SUBJECT: 2008 Internal Audit Work Plan (CM08003) (City Wide)

RECOMMENDATION:

That Appendix “A” attached to Report CM08003, respecting the 2008 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 senior management and staff and consideration of various high level risk factors. The Mayor and all Councillors are also given the opportunity to discuss their concerns and any issues for consideration in the work plan. This work plan is attached as Appendix “A” to this Report CM08003. Appendix “B” of Report CM080003 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 risk 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 and input from departmental management and staff. 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
Attachments
APPENDIX “A”
CITY OF HAMILTON
PROPOSED 2008 INTERNAL AUDIT WORK PLAN PROJECTS

WORK IN PROGRESS (To be completed in 2008)

**Risk Assessment**
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 an objective risk analysis.

**Stand By/Call In/Overtime**
Considerable funds are expended by the City in the use of stand by, call in and overtime options. The audit includes an analysis of the costs, the determining of the appropriateness of their use in operations and any alternate means that may be available.

**Waste Management of Canada Long-Term Contract**
This company was contracted to manage the three transfer stations and the Glanbrook landfill site. The management and administration of the contract as well as compliance with individual terms and clauses was undertaken.

**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 is being assessed.

**Fair Wage Policy Compliance**
Contractors who have business with the City in the form of 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. Internal Audit carries out 2-3 such reviews annually and will be completing the final one for 2007.

**ANNUAL RESPONSIBILITIES**

**Police Cash Accounts, Revenue Processes and Procurement Card Usage**
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**
Annually, 2-3 completed contracts are selected for review with respect to contractors’ compliance with the City’s fair wage policy and wage schedule.
CITY OF HAMILTON
PROPOSED 2008 INTERNAL AUDIT WORK PLAN PROJECTS

Follow Up of Previous Audits
Several audit reports were issued in 2006 and early 2007. 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.

NEW PROJECTS

Fleet Management – Fuel, Maintenance and Inventory Control
(Central Fleet, Transit, Hamilton Emergency Services, Hamilton Police Service)
In 2007, audits of vehicle procurement and disposal processes were completed for each of Central Fleet, Transit, Hamilton Emergency Services and Hamilton Police Service. As part two of the overall review of fleet management, fleet maintenance and inventory control will be audited. Controls resulting in reliable information for decision making with respect to inventory quantities, fuel consumption and maintenance scheduling will be included in the scope of the audit.

Day Care Fee Subsidies
This audit will review the management controls that ensure child care subsidies available to eligible families are being administered effectively and efficiently. Payments to third party service providers will also be included in the scope of the audit.

OW – Active Clients and Overpayments
Overpayments and subsequent recovery from individuals on social assistance is administered by the Eligibility Review Section of Community Services. The financial management and administrative procedures as well as the effectiveness of recoveries will be assessed. The review will attempt to examine how overpayments to clients currently in receipt of social assistance can be prevented.

Long-Term Contracts
The City holds several long-term contracts with various community organizations and companies. The audit of the management and administration of the contract with Canada Fibres Limited for operating the Municipal Recycling Facility (MRF) is being recommended for review in 2008 to ensure that the contracted services are being effectively managed.

Capital Project Planning and Budgeting
This review will include an assessment of how effectively the capital program is planned and budgeted with regard to economy and efficiency. Comparison of planned and actual results will determine the degree of accuracy, quality and completeness in considering all pertinent information in the budgeting process. Depending on the complexity and breadth of the processes identified in the initial assessment, the scope may be limited to one or two specific subject areas.
CITY OF HAMILTON
PROPOSED 2008 INTERNAL AUDIT WORK PLAN PROJECTS

**Wage Payroll and Timekeeping**
Wage payroll and timekeeping processes have not been reviewed in over a decade. As this area represents a major expenditure for the City, a review to assess whether adequate systems and procedures exist to record and approve timekeeping and subsequently pay wage employees is recommended.

**Risk Management – Insurance and Liability Claims**
The processes employed for insurance and liability claims will be examined as to their effectiveness and strength of controls. The ability to manage the City’s exposure and mitigate its risk and losses in this area will be assessed. The use and activities through the claims reserves will also be reviewed.

**Public Health- Compliance with PHIPA**
An audit of Public Health Services' compliance with PHIPA legislation is recommended. This review will include policies and practices in place to address client consent to collect, use and disclose patient/client personal health information as well as the protection and retention of personal client records.

**HECFI – Cash Handling**
In 2007, an external consultant completed a cash handling review for all City departments. HECFI was not included in this review. A review of control and safeguarding practices in prime collection areas such as the box office and catering/rental facilities is being recommended.

**Operational review of Day Care Service Provider**
The City maintains service provider contracts with several centre operators for the provision of subsidized day care services. The Social Development and Early Childhood Services Division of Community Services has requested an operational review of one of the large multi site child care operators.

**Review of Management Span of Control – Operations and Maintenance (PW)**
A review of the management structure of the Operations and Maintenance Division will address the sustainability of an adequate span of control and workload issues, both concerns expressed through the employee survey.

**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 2008 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.
The projects listed below are audits/reviews that are being deferred due to the lack of adequate audit resources. Some of the projects noted have been carried over from the equivalent list from the prior year. Depending on future priorities, these projects will be carried forward for consideration in future audit work plans.

- Hansen System – Inventory Controls
- Procurement – Tendering Exceptions (Sole Source, Extensions, Time Sensitive, Emergency)
- Avantis System – Purchasing Policy/Procedures Compliance
- Telecommunications
- Programs of One-Time Provincial/Federal Funding
- Long-Term Contracts – Recycling: Organics, Blue Box; 3rd party markets
- Police – Vehicle Collision Repair Process
- PW – Operations & Maintenance – Purchasing Policy Compliance
- PW – Operations & Maintenance – Invoice Payment Processing Practices
- Parking Fees and Enforcement
- Community Services – Non-Mandatory Programs
- Financial Requirements of Development (Including Deposits, Letters of Credit, Parkland Dedicated Fees, Etc.)
- Property Tax Appeals and Refunds
- Information Technology Disaster Recovery Plan
- Information technology Asset Management Program Review
- Maintenance and Administrative Controls Review – Facilities and Real Estate
- Residential Care Facilities
- Information Security Framework Review