CITY OF HAMILTON

CITY MANAGER’S OFFICE
Audit Services

TO: Chair and Members
Audit, Finance and Administration
Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: January 19, 2011

SUBJECT/REPORT NO:
2011 Internal Audit Work Plan (AUD11008) (City Wide)

SUBMITTED BY:
Ann Pekaruk
Director, Audit Services
City Manager’s Office

PREPARED BY:
Ann Pekaruk 905-546-2424 x4469

SIGNATURE:

RECOMMENDATION

That Appendix “A” attached to Report AUD11008, respecting the 2011 Internal Audit Work Plan, be approved.

EXECUTIVE SUMMARY

Annually, the Director of Audit Services develops a work plan which outlines the scope of work the Audit Services division intends to conduct during the year. It is based on a risk assessment carried out on the identified possible auditable units. In addition, inquiries, prior Council direction, requests from senior management and staff, observations made by audit staff during other audits and reviews of audits conducted in other jurisdictions also are taken into consideration. Various level risk factors were considered to prioritize the various projects.

The 2011 Internal Audit Work Plan is a combination of audits in progress, annual recurring projects, new audits and other initiatives. It also includes a formal follow up process to ensure recommendations contained in previously issued audit reports have been implemented. The Work Plan is attached as Appendix “A” to this Report AUD11008.

Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.
Values: Honesty, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork
Appendix “B” of Report AUD11008 provides a listing of other areas of high or moderately high risk or specific initiatives which are being deferred due to the lack of adequate audit resources.

The Audit, Finance and Administration Committee approves the proposed Internal Audit Work Plan as part of its mandate.

Alternatives for Consideration – See Page 5

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS** (for Recommendation(s) only)

Financial: The recommendation in this report has no financial impact beyond the amount provided in the Audit Services division’s 2011 budget request.

Staffing: None.

Legal: None.

**HISTORICAL BACKGROUND** (Chronology of events)

According to the current Council approved Internal Audit Mandate, the Director of Audit Services is required to prepare an annual work plan for Council approval. The plan describes audit projects and related work proposed for the year. It also provides City Council with an overview of how resources in the Audit Services division will be used during 2011.

**POLICY IMPLICATIONS**

None.

**RELEVANT CONSULTATION**

Several of the subjects included in the work plan (Appendix “A”) and in the deferred listing (Appendix “B”) result from discussion with and input from departmental management and staff. The external auditor’s 2009 management letter was also reviewed for any issues or concerns raised.
Management is primarily responsible for designing, implementing, monitoring and reporting on controls. However, Council, through the Audit, Finance and Administration Committee, is ultimately responsible for ensuring management fulfils its internal control responsibilities. Internal Audit assists Council and management in meeting their internal control responsibilities by carrying out control and compliance audits with the goal of enhancing internal control and operational efficiency and effectiveness of City programs and services. The City’s capacity to respond to recommendations arising from any audits and make improvements to its management practices is where the real benefit to the taxpayers will come.

Reporting the audit results and management action plans to the Committee is an important step for the Committee’s role in the effective oversight of the control environment and culture and promotes accountability and transparency with City Council.

Follow up of audit recommendations is also important to ensure that management has taken appropriate action to implement recommendations identified in previous audit reports and improvements have been realized as a result. Auditing standards require an audit follow up process to determine the status of outstanding audit recommendations. A portion of the available time is set aside to follow up audit reports issued within the last 12-18 months.

Due to the nature of audit work, the current environment and special projects that arise without much notice, it is important for the work of the Audit Services division to remain fairly flexible in order to provide the most timely service to Council and management. At the same time, there should be a somewhat structured work plan to ensure the systematic determination of major areas of concern and risk and balanced coverage across the types of services delivered.

Determining which areas to audit and the appropriate allocation of audit resources is essential in maximizing the value of an effective audit process. In order to assess the relative importance of potential audit areas and to objectively develop an audit work plan, Internal Audit conducted a corporate risk assessment of the City’s programs and services in late 2007 and early 2008. This significant and resource intensive exercise is a quantitative approach to help in prioritizing potential audit projects which pose the greatest risks, exposures and liabilities to the City.

The purpose of the risk assessment exercise was to ensure all areas of the City were evaluated from an audit risk perspective by using consistent criteria. Performing this assessment increases Audit’s ability to allocate scarce resources more effectively. During the process, 124 separate auditable units within the City’s operations were identified.
The results of the risk assessment conducted by Internal Audit were used to develop the 2011 Audit Work Plan. High and moderately high risk areas identified in the risk assessment were considered along with other information and requests.

An important component in any risk assessment model is the selection of risk factors against which each audit unit is evaluated. The selected factors were compared with those being used by other North American cities and best practices recommended by the Institute of Internal Auditors. As a result of this process, the following factors were used in the risk evaluation process of each of the 124 identified audit units throughout the City:

- The magnitude of the revenues, expenditures, assets or liabilities of the auditable unit (the materiality of the operations) determined by budget dollars, liquidity of assets, potential loss or impairment and changes in funding;
- The complexity of the operations of each auditable unit, taking into consideration the degree of computerization, reliance on third parties, level of integration with other City processes and the nature of work knowledge or skills required;
- The external and internal environment including public and political sensitivity, degree of regulated or legislated controls and technological and staffing changes;
- An initial evaluation as to the quality and strength of the internal controls within each auditable unit based on the results of previous audits, the acceptance and corrective actions taken for previous audit findings and the adequacy of documented policies and procedures; and
- Date of the last audit/review.

In developing the risk assessment model, the above risk factors were not weighted equally as some were viewed as more significant than others. Consequently, the process involved the determination of a specific weighting to each of the factors.

Information about each audit unit was collected, documented and assessed resulting in a final ranking. This ranking formed the primary basis for the inclusion of projects in the annual audit work plan.

In determining the number of projects included in the annual work plan, the hours of staff time available were allocated to the estimated time required to conduct each audit/review. As experience has shown that, throughout the year, unanticipated requests for audit resources arise from Council and management, the work plan sets aside approximately 10% of available staff time to meet such requests. This allotment may also be used to conduct special investigations, as warranted, under the Whistleblower’s By-law as the same pool of staff that carry out the audits in the work plan would carry out such work.

Should the special requests and investigations exceed the level estimated for the work plan, it will be necessary to defer projects included in the work plan. Any deferrals will be reported to the Committee.

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The extent of completion of the audit projects will be dependent on the approval of Internal Audit’s budget as submitted, the number of special requests by City Council and management, the level of reporting under the Whistleblower’s By-law and other issues which may emerge during the year.

Internal Audit believes that the proposed work plan provides a balance of audit work that, once completed, will result in improving the overall operations of the City by strengthening management controls, improving accountability and helping the Audit, Finance and Administration Committee with its governance and internal control oversight role.

**ALTERNATIVES FOR CONSIDERATION**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

The Committee can decide to add/delete/replace projects from the proposed work plan, taking into consideration the resource limitations. Any significant changes resulting in increased time commitments will require additional staff resources. In addition, changes which require the substitution of a planned audit project with a new project may not address areas of higher risk.

**CORPORATE STRATEGIC PLAN** (Linkage to Desired End Results)


**Financial Sustainability**

- Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner

Depending on the audit project subject, any of the other focus areas may also be applicable.

**APPENDICES / SCHEDULES**

Appendix “A” to Report AUD11008
Appendix “B” to Report AUD11008

ap:dt
APPENDIX “A”
CITY OF HAMILTON
PROPOSED 2011 INTERNAL AUDIT WORK PLAN PROJECTS

1. AUDITS IN PROGRESS OR CARRY FORWARD

<table>
<thead>
<tr>
<th>Audit Project</th>
<th>Project Description</th>
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<tbody>
<tr>
<td>Development Charges</td>
<td>This audit includes a review of controls related to the implementation, recordkeeping, monitoring and effectiveness of development agreements. Financial aspects such as fees and cost recovery, legislative compliance and enforcement of development agreement conditions as well as reserve activities are also considered. The fieldwork is almost complete. Completion of the file and the resulting report is expected in the first quarter of 2011.</td>
</tr>
<tr>
<td>POA (Provincial Offences Act) Office</td>
<td>Functions conducted out of the POA Office were reviewed with an emphasis on controls relating to cash handling and revenue sources. The fieldwork has been completed with the report expected by February, 2011.</td>
</tr>
<tr>
<td>Domiciliary Hostels</td>
<td>The audit will assess the administration of the City’s domiciliary hostel system in providing shelter and care services with a view of identifying opportunities for operational efficiencies, improved controls and potential cost savings. The fieldwork has begun on this audit and completion is expected in April, 2011.</td>
</tr>
</tbody>
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2. ANNUAL RESPONSIBILITIES

<table>
<thead>
<tr>
<th>Audit Projects</th>
<th>Project Description</th>
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<tbody>
<tr>
<td>Police Cash Accounts, Revenue Processes and Procurement Card Usage</td>
<td>A requested independent verification of selected cash accounts and procurement card usage as well as a review of controls in various revenue collection processes are conducted.</td>
</tr>
<tr>
<td>Follow Up of Outstanding Recommendations from Previous Audit Reports</td>
<td>This work relates to the review of the implementation status of audit recommendations from approximately 10 audit reports issued in the prior 12-18 months.</td>
</tr>
<tr>
<td>Fair Wage Policy Reviews</td>
<td>From time to time, Purchasing receives complaints from contractors’ employees or the public regarding non-compliance by the contractors or sub-contractors of the terms of the City’s Fair Wage Policy for construction contracts in excess of $100,000. A block of time has been set aside to accommodate an audit of the contractor’s books as these complaints are made.</td>
</tr>
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</table>
### 3. NEW PROJECTS

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Cash Handling – Culture Facilities</td>
<td>The cash collection, handling and balancing processes in the City’s Culture facilities will be audited to ensure controls are adequate and revenue properly accounted for.</td>
</tr>
<tr>
<td>Parking Infractions and Enforcement</td>
<td>As an additional piece to the POA Office audit on last year’s audit work plan, POA, Part II tickets (parking infractions) process will be reviewed to ensure adequate controls exist in the issuance of tickets, collection of fines and the accounting for revenue in a timely manner.</td>
</tr>
<tr>
<td>Human Resources – Complaint and Grievance Processes</td>
<td>This audit will focus on the complaint and grievances processes available to staff. Procedures for the identification, documentation, investigation and final resolution of problems will be reviewed as well as the administration and management of the processes and actions of Human Resources to reduce the number of grievances filed. Related litigation costs will be analyzed.</td>
</tr>
<tr>
<td>Public Health – Infectious Diseases Program</td>
<td>The audit will assess compliance with legislative requirements in terms of the reporting and management of infectious diseases. The effectiveness and efficiency of the current service delivery model including the administrative procedures will be included.</td>
</tr>
<tr>
<td>Overpayments to Active OW Clients</td>
<td>In the past, Internal Audit completed a review of overpayments to non-active clients. In 2011, an audit of overpayments to clients currently in receipt of social assistance will be carried out for the purpose of examining the extent of such overpayments and their causes with an aim at identifying opportunities to reduce or prevent them from occurring. Actions taken by staff to recover the overpayments will also be reviewed.</td>
</tr>
<tr>
<td>Sole Source Contracts</td>
<td>The City’s Purchasing Policy indicates specific provisions for the issuance of sole source contracts. The purpose of this audit is to review compliance with those provisions and related checks and balances.</td>
</tr>
<tr>
<td>Procurement Card Review</td>
<td>In 2010, Internal Audit conducted a review of the City’s procurement card (p-card) procedures and transactions, resulting in several recommendations to improve controls and manage the process more effectively. As a result, Council directed Internal Audit to carry out a detailed review of p-card transactions of the first two quarters of 2011 to ensure that the recommendations had been adequately implemented and the issues properly addressed.</td>
</tr>
<tr>
<td>Hamilton Police Service – Property and Evidence</td>
<td>In preparation for the migration to a new control application, the entire process from submission, to storage, to destruction of physical property and evidence will be reviewed. In particular, controls over high risk items such as cash, drugs, liquor and guns will be assessed in order to identify opportunities to improve controls, increase accountability and mitigate the risks.</td>
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3. **NEW PROJECTS (Continued)**

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<thead>
<tr>
<th>Audit Projects</th>
<th>Project Description</th>
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<tbody>
<tr>
<td>Stimulus Funding – Construction Contracts Review</td>
<td>The City is receiving significant stimulus funding from provincial and federal governments for several infrastructure projects. This review will focus on the adequacy of controls in tendering, awarding and managing construction contracts as they relate to the stimulus funding initiatives. Contract payments and supporting documents for selected contracts will be reviewed for accuracy and compliance with the terms and conditions of the funding agreements.</td>
</tr>
<tr>
<td>I/T – Review of Asset Management</td>
<td>Considerable dollars are spent in the provision of technology resources for the City. In order to manage these resources economically and effectively, strong administrative and management processes are required. Such processes will be reviewed and assessed as to their ability to ensure sustainability of assets, provide adequate service to users and guide sound decision making.</td>
</tr>
<tr>
<td>PRESTO – Financial Controls</td>
<td>In 2011, the new fare card system (branded PRESTO) will be operational in Hamilton. It will replace all monthly passes and tickets and provide transit customers with the ability to travel on different transit services within the GTA and Hamilton area. As much of the financial aspects of fare administration and revenue allocation is with a third party, processes will be reviewed as to their effectiveness in ensuring the City receives its share of transit revenues.</td>
</tr>
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4. **OTHER INITIATIVES**

<table>
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<tr>
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<tbody>
<tr>
<td>Follow Up</td>
<td>Follow up on outstanding audit recommendations from previous audit reports is important to ensure management has taken appropriate action to implement recommendations included in those reports (as per Committee and Council direction). The current process allows for one follow up review to be completed 12-18 months after the initial audit report. However, for those recommendations noted as not completed, initiated or in progress, no further follow up is conducted.</td>
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<tr>
<td></td>
<td>In order to ensure that the Audit, Finance and Administration Committee has adequate information to fulfil its responsibilities for the oversight of governance and control, a follow up system of yearly updating on the status of uncompleted recommendations will be developed and brought to the Audit, Finance and Administration Committee for approval.</td>
</tr>
<tr>
<td>Whistleblower By-law and Investigations</td>
<td>In order to fulfil the intent of the Whistleblower By-law, the investigations of fraud or other wrongdoing will receive high priority in the Audit Services division. The number and complexity of reported allegations and complaints is difficult to predict as is the extent of investigative work that will be required. Committee and Council will be updated accordingly.</td>
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APPENDIX “B”
CITY OF HAMILTON – AUDIT SERVICES
FUTURE POTENTIAL AUDITS AND PROJECTS
(CURRENTLY DEFERRED)

A formalized risk assessment was conducted in 2007/2008. Projects for the 2011 Internal Audit work plan were prioritized based on this risk assessment. The subjects listed below should be addressed but are being deferred due to the lack of adequate audit resources. Should future priorities and scheduling allow, the projects noted below would be considered for future audit work.

- Information Security and Access Controls
- Information Technology Disaster Recovery and Business Continuity Planning
- Food Purchases – Homes for the Aged, Recreational Facilities
- Accounts Payable
- Accounts Receivable
- Payroll Processes
- Waste Management Contract Management (Blue Box)
- Bridge Maintenance Program
- Public Health Individual Programs – Compliance with Regulations and Policies, Internal and Financial Controls and Program Results
- Compensation Management Process
- Social Housing – Application/Subsidy Process
- Recreation Revenues
- EMS – Controlled Substances
- Outsourced Snow Clearing / Sand & Salt Contracts
- Absenteeism
- Animal Control – Database
- Overtime
- Inventory / Asset Management
- Grants
- Bank Reconciliations / Bank Deposits

In addition to the listed deferred audits, there are several initiatives which Audit Services would like to undertake to enhance the value of its work but for which there are not currently the resources.

- Review of specific applications / sub-systems used within various operational areas of the City (e.g. Hansen, Amanda, Archibus, etc.).
- An operational review to initiate progression towards regular inclusion of such reviews in the work plan.
- Updating of the previous risk assessment (conducted in late 2007) based on current conditions, environment and corporate priorities. Best practices indicate such updating should occur annually.
- Development of a continuous monitoring program to identify, on an ongoing basis, transactions which are unusual based on set parameters for a subject area. These exceptions would then be subject to a detailed follow up process to prevent and detect potential fraud and address control risks and exposure.