OFFICE OF THE
City Auditor

Semi-Annual Recommendations Follow-up
March 31, 2010

THE CITY OF
Edmonton

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

Semi-Annual Recommendations Follow-up

1.   Introduction

<u>Audit Reports</u>
To provide City Council with complete information, our Audit Reports include the results of our review and analysis, recommendations for improvement, and a response from the Administration, typically in the form of Action Plans to address each recommendation.

This process is in compliance with Section 23 of Bylaw 12424, C*ity Auditor Bylaw*, requiring: 1) that all Office of the City Auditor (OCA) reports be sent to the City Manager; 2) that the City Manager provide an Action Plan that addresses each recommendation that includes the timeframe within which action will be taken, and the position of the individual who will be accountable for taking action; and 3) that the Action Plans are required to be incorporated into all reports.

This process acknowledges and supports the independence of the City Auditor from the City Manager, with both parties being individually accountable to City Council for the performance of their duties. This separation is further defined in Section 20 of Bylaw 12424, *City Auditor Bylaw* which states:

> *Unless Council gives specific authority, the City Auditor may not give directions to the City Manager.*

All of our Audit Reports are distributed to all members of City Council, however Audit Committee has specific responsibilities regarding the oversight of Action Plans proposed and taken by the Administration. This responsibility is outlined in Section 10(3)(b) of Bylaw 15310, *Audit Committee Bylaw*:

> *Committee has authority to review whether Administration has taken appropriate corrective action in response to recommendations made in Office of the City Auditor reports.*

Audit Committee fulfills this responsibility when the initial audit report is presented and again when we present the results of our Audit Recommendation Follow-up process. In addition, Audit Committee may ask Administration to provide updates on those areas they believe warrant additional oversight.

<u>Audit Recommendations Follow-up Process</u>
We maintain a database of audit recommendations to facilitate the recommendation follow-up process. After an audit report is issued, we track audit recommendations, including the related management action plans, the position responsible for taking corrective action, and the estimated completion date for corrective action. Beginning in

2008, we agreed with the City Manager that we would provide semi-annual reports of outstanding recommendations. As part of this new follow-up process, the City Manager then requests updates from the areas responsible and after review, provides us with status updates and supporting information for each recommendation. We then perform the necessary follow-up review to assess the adequacy and timeliness of the action taken by management on the recommendations, and update the recommendation database as appropriate. Supplemental to this process, we also conduct full follow-up reviews of special interest audits such as branch reviews.

This recommendation follow-up cycle included recommendations that were to be implemented prior to July 31, 2009. In total, status updates were requested for 83 recommendations from 21 different audits. These were provided to the City Manager in August, 2009 and updates were provided back to us in December, 2009.

2.   Observations and Analysis

Table 1, on the following page, provides the audits and the number of recommendations (107 in total) included in our original reports. It also shows the composition of the 83 recommendations outstanding as of July 31, 2009; the number we closed after our review of the status update and supporting documentation provided by management; and the number that remain outstanding.

In this review and update cycle, we were sufficiently satisfied with the management response and supporting documentation to close 54 recommendations (65%). The remaining 29 will remain outstanding in our database until we are satisfied that management can demonstrate that they have taken satisfactory actions to address each recommendation.
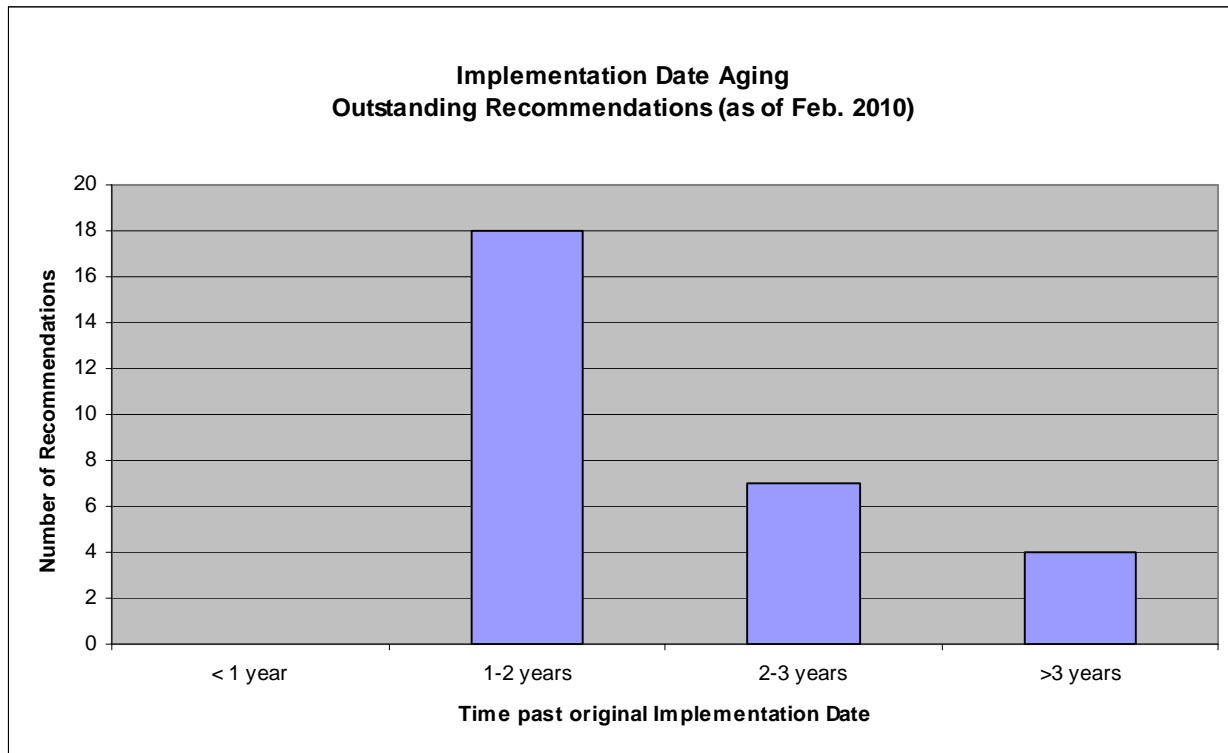
We were provided activity updates and new implementation dates for 19 (23%) of the outstanding recommendations. In these instances, the implementation date has been revised and we will follow-up in an upcoming review and update cycle. In 9 (11%) instances, management had indicated that they felt the action was completed, however supporting documentation was not provided to demonstrate the action had been implemented. There was also one recommendation where no update was provided in response to the request from the City Manager's office. This recommendation will remain unchanged and will be pursued and reported in the next cycle.

Table 1 – Updated Status of Audit Recommendations

No. of Recommendations Audit	Original Report	Outstanding July 31/09	Closed Fall 2009 Review	Remain Outstanding
01009 Telecommunications - Cellular Telephones Follow-up	6	5	5	0
04136 Transit Information Centre Cash Handling	4	4	2	2
05142 - Enterprise Risk Management - Corporate Business Risk Planning	1	1	0	1
05144 - Social and Recreational Services (LTAB)	4	4	4	0
05157 - Continuous Monitoring - Maintenance and Planning	2	1	0	1
05169 - Project Change Orders	8	6	4	2
06186 - Internet Usage	4	2	2	0
06189 - Assessment and Taxation Branch Audit	6	3	2	1
07205 - Mobile Equipment Services Branch (Fleet Services)	12	12	9	3
07206 - Land & Buildings Branch	11	11	0	11
07219 - MAIN-Link Post Implementation Review	5	5	2	3
07220 - Human Resources Branch	4	4	4	0
07222 - Rundle & Hawrelak Park Concessions	1	1	1	0
07225 - Eco Station Cash Handling (North & South)	12	1	1	0
07229 - Cash Handling – Transit	7	4	1	3
07231 - Property Assessment Data	2	1	1	0
08248 - Waste Collection Cost Comparison	3	3	3	0
08249 - Cash Handling - Coin Processing Centre	7	7	6	1
08255 - Investment Transfer Process	4	4	4	0
08257 - Petty Cash Investigation	2	2	1	1
08266 – Cash Theft Investigation	2	2	2	0
Total	**107**	**83**	**54**	**29**

While in most instances the Administration has provided us with progress updates, we believe the timeliness to implement the action plans can be improved. Chart 2 illustrates the aging of the 29 recommendations that remain outstanding (aged from the original implementation date provided in the original report to February 2010). This chart shows that all 29 recommendations are over one-year past the original implementation date, with four (14%) greater than 3-years.

Chart 1 – Outstanding Recommendation Aging

Implementation Date Aging
Outstanding Recommendations (as of Feb. 2010)

Number of Recommendations

Time past original Implementation Date	< 1 year	1-2 years	2-3 years	>3 years
Number of Recommendations	0	18	7	4

Overall, we believe that the Administration is taking steps to fulfill the commitments made in response to our recommendations. Except for one instance, we saw progress to address the recommendations. In 9 instances, management expressed a belief that the recommendation had been addressed. However we did not close these recommendations due to our requirement for supporting documentation that demonstrates the action has been taken.

3.   Management Action Highlights

As discussed in section 2, this update and review cycle resulted in a variety of responses and updates. The responses ranged as follows:

-   All of the recommendations in a given audit being addressed and supporting documentation being provided (recommendation closed).

- Stated actions and support being provided, however more time is required to fully implement the recommendation (remains outstanding with an updated implementation date).

- Stated actions with no support (remains outstanding with a request for further documentation).

- No update being provided (the recommendation and status remain unchanged - outstanding).

To provide some context to the statistical results of this update and review cycle, we have selected the following examples to illustrate some of the actions taken by the Administration to address our recommendations and improve the City's risk and control framework.

3.1.   05142 – Enterprise Risk Management

Recommendation - *The OCA recommends that SMT accept responsibility for management of the City's overall Enterprise Risk Management program and provide guidance for selection and use of risk management toolsets to Management.*

We were provided an update from the Deputy City Manager's Office (DCMO) – Enterprise Transformation, Business Planning and Measurement. Management indicated that the value management methodology with risk analysis was applied in 2009. Departments were required to conduct risk assessments on each strategic initiative using the risk assessment component of the Value Management tool. During 2009, the value case approach, including risk management, was applied to the Fleet Services fleet maintenance system review. Further, DCMO will be working with Senior Management Team in the review and development of the new Business Case approach that will incorporate risk assessment in 2010.

Transformation Management will also work with the OCA and include the value management model and the Enterprise Risk Model in their business plan for 2010; perform a review of the services and projects Transformation Management Branch is involved in; and determine how they can inform and support the OCA directions for corporate risk management diligence and ensure sound business tools are utilized in decision making.

As supporting documentation, Management provided samples of Department Business Plans, the Value Case Summary for the Fleet Maintenance System, and the City's Benefits Register Template Guide.

Our review of the update and supporting material concluded that this recommendation has not been fully addressed and will remain in-progress with a new implementation date of December 2010. While we are pleased with the introduction of risk in business and IT system planning discussions, the supporting documentation did not demonstrate that risks were identified and appropriate strategies were developed to address them. More importantly though, the recommendation is directed towards the development of

an enterprise wide risk management program and these examples are individual business or IT system based, as opposed to consolidating them to provide an enterprise view of risk and mitigating strategies.

3.2.   05169 – Project Change Orders

This update cycle was seeking an update on six of the eight recommendations from the original report.

Recommendation 1 – *The OCA recommends that the Financial Planning and Budget section ensure that guidelines for the proposed Capital Budget process clearly identify corporate requirements for both budget approval and budget adjustments.*

Management provided the Capital Budget instructions for 2009-2011. The instructions include detailed explanations of how to complete the capital budget profiles. The update explained that capital costs vs operating costs have been explicitly defined by the Tangible Capital Asset project and that Capital Budget instructions for future years will include specific direction regarding the costs to include in capital budget profiles.

Our review of the update and supporting material concluded that the requirements of this recommendation have been met and the recommendation has been closed.

Recommendation 2 - *That the Financial Planning and Budget section develop communication and monitoring strategies that will increase the likelihood of consistent understanding and application of the capital budget instructions and budget adjustment guidelines.*

Management's response indicated that the Financial Strategy and Budget Planning Branch surveys departments for feedback. Samples of three 2008 Budget Process Surveys were provided as well as an analysis of the survey results.

Our review of the update and supporting material concluded that the requirements of this recommendation have been met and the recommendation has been closed.

Recommendation 3 - *That SMT incorporate cost estimating guidelines in Administrative Directive A1424A, Project Management for Projects and implement a process to monitor performance against the guidelines.*

Management's response indicated that the Capital Construction Department was created to be involved in the development of projects from concept to construction, ensure appropriate project management training is provided, develop cost estimating procedures to be included in the Project Management Manual, and develop a process for formal handover between Departments.

Capital Construction provided a responsibility matrix to transition the Roads Group from Transportation to Capital Construction (December 2008) and a training plan schedule

for staff to complete the Corporate Project Management Program (3-year plan to be completed in 2011 - includes the building of the Project Management Manual).

Our review of the update and supporting material concluded that this recommendation has not been fully addressed and will remain in-progress with a new implementation date of December 2011. We are pleased with the steps the City has taken to improve the project management process. However, the need for cost estimating guidelines in the Project Management for Projects Administrative Directive has not yet been addressed.

Recommendation 4 - *That the Finance Branch in conjunction with the Law Branch and departments review change order procedures to determine whether greater efficiency can be achieved to better meet the needs of operational areas while ensuring the City's interests are protected.*

In a previous update and review cycle, management provided us with an updated "Field Change Order Review and Recommendations" document updated by the City's Standard Document Committee (comprised of representatives from Asset Management, Transportation, Materials Management and Law Branch). While the document met the requirement to review the procedure, we asked for supporting documentation that demonstrated that the updated process has been implemented. Samples of Field Change Orders were subsequently provided in this update and review cycle.

Recommendation 5 - *That the Finance Branch develop communication and monitoring strategies that will increase the likelihood of consistent understanding and application of corporate financial monitoring and reporting requirements.*

Management's response indicated that quarterly financial reporting to senior management and City Council was enhanced in 2009. Additional detail was included for each significant project (budget greater than $25 Million) comparing year to date, project to date, and projected total costs for the project, as well as the percentage completed and estimated completion date. To provide this level of monitoring and reporting, standard templates and guidelines were developed that provided specific instructions to support consistent, accurate and complete presentations. Finance completes a completeness and reasonableness review of the quarterly department reports.

We were provided supporting documentation that included: Capital Performance Reporting September 2009 Guidelines; Capital Summary Template and sample submissions; as well as copies of formal reports to SMT and to City Council.

Our review of the update and supporting material concluded that the requirements of this recommendation have now been met and the recommendation has been closed.

Recommendation 6 - *That SMT ensure corporate criteria are established to assist project managers in determining when post project and vendor performance evaluations need to be completed and that an effective mechanism for sharing experiences is in place.*

Management's update included samples of post project and vendor performance evaluations (contractors as well as consultants) from the Capital Construction and Asset Management and Public Works Departments. Consultant Pre-qualification and Short List evaluation forms were also provided to demonstrate that past performance is a factor when evaluating contractors/consultants for future work.

Our review of the update and supporting material concluded that this recommendation has not been fully addressed and will remain in-progress with a new implementation date of June 2010. While we are pleased with the steps taken to evaluate vendor performance, a mechanism still needs to be established to access and share these evaluations corporately when vendors are being considered for future work.

3.3. 06189 – Assessment & Taxation Branch

This update cycle was seeking an update on three of the six recommendations from the original report.

Recommendation 1 - *The OCA recommends that the Assessment and Taxation Branch perform a detailed comparison of the TACS software platform versus other commercially available software.*

Management's update indicated that a detailed comparison is complete and a subsequent study was completed to verify the findings of the original report. The report was presented to the General Manager, resulting in a decision to proceed with the TACS software platform.

We were provided copies of two reports as well as confirmation of the General Manager's decision to proceed with TACS.

Our review of the update and supporting material concluded that the requirements of this recommendation have now been met and the recommendation has been closed.

Recommendation 4 - *The OCA recommends that the Assessment and Taxation Branch prepare a contingency plan to ensure that the potential for significant tax loss is mitigated should a significant portion of the assessment base come under appeal.*

Management provided a copy of the Assessment and Taxation Guideline - *Mitigation Plan for Assessment Complaints* approved November 16, 2009. The Guideline outlines a plan to mitigate the threat of increased complaints and potential assessment losses.

Our review of the update and supporting material concluded that the requirements of this recommendation have now been met and the recommendation has been closed.

Recommendation 5 - *The OCA recommends that the Assessment and Taxation Branch develop performance measures in compliance with the guidelines being developed by the corporation.*

Management's update indicated that a Management Reporting project is being implemented that will provide management reporting tracking, performance measures, benchmarks, and identify quality improvements. The project is scheduled to be complete by the 2nd quarter 2011.

Our review of the update and supporting material concluded that this recommendation has not been fully addressed and will remain in-progress with a new implementation date of April 2010.

3.4.   07231 – Property Assessment Data

This update cycle was seeking an update on one of two recommendations from the original report.

Recommendation 2 -
The OCA recommends that Assessment and Taxation Branch evaluate data download logging as a tool to facilitate investigation of suspected data security breaches.

Management previously indicated that they have the ability to create links to track access to outside logging through normal channels as well as staff accessing Oracle login screens. Management subsequently provided samples of login monitoring reports to demonstrate the ability to investigate suspected data security breaches.

Our review of the update and supporting material concluded that the requirements of this recommendation have now been met and the recommendation has been closed.

4.   Conclusion

This report provides an update on the status of 83 audit recommendations the Administration committed to implementing prior to July 31, 2009. Through our review of supporting information provided by the Administration, we closed 54 recommendations. With the exception of one, the Administration provided updates for the other recommendations (19 with new implementation dates and 9 where supporting documentation is required). We are satisfied that this demonstrates that the Administration is taking steps to fulfill the commitments they make in response to our recommendations, however we believe the timeliness to fully address the recommendations can be improved.

We acknowledge that it takes time and commitment to address audit recommendations and we would like to thank the Administration for their cooperation and effort in this regard. Due to their actions, we believe that the City's internal controls have been strengthened and risks better mitigated.