SUBJECT: 2007 Internal Audit Work Plan (CM07010) (City Wide)

RECOMMENDATION:

That Appendix “A” attached to Report CM07010, respecting the 2007 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, discussions with the Mayor, Councillors and senior management and consideration of various high level risk factors. This work plan is attached as Appendix “A” to this Report CM07010. Appendix “B” of Report CM07010 provides the balance of audits/reviews which are being deferred due to the lack of adequate audit resources.

The Audit and Administration Committee approves the proposed Internal Audit work plan as part of its mandate.

BACKGROUND:

Every year, the Director of Audit Services is required to prepare a work plan for Council approval. The plan describes audit projects and related work proposed for the year.
ANALYSIS/RATIONALE:

Management is primarily responsible for designing, implementing, monitoring and reporting on controls. Council (through the Audit and Administration 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 control and compliance audits. Reporting the audit results and management actions plans to the Committee is an important step for the Committee’s role in the effective oversight of the control environment and culture.

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 coverage of major areas of concern and balanced coverage across the types of services delivered.

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 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) **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.

f) **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 Internal 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 10% 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 (Appendix “B”) 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. If additional projects of high priority are identified during the year, the work plan may be amended. This, too, would be reported to the Committee.

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 and Administration Committee with its governance and internal control oversight role.

**ALTERNATIVES FOR CONSIDERATION:**

The Committee can decide to add/delete projects from the proposed work plan. Any significant additions would require either additional resources or a substitution of a planned audit project with a new project.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

**Financial**
None, if the work plan as in Appendix “A” is approved.

**Staffing**
None, if the work plan as in Appendix “A” is approved.

**Legal**
None.

**POLICIES AFFECTING PROPOSAL:**

None.

**RELEVANT CONSULTATION:**

Several of the subjects included in the work plan (Appendix “A”) result from discussions with the Mayor and Councillors who had indicated they wished to provide input and from requests received from management and staff in City departments. The external auditor’s annual management letter was also reviewed for any issues or concerns raised.
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

Some of the functional areas being recommended for review contribute to the well being of the community and its residents.

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 audits and reviews and their subsequent follow up 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

:dt
Attachment
APPENDIX “A”
CITY OF HAMILTON
PROPOSED 2007 INTERNAL AUDIT WORK PLAN PROJECTS

Risk Assessment
Determining which areas to audit and the appropriate allocation of audit resources is important in realizing the true value of an effective audit activity. In order to determine the relative risks associated with each potential audit candidate, a formal risk assessment of the City’s programs and services using uniform criteria is required. Potential projects are prioritized based on objective risk analysis. This is considered a best practice in the internal auditing field and was a process recommended in the operational review of the City’s internal audit function conducted by Booker and Associates.

Long-Term Contract Administration
The City holds several long-term contracts with various community organizations and companies. The audit of the management and administration of the contract with Hamilton Arena Partners for the operation of the Mohawk 4 Ice Centre is being recommended for review in 2007.

Investments
A new system to track/calculate the City’s investment position is being implemented in early 2007. In order to assess the adequacy of controls in the system as well as the effectiveness of various other investment related tasks (accounting, compliance with policies, thirty party portfolio manager relationships, reporting, etc.), an audit is being recommended. This area has not been reviewed in several years.

OW – Non-Active Clients and Overpayments
One of the functions of the Eligibility Review Section of Community Services is the administration and recovery of overpayments. Overpayments and subsequent recovery from individuals no longer receiving social assistance are much more difficult and complex to manage. Therefore, the scope of this review is limited to the inactive overpayments. The City’s financial management and administrative procedures for overpayments and recoveries from non-active OW clients will be assessed.

OW – Data Control Centre
This centre is responsible for the custody and production of social assistance cheques as well as cheque stop payments and daily/monthly system reports. Due to the volume and value of the cheques largely produced using a provincial system that has been problematic over the years, a review of security and internal controls is recommended.
CITY OF HAMILTON
PROPOSED 2007 INTERNAL AUDIT WORK PLAN PROJECTS

PW – Administration of Pavement Cuts, Encroachment Agreements and Overstrength Agreements
Public Works is responsible for the administration of a wide range of agreements, applications and permits. Although all areas cannot be reviewed in the current year, pavement cuts, encroachment agreements and overstrength agreements are being recommended for 2007. Opportunities for revenue generation, controls improvement and consistent applications of policies and procedures will be addressed.

Procurement Review – Fleet Management
(Public Works, Hamilton Street Railway, Police, Hamilton Emergency Services)
The effectiveness of the City’s fleet management will be assessed with respect to vehicle procurement, utilization and disposal activities in the areas noted above. Synergies which can be realized through the adoption of best practices of any of these departments will be evaluated. Compliance with the corporate policies, means of asset safeguarding and controls resulting in reliable information for decision making will be included in the scope of the audit. As well, vehicle and equipment replacement funding policies will be reviewed.

Procurement – Expanded Works
The current purchasing policy allows for exceptions to the tendering process. Expanded works, which refers to work added to existing contracts (without changing the scope) to deliver the original approved work, is one such exception. A review of the nature, frequency of use and justification of this policy exception will be conducted.

Police Cash Accounts and Revenue Processes
Every year, the Hamilton Police Service requests an independent verification of selected cash accounts and procurement card usage as well as a review of controls in various revenue collection processes.

Fair Wage Policy Compliance
Every year one or two contractors who have done business with the City for contracts greater than $100,000 are selected for review in regard to their compliance with the City’s fair wage policy during the time of the execution of their contract.

Follow Up of Previous Audits
Several audit reports were issued in 2005 and early 2006. In order to stress accountability for management’s commitment to implementation and to determine that appropriate actions have been taken by departments on the recommendations in the audit reports, follow up reviews are conducted in the subsequent 12-18 month period.
Other
From time to time, Internal Audit receives requests for audit work or investigations from management or Council. It is difficult to project the extent of work that will be required during 2007 as this depends on the nature and volume of such requests.

An allocation of time has been set aside to provide some flexibility in undertaking special investigations and in-year requests.
APPENDIX “B”
CITY OF HAMILTON
AUDIT PROJECTS DEFERRED

The projects listed below are audits/reviews that are being deferred due to the lack of adequate audit resources. Depending on future priorities, these projects will be carried forward for consideration in future audit work plans.

- Management of Long-Term Contracts – Recycling, Green Cart, Airport
- Use of Standby / Call Out / Overtime
- Fleet Management – Operating Costs – Fuel, Maintenance, Inventory Controls
- Transit – Compliance with Provincial Gas Tax Requirements for Expenditures
- Procurement – Tendering Exceptions (Sole Source, Extensions, Time Sensitive, Emergency)
- Community Services (Social Services) – Non-Mandatory Programs
- Hamilton Public Library – Fines and Related Income
- OW Overpayments – Active Clients
- Day Care Fees
- Telecommunications
- Red Hill Valley Project – Finance & Administration Processing of Capital Accounts
- Inventory Controls and Applications (i.e. Hansen)
- PW – Sign Installation in New Developments (Work Done for Others)
- Programs of One-Time Provincial / Federal Funding
- Police – Vehicle Collision Repair Process
- Waste Management – White Goods Fees
- PW - Administration – Outdoor Boulevard Cafés, Temporary Encumbrances, Banners, Permanent Closures
- PW – Operations & Maintenance Roads Programming – Processes
- Parking Control – Towing Processes
- Reserve and Reserve Funds
- Financial / Operational Review of Day Care Provider