

# 2016 Annual Report

April 3, 2017

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Office of the City Auditor



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## 1. Message from the City Auditor

I am pleased to present the Office of the City Auditor's Annual Report for the year ended December 31, 2016. In accordance with Bylaw 12424, *City Auditor Bylaw*, the City Auditor is responsible for all internal auditing activities within City Programs and City Agencies. 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.

Our mission is to add value to the City of Edmonton by promoting accountability, cost-effective municipal services, and ethical practices. The recommendations we made in our 2016 audits helped achieve this mission.

Our audits for this past year examined a variety of issues, including:

- the structures and supports in place to ensure that the City's Neighbourhood Renewal Program achieves its long-term objectives;
- the City's change order process' design and implementation to determine if it supports best value;
- the effectiveness of the City's Winter Street Sand Recycling and Mixing Program;
- the processes related to employee business expenses to ensure that expenses were appropriate, economical, and authorized;
- the processes relating to sole and single source procurement;
- the processes used to support the POSSE application;
- the Façade Improvement Program and Development Incentive Program;
- the management of the Queen Elizabeth Park Phase 1 project; and
- the overall IT risk management process and related procedures.

### **What actions were taken because of our audits?**

Our audits identify significant issues and provide practical recommendations to improve the City's operations and services. In 2016, the Administration agreed to implement 100 percent of our audit recommendations that were the result of the audits we conducted in 2016. In many instances, Administration began action to work on the recommendations prior to our audit report being discussed at an Audit Committee meeting. Additionally, in 2016 Administration also implemented recommendations we made from audits in previous years.

As a result, I am pleased to report that the City has made significant progress in several areas discussed in both this year's and previous year's audits.

### ***Fuel Cost Recovery as a Result of Change Order Process Audit***

In 2016, we completed a Change Order Process Audit. We noticed a price discrepancy in one of the fuel contract change orders. As a result of our audit finding, Fleet Services (City Operations) staff reviewed the fuel prices for the entire contract period, and found a total discrepancy of \$337,000. This amount has since been recovered from the Vendor.

### ***Enhanced Effectiveness of the City's Pavement Management Framework***

In 2015, we completed a City Streets Audit. Our audit resulted in four recommendations to enhance the effectiveness of the City's pavement management framework. Administration's action plans to the recommendations were finalized in 2016. Based on our recommendations, the City now has an Integrated Roads Strategy that ties to the goals and objectives in *The Way We Move* and includes performance measures and required investment levels. The City now has documented operating procedures for planning and programming roadway preservation, rehabilitation, and reconstruction. They have also documented and tracked the reasons for prioritizing neighbourhood renewal projects.

### ***Increased Fraud Awareness in the City***

In 2016, we conducted a proactive project aimed at identifying, assessing, and managing the City's fraud exposure. The focus was primarily on creating tools for Administration to use when conducting fraud risk assessments and to increase employees' fraud awareness. The project resulted in two new web pages on the City's internal website with information and tools on how to *Recognize, Report and Stop Fraud*. The Office of the City Auditor will continue to support the City's Fraud Risk Management efforts by managing and updating the websites and facilitating Fraud Awareness Presentations throughout the organization as requested.

### ***Updated Restricted and Controlled Items List***

In 2015, we conducted a continuous auditing project to determine whether the City's internal controls were effective in ensuring that Corporate Procurement Card transactions are properly authorized, processed, and safeguarded. We identified several opportunities for improvement, including the need for updated guidelines on restricted purchases. As a result, in November 2016, Administration released a revised and updated restricted and controlled items list. This list is intended to identify products and services which are restricted (goods/services which are not to be purchased with a corporate credit card or low value purchase order) and/or controlled (goods/services which have controls in place to ensure compliance with Corporate standards, safety or other requirements).

### ***Better Controls for Contractor Bonus Payments***

In 2016, we completed the Neighbourhood Renewal Program Audit. As part of this audit, we recommended improvements to the process for verifying and authorizing bonus payments and site occupancy costs for construction contractors. The Building Great Neighbourhoods Branch implemented process changes for the 2016 construction season to quickly and effectively, protect City assets.

### ***Better Oversight over the Use of Sole and Single Source Procurement***

In 2016, we reviewed the City's policies and procedures for single and sole source procurement. Our audit resulted in four recommendations to strengthen the oversight role over the use of sole and single source procurement to ensure that the City achieves best value in its procurement processes. As a result, the City has updated the City's *Procurement Reference Guide*, providing the Corporate Procurement and Supply Services Branch the authority needed to provide greater oversight. The City has developed an on-line tool kit to better facilitate and guide managers and a comprehensive procure to pay training program is scheduled to be rolled out in 2017. In addition, the City has committed to performing an annual analysis of vendors receiving single and/or sole source contracts.

### ***New Handling of City Money Directive and Handbook***

In 2014, we audited the Community and Recreation Facilities Branch to determine whether it had appropriate controls and procedures in place to ensure that City money was safeguarded. As part of the audit, we conducted a review of the *Handbook for the Handling of City Money*. We found that the *Handbook* was outdated and no longer aligned with the Branch's operations. In response, Financial Services initiated a comprehensive review of the *Handbook*. The Executive Leadership Team approved the revised Administrative Directive and Procedure A1200C *Handling of City Money*, the renewed *Cash Handling Handbook*, and four new site-specific procedures for 2016 operations.

### ***Updated Cash Handling Procedures for Coin Processing Centre***

In 2015, we conducted an audit to determine whether the City's coin processing operations are operated effectively, efficiently, and economically. We identified several opportunities for improvement, including the need to revise the Cash Handling Procedures for the Coin Processing Centre. As a result, a revised *Handbook for the Handling of City Money* (a supplement to Administrative Directive & Procedure A1200C) Site Specific Procedures – Cash Handling Procedures for Coin Processing Centre was issued by Treasury Management in April 2016.

### ***Improved Contract Management Processes***

In 2015, we reviewed the project management processes used to procure the Metro Line LRT signaling systems. We made recommendations to improve contract administration practices, role definition and communications with management and project status reporting. In 2016, Administration implemented changes to improve contract management across the corporation. They also updated the Project Management Resource Guide to more clearly define roles and communication requirements and developed a project management reporting tool to convey the status of all significant capital projects to the Executive Leadership Team and City Council. When fully implemented, these processes will help reduce the risk of unexpected project delays and cost increases. There are also a number of courses being developed under the Procure to Pay Training Program.



### ***Implementation of a Corporate Enterprise Risk Management Program***

In 2016, we continued to work with Administration to align the Enterprise Risk Management practices and our long-term planning risk assessment process. In 2016, the Administration made major strides in the implementation of a corporate Enterprise Risk Management (ERM) Program. This included a City Council approved Policy – C587, *Enterprise Risk Management*, which established the roles and responsibilities of City Council and the City Manager. In addition, Administration has developed an ERM framework, created an ERM toolkit, established risk assessment reporting mechanisms and updated and reported on Corporate Strategic Risks to Audit Committee. The Office of the City Auditor will continue to monitor the expansion of the ERM program to align audit risk assessment activities with Administration’s activities to ensure the greatest benefit to the Corporation.

### **Delivering High Quality, Innovative, and Cost-Effective Audit Services**

In addition to producing high-impact audit reports and providing several advisory services, we also made several notable accomplishments during the year. Those accomplishments include being recognized by our peers as a “leader” in performance auditing.

The role of this Office and the work we do is important and valued by City Council, the Administration, and the citizens of Edmonton. Delivering high quality reports efficiently and effectively requires a competent, dedicated, and enthusiastic workforce. We understand the importance of effectively managing our staff, developing, and providing our staff with opportunities to grow both personally and professionally. Our focus is to provide all our staff with a supportive environment that encourages them to achieve their personal goals, while simultaneously achieving the desired outcomes of the Office of the City Auditor. I believe that it is this work environment that led to a 94.4 percent Overall Engagement rating for the Office of the City Auditor on the City of Edmonton’s 2016 Employee Engagement and Diversity Survey.

In 2017, 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 taxpayers’ 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 subsequently providing policy direction to Administration. Administration is then responsible for providing the services and activities required to appropriately address those needs. Audit Committee and City Council rely upon the Office of the City Auditor to provide objective and constructive assessments of how efficiently, effectively, and economically 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 well 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 every day:

***“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.***

### **3. Adherence to Professional Standards**

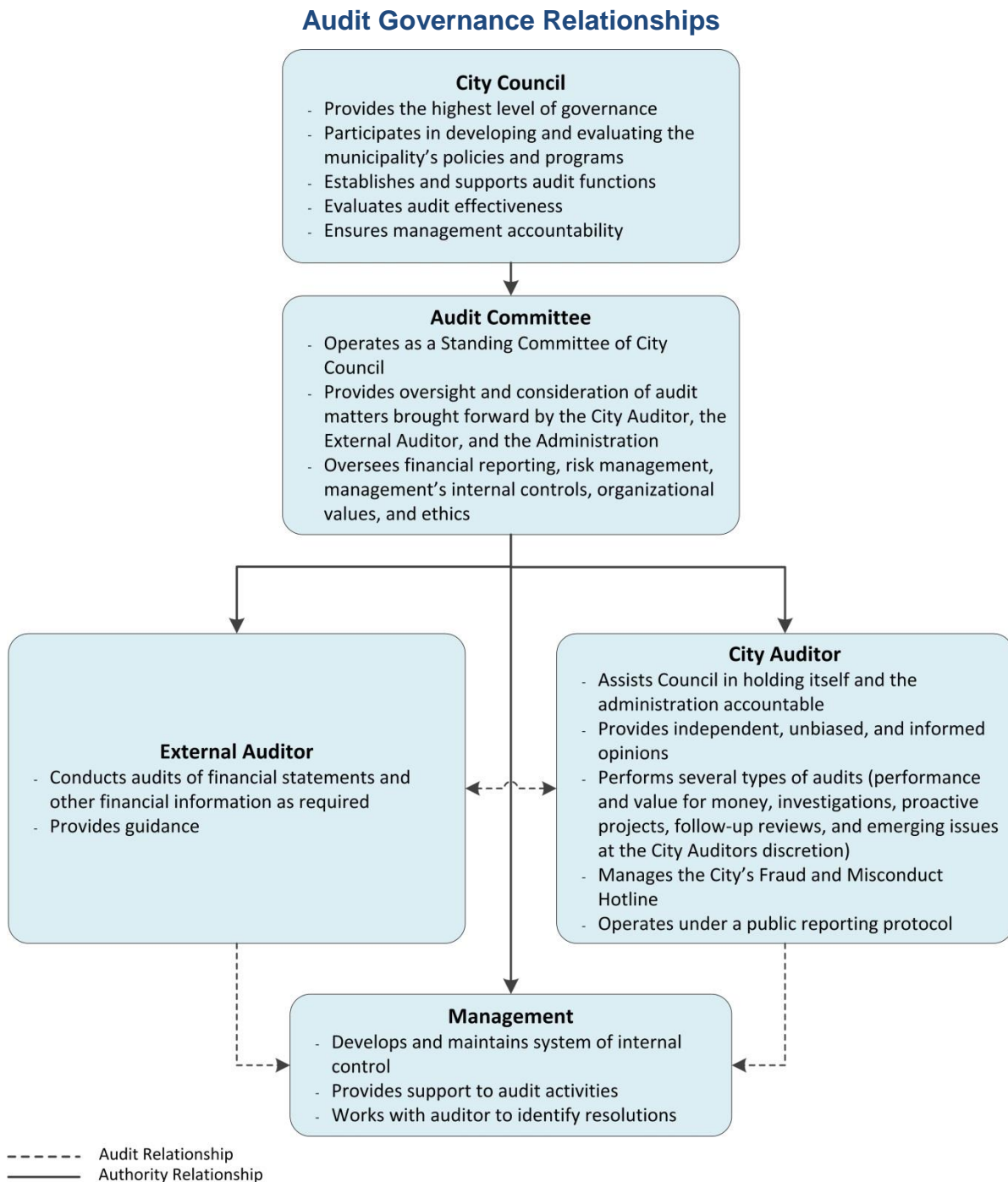
We follow the *International Standards for the Professional Practice of Internal Auditing (Standards)*, established by the Institute of Internal Auditors (IIA). These *Standards* are the internationally accepted criteria by which the operations of internal audit departments around the world are evaluated and measured.

Bylaw 16097, *Audit Committee Bylaw*, Section 14(f) states that Audit Committee has authority to receive “annual reports on the Office of the City Auditor’s compliance with professional standards.”

The *Standards* and the *Bylaw* both require the Office of the City Auditor to undergo an independent external quality assessment review at least once every five years. The Office of the City Auditor has had two Independent External Quality Assessments in the past six years (2011 and 2015). The assessments evaluated compliance with the IIA standards and compared the Office of the City Auditor to leading practices in public and private sector organizations. In both 2011 and 2015, we achieved the highest rating an audit office can earn regarding compliance with the *Standards*.

## 4. Audit Governance

The figure below 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, in working 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.



## 5. Projects Completed in 2016

Upon completion, the City Auditor's reports are forwarded to members of Audit Committee and City Council and are then available for discussion at a subsequent Audit Committee meeting. The Office of the City Auditor operates under a public reporting protocol that requires audit reports to be issued publicly unless a specific exemption to disclosure exists under the *Freedom of Information and Protection of Privacy Act* (FOIP). In addition to being distributed to members of Audit Committee and City Council, reports are also distributed to the City Manager, the operational area(s) reviewed, and are made available to the public via the Office of the City Auditor's website (<http://www.edmonton.ca/auditor>).

Title	Description
<p><b>Value for Money Audits</b> – These audits and reviews determine whether a department, service, or program operates efficiently, effectively, and economically and whether risks are appropriately mitigated. In 2016, we performed eight value for money audits.</p>	
<p>Neighbourhood Renewal Program Audit</p>	<p>The results of the <i>Neighbourhood Renewal Program Audit</i> were presented at the April 15, 2016 Audit Committee meeting. The objective of this audit was to determine if the Neighbourhood Renewal Program has the appropriate structures and supports in place to achieve its long-term objectives.</p>
<p>Change Order Process Audit</p>	<p>The results of the <i>Change Order Process Audit</i> were presented at the June 13, 2016 Audit Committee meeting. The objective of this audit was to determine if the City has effective change order processes that support best value.</p>
<p>Sole and Single Source Audit</p>	<p>The results of the <i>Sole and Single Source Audit</i> were presented at the September 29, 2016 Audit Committee meeting. The objective for this project was to determine if the City is complying with Administrative Directive A1439C, <i>Procurement of Goods, Services and Construction</i>.</p>
<p>Utilities Infrastructure Branch Audit</p>	<p>The results of the <i>Utilities Infrastructure Branch Audit</i> were presented at the September 29, 2016 Audit Committee meeting. The objectives of the audit were to assess the effectiveness of resource planning, performance measures and communications within the Branch.</p>

Title	Description
Employee Business Expenses Audit	The results of the <i>Employee Business Expenses Audit</i> were presented at the November 24, 2016 Audit Committee meeting. The objectives of this audit were to determine if employee business expenses were appropriate, economical, and authorized and to assess the efficiency and effectiveness of the employee business expense process.
Information Technology General Controls – Risk Management	The results of the <i>Information Technology General Controls – Risk Management Project</i> were presented at the November 24, 2016 Audit Committee meeting. The objective of this project was to assess the effectiveness of the City’s IT risk management process, supporting framework, and policies.
Façade Improvement Program and Development Incentive Program Review	The results of the <i>Façade Improvement Program and Development Incentive Program Review</i> were presented at the February 9, 2017 Audit Committee meeting. The objectives for this audit were to determine if the governance structure is effective in ensuring that grant programs meet their intended objectives and that program policies and procedures are being followed to ensure grants are properly administered.
POSSE System Review	The results of the <i>POSSE System Review</i> were presented at the February 9, 2017 Audit Committee meeting. The overall objective of this review was to conduct a value-for-money audit of the POSSE application and the processes used to support it.
<p><b>Emerging Issues</b> – These are audits or projects that are not listed in the Annual Work Plan. These projects may be identified by the OCA during a scheduled audit, by City Council, by the Administration, or by a member of the public. In 2016, we performed two additional projects that was not on our original work plan.</p>	
Queen Elizabeth Park – Phase 1 Review	The results of the <i>Queen Elizabeth Park – Phase 1 Review</i> were presented at the June 13, 2016 Audit Committee meeting. This review evaluated and assessed the risk to the City of Edmonton and to the Queen Elizabeth Park Project of four project management concerns brought to our attention by a City of Edmonton employee.
Winter Street Sand Recycling and Mixing Program Audit	The results of the <i>Winter Street Sand Recycling and Mixing Program Audit</i> were presented at the September 29, 2016 Audit Committee meeting. The overall objective of this project was to determine the value-for-money received by the Winter Street Sand Recycling and Mixing Program.

Title	Description
<p><b>Investigations – These are designed to prove or refute alleged fraudulent behavior or misconduct by a City employee or other parties.</b></p>	
<p>Investigation Projects</p>	<p>As per the City’s Administrative Directive A1454, <i>Fraud</i>, the City Auditor has primary responsibility for investigating suspected fraud and will involve the City Manager as appropriate depending on the nature and scope of the complaint. Allegations of fraud were investigated as required and are discussed in Section 6.</p>
<p>Hotline Administration</p>	<p>The OCA coordinates the City’s Fraud and Misconduct Hotline. It is available to City employees 24 hours a day, seven days a week, all year round, by phone or via the Internet. Hotline activity is discussed in Section 6.</p>
<p><b>Proactive Projects – These projects allow the OCA to provide proactive, strategic, risk, and control-related advice prior to and during the development and implementation of projects, programs, and systems.</b></p>	
<p>Continuous Auditing – Cashier Transactions</p>	<p>We continue to support the Community and Recreation Facilities Branch by providing them with an analysis of cashier transactions on a quarterly basis. We provide analysis of all cashier transactions at recreation and community facilities, including golf courses. The Branch uses this information to identify anomalies and potential training requirements.</p>
<p>Fraud Risk Management: Fraud Awareness and Fraud Risk Assessment</p>	<p>The results of the <i>Fraud Risk Management: Fraud Awareness and Fraud Risk Assessment project</i> was presented at the November 24, 2016 Audit Committee meeting. This project is part of a multi-year program aimed at identifying, assessing, and managing the City’s fraud exposure. This project focused on two key aspects of fraud risk management: fraud risk assessment and fraud prevention.</p>
<p>Edmonton Police Commission Self-Assessment</p>	<p>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. We presented the results of the 2016 self-assessment to the Police Commission at its regularly scheduled January 19, 2017 meeting.</p>

Title	Description
Enterprise Risk Management Framework	In 2016, the OCA further supported the Administration's efforts to expand the corporate role of Enterprise Risk Management. A City Council Policy and an Administrative Directive and Procedure in relation to Enterprise Risk Management was presented by the Administration at the February 19, 2016 Audit Committee meeting.
Performance Measures Validation	The results of the <i>Performance Measures Validation</i> project were presented at the September 29, 2016 Audit Committee meeting. In 2016, we validated five corporate measures from <i>The Way Ahead Progress Report 2015</i> . We validated each of the five measures against criteria relating to reliability, understandability and comparability of the performance measure.
Capital Projects Advisory Assistance	From 2010 through 2016, we have met with project management teams in various departments to observe and provide feedback on project management practices. The objective of our proactive audit involvement in major capital projects is to determine the degree to which sound project management practices, as described in the City's Project Management Reference Guide, are being applied throughout all stages of a project. In 2016, we worked with the Project Management Centre of Excellence to ensure our involvement aligns with the new Corporate organization structure.
<p><b>Follow-up Reviews</b> – These projects allow the OCA to determine the adequacy, effectiveness, and timeliness of actions taken by management on recommendations made in audit reports.</p>	
Recommendation Follow-up	We perform follow-up reviews to assess the adequacy, effectiveness, and timeliness of action taken by management on reported observations. Our audit monitoring program consists of reviewing the status of actions taken on recommendations in previously released audit reports with the appropriate management staff. It is intended to provide assurance that management has implemented the intent of our recommendation or to assess the rationale where action was no longer being taken or had been delayed. Throughout 2016, we presented <i>Recommendation Follow-up Dashboard</i> reports as a regular agenda item for each Audit Committee meeting. These reports highlight the status of our recommendations and any changes to planned implementation dates.



Title	Description
<p><b>OCA Governance and Leadership Activities</b> – The OCA participates in a number of initiatives that support City Council and Audit Committee’s governance responsibilities and contributes to leading audit practices by others.</p>	
Annual Report	<p>Bylaw 12424, <i>City Auditor Bylaw</i>, states that the “City Auditor will submit to Council an Annual Report.” We issued the City Auditor’s 2015 Annual Report on April 15, 2016. The report summarized the activities of the OCA for the calendar year 2015.</p>
Annual Work Plan	<p>Bylaw 16097, <i>Audit Committee Bylaw</i>, Section 9 states that, “Committee has the power to approve the City Auditor’s annual work plan and any changes to the work plan requested by the City Auditor within approved budgets.” The OCA’s annual planning process is designed to ensure that it prepares a risk-based work plan that adds value to the corporation through its execution. The Office of the City Auditor’s 2017 Annual and Long Term Work Plans were presented and approved at the November 24, 2016 Audit Committee meeting.</p>
Audit Committee Orientation	<p>We provide Audit Committee orientation to new members of the City’s Audit Committee. In 2016 we had 1 new member. We provided training that outlined the governing relationships, roles, and responsibilities among City Council, Audit Committee, the Administration, the City Auditor and the External Auditor.</p>

## 6. 2016 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.” Section 27(2)(g) also requires the City Auditor to provide periodic reports related to overall hotline activity.

The City implemented its Fraud and Misconduct Hotline on January 2, 2007. The Office of the City Auditor has managed the hotline since its implementation. The following discussion provides a summary of hotline activity for 2016.

### 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, 7 days a week, 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 Office of the City Auditor 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 Office of the City Auditor 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. It should be noted that hotline information is stored separately in secure and protected servers.

### 6.3 Hotline Activity

The table below summarizes the reports received by the hotline and the Office of the City Auditor for 2016 by category. For comparison purposes, summaries for the previous two years have also been provided.

**Reports Received by the Hotline and the OCA (2014 – 2016)**

Report Category	2014	2015	2016
Financial Reporting and Accounting	0	0	1
Health and Safety or Environment	0	1	6
Unethical Conduct and Conflict of Interest	20	30	20
Manipulation or Falsification of Data	0	1	3
Harm to People or Property	1	5	10
Theft, Embezzlement, Fraud	5	19	4
Violation of Laws, Regulations, Policies, Procedures	12	14	25
Miscellaneous	8	10	4
<b>Total</b>	<b>46</b>	<b>80</b>	<b>73</b>

In 2016, we received and reviewed a total of 73 reports of which 25 (34%) were through live agents, 47 (65%) were through the online web service, and 1 (1%) were through the hotline voice-mail service. All but 4 of the 73 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 hotline 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, at times we were unable to act 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, Human Resources, and other departmental staff as appropriate.

In both 2015 and 2016, the number of hotline reports increased significantly compared to the previous years in which the hotline has been operating. In both years, we received several reports that pertained to operational matters/workplace issues that fell within the jurisdiction of the City Manager. In many of the workplace issues received in 2016, employees believed that their complaints to management had not resulted in appropriate action and used the hotline as an additional avenue to elevate their complaint. We held regular meetings with the City Manager to evaluate the nature of the complaints received and to determine whether any corporate action needs to be taken.

In 2016, we participated in a proactive Fraud Risk Management project with the Administration that included developing a cohesive communication strategy on fraud awareness, and on what to report to the hotline. This project is part of a multi-year program aimed at identifying, assessing, and managing the City's fraud exposure.

The table below summarizes the disposition of the 73 reports we received in 2016. For comparison purposes, a summary of the previous two years has also been provided.

### Disposition of Reports/Complaints (2014 – 2016)

Description	2014	2015	2016
No action taken (insufficient information, comments and inquiries on the hotline, follow-up on previously submitted report, etc.)	6	14	11
Tips provided that will be used in future audits	2	1	4
Referred to the City Manager (operational matters, retaliation complaints, etc. that are outside the scope of the Office of the City Auditor)	17	30	16
Reports Investigated by the Office of the City Auditor and/or the Administration (Corporate Security, Labour Relations, etc.)	21	35	42
<b>Total</b>	<b>46</b>	<b>80</b>	<b>73</b>

#### 6.4 Outcomes of the Completed Investigations

In 2016, the Office of the City Auditor and Administration investigated 42 reports. We also reviewed all findings from reports investigated by the Administration to ensure that the investigations were thorough and that remedial 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.

Of the 42 complaints that were investigated, 38 were closed and 4 investigations were still in progress at year-end. Of the 38 investigations that were closed, 15 allegations could not be substantiated or confirmed. Therefore, no further action was taken. The remaining 23 allegations were either confirmed or led to recommendations based on additional findings that came about through the investigations. In cases where the employee should be aware of the performance and conduct expected, corrective actions or appropriate disciplinary action will occur. This may include dismissal. The following is a summary of the outcomes relating to the 23 investigations.

##### Leaving work early with a take home vehicle

An allegation was received that employees from a City facility with take home vehicles were leaving early from their work site. A random audit of roughly 10% of the take home permits for the area was conducted. The allegation of vehicles arriving late and leaving early from the site was founded. A recommendation was made that “management oversight methods be developed to better monitor and enforce start and stop times for those with take home permits.” The *Take Home Policy* was reviewed with all work groups in the area, with reinforcement of start and end times. In addition, a more active system of managing the time of mobile workers was put in place, requiring employees to check-in and check-out by both calling their Supervisor and checking in/out on their work tablets.

### **Inappropriate use of email and internet**

A complaint was received that two employees were “inappropriately using the City’s computer, email, and internet”. It was discovered through the investigation that one employee had their personal email forwarded to their City email account. It was also discovered that this same employee received one inappropriate email to their City email account and several to their personal email account that were forwarded to their City account. A review of the second employee’s City email account uncovered a large amount of inappropriate jokes and pornographic images being sent to and received by multiple City of Edmonton employees. As violations of the *City’s Code of Conduct*, *Acceptable Use of Communication Directive*, and *Respective Workplace Directive* were substantiated, corrective action and discipline was taken. To date, 22 City of Edmonton employees have received some form of corrective action in regard to the City’s Acceptable Use of Communication Directive.

### **Maintenance of shower stalls**

It was alleged that the shower stalls in a City of Edmonton Operating facility were dirty and showing signs of mould. A visual investigation for mould was performed on all the shower stalls at the facility. Investigative procedures included intrusive and non-intrusive visual inspection, moisture content measurements, informal interviews and photos. There was no indication of mould in or around the shower stalls. However, there was visible dust in the corners and ledges of the showers and debris on the floor on one shower stall. Since there were indications of insufficient cleaning, recommendations were made in regard to the cleaning and maintenance of the showers.

### **Conducting personal business on City time**

A complaint was received alleging that an employee owned vending machines in City operated buildings and that the employee is stealing City time by filling the machines during work hours. A similar complaint was received in 2015. It was confirmed that two of the vending machines had already been removed because of the previous hotline complaint. The third machine, a pop machine was still on the premises. However, the machine had been unplugged and did not contain any product. Arrangements were subsequently made to have this last machine removed.

### **Inappropriate behavior**

A complaint was received alleging that one employee yelled at another employee and slammed a door in anger at another employee. The employee claimed that the door slam “shook the walls hard enough to send an electronic thermostat mounted on the wall flying and dust falling from the ceilings.” The employee attributed their inappropriate behavior to an asthma attack that was triggered from the smell of smoke on the other employee. The individual involved was met with and counseled regarding always having their inhaler at work to avoid another situation like this. In addition the individual has been directed to retake Code of Conduct training and the Building Positive Work Relationships training offered through the City’s School of Business to reaffirm the City’s expectations of personal conduct in the workplace.



### **Employee's actions potentially dangerous**

A concern was received that a City employee was getting involved in situations which were dangerous and beyond the scope of their job. It was confirmed that rather than calling the appropriate group to handle certain incidents that were potentially dangerous, the employee had been taking the "matters into their own hands." This resulted in the employee being assaulted. The complainant was concerned that this was not being addressed by the employee's management team and that the employee may get seriously injured. Working with the Business Unit's management team, the employee was coached and counselled on the importance of ensuring their own safety by waiting for the appropriate City staff, who are trained to manage such situations. In addition, the Business Unit committed to reviewing and communicating the job responsibilities and expectations to ensure that all parties clearly understand their roles and responsibilities.

### **Inconsistent treatment of employees**

It was alleged that a Foreman was providing favourable treatment to certain staff and not communicating to other staff. This was leading to an unfavourable team atmosphere. The Manager of the Business Unit has committed to a series of workshops to develop better understanding, communication and teamwork across the group. In addition, the foreman received targeted training on leadership, teamwork, and expectations around respectful communication with staff. The intent of the training was to address the alleged problematic behaviors, clarify and educate on conduct expectation for employees and supervisor, and to take positive steps to prevent future incidents.

### **Operating a City vehicle without a license**

A report was received alleging that a City employee failed to inform the City that their license had been suspended and that they were driving City vehicles without a license. A review of the employee's driver's abstract showed a three month administrative suspension. During this suspension, it was also confirmed that the employee was operating City vehicles. Corrective action was taken to address the matter.

### **Misuse of City time**

It was alleged that a City employee was visiting another employee at a City facility during work hours without any work-related reasons to be there. The complaint documented dates and times over a six week period in which they noticed the City employee was at the site every work day and "sometimes a couple of times a day." An investigation was conducted to determine if the City employee had any work orders to explain why they would be at the City facility. The allegations were substantiated as it was determined that multiple visits were occurring for excessive periods of time. The employee "typically did not have a work order or any reason to be at this location." The employee falsely allocated time to other work orders while at the City facility. The employee had no prior discipline or performance related issues and had a reputation as having a good work ethic on jobsites. However, misuse of City time is a very serious infraction and the employee was issued a twenty day suspension.



### **Scheduling of overtime**

A complaint alleged favouritism at a City of Edmonton business area. The complainant alleged that a Supervisor scheduled them-self and their favourite employee with unnecessary overtime. It was determined that overtime shifts were filled by going “down the list of employees in order of seniority and call those that were not already scheduled for that day.” The overtime shift would be given to the first person that answered and accepted. However, there was no documentation of the conversations. It was recommended that the Supervisor track the phone calls to employees and their responses to ensure that the perception of favouritism was mitigated. In addition, there were processes implemented to reduce the amount of overtime required by the operation.

### **Training approval processes not followed**

A complaint was received that an employee was receiving preferential treatment by having the opportunity to receive training ahead of employees who were more senior to the employee. The investigation did not show that preferential treatment was provided to the employee. However, it did reveal that there was a lack of understanding of the process for attaining training opportunities within the business area. A formalized, transparent training system was developed to standardize the training for all employees within the work area. In addition, it was recommended that the process for assessing and evaluating employee training requests be communicated to employees.

### **Misuse of City time and assets**

A complaint was received that two employees were misusing City time and assets. The complainant alleged that the two employees were “constantly watching movies and YouTube on their computers and it’s a daily occurrence during work hours.” An investigation of internet usage of both employees took place. The IT reports used for the investigation cataloged the sites and times the two employees visited internet sites. At the end of the investigation, it was concluded that due to the volume of non-work related internet activity that a considerable amount of time was spent on non-work related sites. The Business Unit disciplined the employees for the misuse of City time and assets.

### **Need for better cash controls**

We received an allegation that there had been several incidents in which keys for locked cash locations were being mishandled. It was alleged that employees in the work area “regularly pass the keys to each other over the course of a day and sometimes several days which have the potential to give them access to the money located inside.” Interviews held with the employees in the work area substantiated the mishandling of keys in the area. As a result of the investigation, a procedure document has been put in place and communicated to staff to ensure that employees are clear on their accountabilities for keys. In addition, a mechanically-controlled key PIN is required to take out a key. The individual signing out the key now clearly has accountability for returning the key as well.

### **Arriving late to work**

A complaint was received alleging an employee was showing up late to work and “no action was being taken due to management’s favouritism for this employee.” The investigation substantiated that the employee was occasionally late for their assigned shift and therefore appropriate disciplinary action was taken.

### **Management of time**

It was alleged that two employees had a “practice of going for coffee for at least an hour each day, taking personal calls, and leaving the office early.” The investigation did not substantiate the allegation of misuse of time based on the information that was gathered. However, it was confirmed through an interview that the Supervisor’s general approach to time management was “very flexible.” Based on the information that was learned in the investigation, it was recommended that the Supervisor review the expectations regarding time management with employees on a regular basis, including during annual performance reviews. This will assist in ensuring a consistent and well-communicated approach.

### **Doing non-related work during City time**

It was alleged that a City employee was doing homework and school assignments during their shifts at a City facility. An interview was held with the employee in which they admitted to completing homework at the City Facility while on shift. The employee also acknowledged understanding why this was a violation of the City of Edmonton Employee Code of Conduct. The employee was formally warned that further occurrences would be addressed through the progressive discipline process.

### **Unprofessional behavior by a Supervisor**

A complaint was received alleging “unprofessional behavior including bullying, belittling and intimidation by a Supervisor.” There was consensus among all the individuals interviewed that the Supervisor’s approach when communicating with staff had a negative impact on the work environment. The individuals described the Supervisor as being condescending and as a person who shows frustration by yelling at staff in their cubicles, in boardrooms, or in the Supervisor’s office. The allegations in the complaint were substantiated. A corrective action plan was put in place to address the Supervisor’s behavior.

### **Use of inappropriate language**

It was alleged that an employee behaved in a manner that has violated City Administrative Directive A1127 – *Respectful Workplace*. This included using inappropriate language. During the investigation, it was concluded that the employee did not violate the *Respectful Workplace* Directive. However, the employee was in a supervisor position, and it was also concluded that the employee can come across as “inflexible, insensitive, and intimidating.” Thus, it was recommended that the employee be provided with the opportunity to work with a leadership coach or access additional leadership, dispute resolution, communication, and/or change management training.

### **Not attending work as required**

A complaint was received alleging an employee was regularly absent from their main location of work, often with the excuse of either being in training (which had not passed through regular approval channels) or that they were working from a secondary location. The investigation identified 18 times that the employee had reported to staff that they were working at a particular location, while the evidence showed that the employee was, in fact, not present at those locations. It was concluded that the employee falsely reported working at three locations 18 separate times in a seven-month span. A corrective action plan for the employee, including discipline was applied.

### **Errors in shift scheduling**

A complaint was received alleging that payroll errors were occurring due to errors in the scheduling roster at a work site. It was found that an employee “was erroneously provided and working from an outdated shift schedule when creating the roster.” The resulting issue was that the shifts that staff signed up for did not match the shift schedule. The issues were the result of a combination of factors including changes in staff accountabilities and processes, and human error. The issues have been rectified and processes improved to ensure that similar errors will not occur in the future.

### **Supervisor not respectful to staff**

A complaint was received that a Supervisor has “a temper issue” and “loves to scream and yell at staff.” In the investigation meeting, it was confirmed that the Supervisor has “a loud and boisterous voice.” The Supervisor’s trial period had already been extended from 3 months to 1 year because of a performance concern unrelated to this matter. In addition, Management agreed to monitor the Supervisor’s performance through the trial period and address concerns accordingly. The Supervisor was enrolled in the Supervisor 101 training program and an effective communication course.

### **Concern about hazardous chemicals**

It was alleged that employees working at a City work site were told to clean the site and a building on the site and were “ignored when they complained a number of times about the chemicals inside the building.” The complainant indicated that “many staff became sick” and had to seek medical treatment. The investigation identified at least three potentially hazardous materials inside the facility. It was also confirmed that a hazard assessment was not performed before sending the staff into the facility. As significant safety concerns were brought to the Supervisor’s attention, but appropriate and timely action was not taken by the Supervisor, a corrective action plan was implemented regarding the Supervisor’s performance.

### **Non-compliance with Security Procedures**

A complaint was received that a City employee allowed a citizen into a back room. The complainant did not see any City ID on the individual and was concerned that because the citizen was “not a City of Edmonton employee” that “they may not have the proper training to be behind that area” and that there were potential security breaches. The allegations regarding non-compliance with policy or procedure were substantiated and were addressed through the progressive discipline process.

## 7. Measuring Our Performance

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 Association of Local Government Auditors (ALGA) represents local government audit organizations in both the United States and Canada. Based on biennial surveys of member audit organizations, they establish performance benchmarks for audit organizations by size. The OCA is in the group of audit organization with 11 to 15 auditors. The latest comparative survey was published in October 2016. Where possible, we have included the latest comparative ALGA survey results in the following measures.

### 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. After each major project, 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, the professionalism of our audit staff, and the quality of our findings.

#### Customer Satisfaction Survey Results

Performance Indicator	Industry <sup>1</sup>	2012	2013	2014	2015	2016
<b>Communication</b> How well the client was informed of objectives, process, timeframe, and emerging findings.	N/A	4.6	4.9	4.4	4.4	4.6
<b>Understanding of client's business</b> How well the audit staff demonstrated their understanding of the client's issues and challenges.	N/A	4.4	4.4	4.0	4.1	4.4
<b>Professionalism</b> How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients.	N/A	4.8	4.9	4.6	4.4	4.7
<b>Quality of findings</b> Practicality, adequacy, and openness of communication with the clients.	N/A	4.5	4.2	4.2	4.2	4.6
<b>Overall average</b> Client's overall assessment of value.	N/A	4.6	4.6	4.3	4.3	4.6

<sup>1</sup> The Association of Local Government Auditors 2016 Benchmarking and Best Practices Survey did not have any results for these measures.

The overall client rating of the value they received from our 2016 projects was 4.6 out of 5, which is higher than the previous two years and a positive reflection of the communication and professionalism we demonstrate on all our projects.

## 7.2 Optimize Productivity

We use several internal measures to monitor our effectiveness and productivity. These include percentage of recommendations accepted, project time, and audit plan completion. We have implemented several best practice initiatives to increase an audit office's effectiveness, such as the use of a fraud hotline, computer assisted audit techniques, use of audit effectiveness questionnaires, and audit management software. We use all four of these best practices.

### Effectiveness and Productivity Results

Performance Indicator	Industry	2012	2013	2014	2015	2016
<b>Percent of recommendations accepted</b> A measure of the value provided by the audit.	<b>92%</b>	100%	100%	100%	100%	<b>100%</b>
<b>Percent of project time vs. available time</b> A measure of the available time spent working on projects.	<b>72%</b>	80%	79%	81%	81%	<b>82%</b>
<b>Percent of completed or partially completed projects to number scheduled</b> A measure of office productivity.	<b>64%</b>	96%	92%	96%	92%	<b>93%</b>
<b>Use of a fraud hotline</b> A tool to enhance accountability and promote ethical operating practices.	<b>80%</b>	Yes	Yes	Yes	Yes	<b>Yes</b>
<b>Use of computer assisted audit techniques</b> A tool to optimize productivity.	<b>N/A<sup>2</sup></b>	Yes	Yes	Yes	Yes	<b>Yes</b>
<b>Use of an audit effectiveness questionnaire</b> A tool to ask clients to value audit after the engagement has been completed.	<b>47%</b>	Yes	Yes	Yes	Yes	<b>Yes</b>
<b>Use of audit management tool</b> A tool to optimize productivity	<b>N/A<sup>2</sup></b>	Yes	Yes	Yes	Yes	<b>Yes</b>

<sup>2</sup> The Use of computer assisted audit techniques and the Use of audit management tool were not available in ALGA's 2016 Benchmarking survey.

### **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% of the recommendations we made in 2016.

### **Productivity – project time**

Productive time is considered time spent directly working on audits, investigations, follow-up audits, or other audit projects. Our productivity ratio was 82% in 2016, which was slightly above the previous two years.

### **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 two projects, we either completed or were near completion of all projects approved in our 2016 Annual Work Plan. In addition to the scheduled projects, we also completed several projects that were not in the original work plan.

### **Ethical operating practices – use of a fraud hotline**

The use of a fraud hotline in an organization is fundamental to enhancing public confidence in civic government. It demonstrates an organization's commitment to corporate accountability, responsibility, and sound and ethical operating practices. It helps to support a high level of integrity of employees in the workplace and to protect City property, resources, and information.

### **Productivity – use of computer assisted audit techniques**

The main advantage of computer assisted audit techniques is that they can be used to scrutinize large volumes of data. This is much more efficient than doing this manually. The programs can then present the results in a manner that can be investigated further. This can simplify the auditor's task by selecting samples for testing, identifying risk areas, and performing specific substantive audit procedures.

### **Effectiveness – use of an audit effectiveness questionnaire**

We issue a customer satisfaction survey to each major audit project client to help us monitor our performance and to identify areas where improvements in our operations can be made.

### **Productivity – use of audit management software**

Audit management software is designed to integrate and automate numerous activities within an audit process. System capabilities include long range audit planning, electronic working papers, document management, resource use, recommendation follow-up, and performance management.



### 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 providing encouragement to pursue training and professional certifications and to foster a positive working climate.

#### Human Resource Related Results

Performance Indicator	Industry	2012	2013	2014	2015	2016
<b>Average days of City-funded training &amp; development</b> A measure of commitment to maintaining and enhancing professional certifications and skills.	8 – 12	8.9	10.0	8.0	6.8	7.0
<b>Percent of staff certified or with advanced designations and degrees</b> A measure of staff qualifications.	N/A	92%	92%	92%	92%	92%
<b>Overall Employee Engagement - positive working climate</b> A measure of the “connection employees have to their work, emotional connection and their willingness to put in discretionary effort” (data from City of Edmonton employee engagement surveys).	72.0%	90.3%	90.3%	91.7%	91.7%	94.4%

#### Training

Training is vital because it keeps us current both 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 2016, our staff completed an average of 7 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 2016, we held two in-house retreats that incorporated training courses and cost-effective webinars.

#### Professional certification

Professional certifications are strongly encouraged within the Office of the City Auditor. 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.

### Overall Employee engagement – maintaining a positive work climate

The City of Edmonton’s Employee Satisfaction Survey is conducted every two years. In 2012, 2014 and 2016, Office of the City Auditor staff members were part of the City’s comprehensive Employee Engagement Survey that integrated employee engagement, diversity, inclusion, workplace, and culture. In the last survey conducted, the overall Employee Engagement score for the Office of the City Auditor was 94.4% favourable as compared with the City’s overall average of 72%.

## 7.4 Financial Perspective

As an independent audit office reporting on the efficiency, effectiveness, and economy of City operations, we must operate in a cost-effective and clearly accountable manner. We have two measures that monitor our cost effectiveness. We monitor our percentage of actual versus budgeted expenditures. We also benchmark our staffing levels.

### Cost Effectiveness Results

Performance Indicator	Industry	2012	2013	2014	2015	2016
<b>Prudently manage public resources</b> Percent actual vs. budgeted expenditures	<b>95 to 105%</b>	92%	94%	101.7%	<b>96%</b>	<b>92%</b>
<b>Audit department resourcing</b> Audit department expenditures as % of Entire Organization	<b>0.073%</b>	0.114%	0.109%	0.105%	<b>0.096%</b>	<b>0.098%</b>

### Actual versus budgeted expenditures

Approximately 92% of the Office of the City Auditor’s budget consists of salary and benefits. Our financial objective is to manage our expenditures so that actual year-end expenditures are within +/- 5% of budgeted expenditures. Our 2016 results were approximately 8% below budgeted expenditures. This was primarily due to 1 employee on long-term leave, 1 employee on parental leave, and vacant positions being filled in March 2016.

### Audit Department resourcing

In 2016, our budgeted expenditures were approximately 0.098% compared to the total net expenditures for the corporation as a whole. For the previous 5 years, there had been a steady decline in the Office of the City Auditor’s audit expenditures as a percentage of the entire organization because our resources were stable while the corporation as a whole grew. However, in the 2016 budget, the Office of the City Auditor was allocated 2 additional staff members. These positions were filled in March 2016.

## 8. Conclusion

In this Annual Report, I have reported on the results of our projects and other accomplishments in 2016 and provided a report on Fraud and Misconduct Hotline activities. I am proud of our accomplishments and our contributions to the City of Edmonton. 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 accountable, cost-effective municipal services, and ethical practices. In 2016, we tackled some issues that were both challenging and highly sensitive. I believe that by auditing these issues, we were able to provide recommendations that will improve City services and provide better value for citizens' 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 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. Continuing to nurture 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 Office of the City Auditor were achieved in 2016 because 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**

Chrisy Burton  
Lisa Callas  
Queena Dong  
Paul Ebenezer  
Leslie Glasbeek  
Sophia Kasozi  
Michael Lam  
Larry Laver  
Stephan Maslo  
Janine Mryglod  
Edwin Ryl  
Jason Solowan  
Becky Williams  
Thomas Wong

