Cornerstone Grant – Complete <i>Summary included as part of this Activity Report</i>			✓		
Review of Investment Tracking System – <i>In Progress</i>					X
Follow-up Reviews					
Follow-up of Recommendations Semi-Annual Review – Complete			✓		
OCA Governance and Leadership					
Audit Committee Orientation – <i>Ongoing</i> <i>The City Auditor will participate in the special Audit Committee meeting to discuss the Audit Committee mandate and changes to the existing Audit Committee Bylaw.</i>					
2011 Annual Report – Complete	✓				
2012 Annual Plan Progress – <i>Ongoing</i> <i>To assist Audit Committee in their governance oversight role of the City Auditor, the City Auditor provides Activity Reports to Audit Committee that summarizes the status of projects identified in the approved OCA Annual Plan.</i>			✓		
2013 Annual Plan – <i>Not Yet Started</i>					X
Edmonton Police Commission Self-Evaluation – <i>Not Yet Started</i>					X
Industry Sharing – <i>Ongoing</i> <i>We share our operating practices with various bodies to promote the internal audit profession. Examples are provided in Section 3 of this Activity Report.</i>			✓		

2. Report Summaries

We have completed five projects in this quarter.

The Follow-Up of Recommendations Report for the Period August 2011 through April 2012, will be presented as standalone report for discussion at the June 18, 2012 Audit Committee meeting. The Contract Tendering Process Review will be presented as a standalone report at the September 10, 2012 Audit Committee meeting.

The following are summaries of three projects that in the judgment of the City Auditor did not require formal audit reports.

2.1. Audit of Cornerstones Grant

In November 2009, the City entered into a funding agreement (the agreement) with an organization and provided \$918,573 in funding for the construction of a semi-detached house that will provide affordable housing for 14 single men capable of independent living (the project). To date, the City has paid 90 percent (\$826,716) of the funding required by the agreement. In October 2011, Housing and Sustainability Branch staff

became concerned that the City may have over funded the project. They approached the Office of the City Auditor (OCA) about enacting 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 if there were any surplus Cornerstones grant funds that the organization did not use for the project. To complete the audit, we asked the organization to provide us with all of the invoices and receipts associated with project. Our review of the records provided indicated that we did not receive receipts or invoices for significant portions of the construction, such as roofing, framing, and foundation. As we did not receive all the records for the project, the services of a Quantity Surveyor were obtained in order to verify the cost to construct the project.

The results of our audit show that to date the City has over contributed \$2,515 to the Project. The Housing and Sustainability Branch has requested that the overpayment be refunded to the City.

2.2. Cashier Theft Investigation

In February, 2012 Community and Recreation Facilities Branch staff identified a possible theft by a cashier at one of their facilities. Corporate Security conducted an investigation and concluded that the cashier had stolen money from the City on multiple occasions.

Corporate Security requested the assistance of the Office of the City Auditor to estimate the amount stolen by the cashier. To estimate the loss, we analyzed the cashier’s transaction data and compared it against that of the other cashiers working at the same facility. Based on our analysis, findings from Corporate Security’s investigation, and the information provided by the cashier during the termination interview, we concluded that a likely estimate of the amount stolen is approximately \$1,600.

Corporate Security turned the investigation over to the Edmonton Police Service. They have charged the cashier with theft under \$5,000.

2.3. Capital Projects Advisory Assistance

The OCA has implemented a proactive process to assess selected capital projects prior to and during construction. This process was developed in response to a request from the General Manager of Transportation Services. The objective of this review is to determine if sound project management practices are being applied consistently throughout the life of a project.

The following are some of the benefits that result from proactive audit involvement in major capital projects:

- More timely input into actual project management practices, providing stakeholders’ confidence that the project is progressing in a controlled manner.
- Improved audit efficiency as project staff are familiar with the project status and current issues.

- Project documentation is current and readily available; eliminating the challenge of locating archived documentation after a project is complete.

Following our research that included the Project Management Book of Knowledge (PMBOK) and ISO Quality Management for Projects Guidelines, we defined a two step process to facilitate a quality management review of project management practices.

The first step is a preliminary risk assessment to determine whether there are any initial concerns that need to be monitored. This risk assessment process is aligned with Enterprise Risk Management (ERM) and will be updated as the City's ERM program evolves.

- The second step is the ongoing quality assurance review of project management practices. For selected capital projects the OCA will monitor the project status on a regular basis, review key project documentation, and provide timely feedback on project management practices including suggestions on process improvements. The guidelines for this review cover the nine knowledge areas defined in PMBOK. These will be updated as the Administration progresses with the implementation of its project management framework.

At least annually, we will prepare a report outlining the status of our proactive reviews. We selected the following two capital projects to review based on their size and public profile. The preliminary risk assessments did not reveal any specific concerns that need to be monitored for either project.

1. Walterdale Bridge Replacement – Key strategic and concept stage documentation has been reviewed. Our review is currently focused on the design stage.
2. Light Rail Transit (LRT) – An initiation meeting has been held. Review will focus on the construction stage for the NAIT LRT and the concept and design stage for the SE LRT.

3. Industry Sharing

We strive to provide national leadership in the government auditing profession. A number of private and public sector organizations have approached us to share our performance audit experiences.

The following section summarizes some of the recent significant activities and initiatives that we have been involved in.

3.1. Institute of Internal Auditors Luncheon Speaker

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.

3.2. International Internal Audit Awareness Month – May

May was International Internal Audit Awareness Month. It is the month that the IIA designates to build internal audit awareness around the world. Staff from the OCA attended the IIA Edmonton Chapter's May 15 luncheon in which Mayor Stephen Mandel was the guest speaker. At the luncheon, the Mayor also proclaimed May 2012 as "International Internal Audit Awareness Month in Edmonton."

3.3. 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 to learn about all aspects of value-for-money auditing. As part of the graduation proceedings, on May 17 2012, the City Auditor and the OCA's Executive Assistant attended a ceremony for the two Auditors held at the Provincial Auditor General's Office.

3.4. 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 Bisho. The Eastern Cape is a province that forms the southeast part of South Africa. Bisho is the capital of the province.

The delegates were part of a study visit to both 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 honored to be selected as part of their study tour.