SUBJECT: 2006 Internal Audit Work Plan (CM06007) (City Wide)

RECOMMENDATION:

That Report CM06007 respecting the 2006 Internal Audit Work Plan be approved.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:

Annually, the Director of Audit Services develops a work plan based on inquiries and discussions with Councillors and senior management as well as various risk factors.

The Strategic Planning and Budgets Committee, in its capacity as the Audit Committee, approves the proposed Internal Audit work plan.

BACKGROUND:

On June 9, 2004, the Corporate Administration Committee approved the following:

“The Director, Audit Services, shall report directly to Council through the Strategic Planning and Budgets Committee (as the Audit Committee) for the purposes of work plan development…”
In order to prepare a work plan, the Director, Audit Services, met with any individual members of Council who expressed an interest in discussing particular audits and reviews for inclusion in the 2006 Internal Audit work plan. Management was also asked to provide input as to areas for audit in their respective departments.

In addition, the Director assessed several functions or activities against various factors and developed a proposed work plan for Committee consideration and approval (attached as Appendix “A”).

ANALYSIS/RATIONALE:

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 Internal Audit 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 coverage of major areas of concern or risk.

Potential projects were identified and evaluated using selected risk factors, such as:

a) **Budget** – Areas that control a large portion of the City’s budget are considered. By scheduling these types of audits and reviews, there is some assurance that spending/revenues and custody controls are reviewed.

b) **City-Wide Exposure** – There are various services, functions and activities in the City that either involve high levels of risk to the City through some form of exposure or are a City-wide function affecting all or most departments.

c) **Council / Departmental Needs** – Council and management are given the opportunity to request that audits/reviews addressing their specific areas of concern be scheduled in the annual Internal Audit work plan.

d) **Quality of Internal Controls and Audit History** – Areas or functions with strong internal controls and no significant changes in processes or key personnel pose less of a risk to the organization. The date of the last review in a particular area is also considered.

e) **Political Sensitivity** – Audits that minimize the risk of undesirable or embarrassing events occurring or continuing uncorrected are identified. Sensitivity of operations in not meeting Council and departmental goals and objectives is considered.

f) **Current Emphasis** – Information relating to audit projects conducted in comparable Canadian cities is reviewed in order to ensure current areas of apparent emphasis are considered.

g) **Liquidity of Assets** – Usually, the more liquid (closest to cash) the asset, the greater its susceptibility to misappropriation.

h) **Complexity of Operations** – Consideration is given to the complexity of a particular process or activity – a simple stand alone process to a highly integrated activity with many interfaces. The extent of computerized systems is also weighed.
These identified projects are then mapped against the available annual audit hours to derive the Audit work plan. As experience has shown that, throughout the year, unanticipated requests for audit resources arise from Council and management, the work plan sets aside approximately 15% of available staff time to meet such requests. Should actual requests fall below this level, projects that could not be included in the work plan would be undertaken (as time permits). Conversely, should special projects exceed this level, it will be necessary to defer projects included in the work plan. Such deferrals will be reported to the Committee.

**ALTERNATIVES FOR CONSIDERATION:**

1. **All Internal Control / Compliance Audits**
   Management is primarily responsible for designing, implementing, monitoring and reporting on controls. Council (through the Strategic Planning and Budgets Committee, acting as the Audit Committee), however, is ultimately responsible for ensuring that management fulfils its internal control responsibilities. Internal Audit can assist Council and management in meeting their internal control responsibilities by carrying out Internal Control / Compliance audits. Reporting results and management action plans to Committee is an important step for its role in the effective oversight of the internal control environment and culture.

   Staff are proposing that Internal Control/Compliance audits continue to dominate the work plan as they have in prior years until the comprehensive corporate risk assessment is completed (expected by late 2006). The 2006 Internal Audit Work Plan has been developed based on this alternative and the current level of resources.

2. **Internal Control/Compliance Audits with an Operational/Value for Money Audit**
   This alternative would have internal control audits performed as part of the work plan with a subject selected for a value for money audit. The inclusion of one operational review in the work plan annually was recommended by the consultant who performed the operational review of Internal Audit in 2005.

   With the current level of resources, several internal control audits would have to be foregone to allow for the time and resources required to complete a value for money audit or additional new resources would have to be provided to carry out the operational review. Due to staff and financial limitations in the Audit Services division, no operational review work is being recommended and is not included in the 2006 work plan as presented in Appendix “A”.

   Should adequate resources become available, the work plan could be changed accordingly.
FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
None, if the work plan as in Appendix “A” is approved. Should changes in the proposed plan be made, financial implications, if any, would need to be determined.

Staffing
None, if the work plan as in Appendix “A” is approved. Should changes in the proposed plan be made, staff resources would be reviewed and any related implications would be reported to Council.

Legal
Not applicable.

POLICIES AFFECTING PROPOSAL:

Not applicable.

RELEVANT CONSULTATION:

Several of the subjects included in the work plan (Appendix “A”) result from discussions with Councillors who provided input and from requests received from management in City departments.

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☐ Yes ☑ No

Environmental Well-Being is enhanced. ☐ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes ☐ No

City Council’s strategic commitment to “Best Practices – Best Value” under “A City That Spends Wisely and Invests Strategically” is addressed through various audits and review approved in the work plan undertaken to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

Does the option you are recommending create value across all three bottom lines?
 ☐ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?
 ☐ Yes ☑ No
PROPOSED 2006 INTERNAL AUDIT
WORK PLAN PROJECTS

Work In Progress (from 2005 Work Plan)
The following audits/reviews approved as part of the 2005 work plan were works in progress and require hours in 2006 to complete: Accounts Receivable, Fair Wage Policy compliance for outside contractors; and the Hansen Conversion.

Follow Up Reviews of Audits Previously Conducted
Several audit reports were issued in late 2004 and 2005. In order to stress accountability for management’s commitment to implementation and to determine that appropriate actions have been taken by departmental management on the recommendations in these reports, follow up reviews are conducted in a 12-18 month period after the original issuance. There are approximately eight (8) audits which will require follow up in 2006.

Recurring Reviews/Assignments
Certain reviews are undertaken every year. Some audits are undertaken as a result of a need for an independent verification such as police revenues or fair wage policy compliance for contractors.

Metered Water Billings and Revenue
Billings for water provided to residents and businesses within the City of Hamilton are a significant source of revenue for the City. This function is carried out by a related third party, Hamilton Utilities Corporation (HUC). A review of this function will assess management controls in place to ensure billings are accurate, complete and timely. The review will also consider the procedures followed to ensure water receivables are collected on a timely basis.

Human Resources – Employee Benefits
Approximately $30 million is spent on employee benefits annually. The administration and payment of claims is handled by a third party whose processing was reviewed by a consultant hired by the City in late 2002. However, the benefits oversight role which involves employee enrollment and termination in over 90 different benefit plans, cost allocations, monitoring of claim experience, payment of carriers and administrators, annual budgeting as well as provision of resources in support of collective bargaining is handled by the Benefits section in Human Resources. The review will consider these various functions as well as evaluating cost management controls and records retention.
PROPOSED 2006 INTERNAL AUDIT
WORK PLAN PROJECTS

Homes for the Aged – Resident Fees and Trust Funds
The City owns and operates two (2) homes for the aged (Macassa and Wentworth Lodges) that provide long-term care for over 400 residents. In 2005, the City received over $8 million in user fees, mainly toward accommodation.

Under this category is also the responsibility for the administration of funds held on behalf of the residents through the establishment of resident trust funds.

The audit will ensure that adequate controls are in place to ensure completeness and accuracy of occupancy data (fees are based on occupancy) and that related revenues to the City are properly accounted for. In addition, the administration of residents’ trust funds will be assessed.

Cash Handling – Transfer Stations
The Waste Management Division of Public Works takes in approximately $1.5 million in tipping fees from approximately 200,000 commercial and residential visits at the City’s three transfer stations.

Cash collection at the transfer stations is handled by a third party security company. As there is a new company in place and there have been changes in operations over the past few years, it would be a good opportunity to assess the controls and review the various operational procedures and practices.

Telecommunications
For purposes of this audit, telecommunications are defined as the suite of voice communication services including land and wireless devices provided by the City. This review will cover the City’s ability to track and manage costs, the administration of telecommunications related to contracts and payments to vendors, telecommunication inventory practices and the management of changes to required equipment or services.