CITY OF HAMILTON

CITY MANAGER’S OFFICE
Audit Services

TO: Chair and Members
Audit and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: February 3, 2010

SUBJECT/REPORT NO:
2010 Internal Audit Work Plan (AUD10006) (City Wide)

SUBMITTED BY:
Ann Pekaruk
City Manager's Office

PREPARED BY:
Ann Pekaruk 905-546-2424 x4469

SIGNATURE:

RECOMMENDATION:

That Appendix “A” attached to Report AUD10006, respecting the 2010 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 inquiries, requests from senior management and staff, observations made by audit staff during other audits and reviews of audits conducted in other jurisdictions. The Mayor and all Councillors are also given the opportunity to discuss their concerns and any issues for consideration in the work plan. Various level risk factors are considered to prioritize the various projects.

The 2010 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 AUD10006.
Appendix “B” of Report AUD10006 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 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 2010 budget request.

Staffing: None.

Legal: None.

**HISTORICAL BACKGROUND** (Chronology of events)

According to the 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 2010.

**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 Councillors, departmental management and staff. The external auditor’s 2008 management letter was also reviewed for any issues or concerns raised.
Analysis / Rationale for Recommendation

Management is primarily responsible for designing, implementing, monitoring and reporting on controls. However, Council, through the Audit and Administration Committee, is ultimately responsible for ensuring management fulfills 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 2010 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 are 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.

In addition, with the rollout of the Whistleblower’s By-law, it is anticipated that the investigations of reported issues will also require resourcing from the same pool of staff that carry out the audits in the work plan. As the number and complexity of the reported allegations and complaints are unknown at this time, it is difficult to predict the extent of investigative work that will be required in 2010.

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.
The extent of completion of the audit projects will be dependent on the approval of Internal Audit’s budget as submitted, hiring of two qualified staff to fill current vacancies, 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 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 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 AUD10006
Appendix “B” to Report AUD10006

ap:dt
APPENDIX “A”
CITY OF HAMILTON
PROPOSED 2010 INTERNAL AUDIT WORK PLAN PROJECTS

1. AUDITS IN PROGRESS OR CARRY FORWARD

<table>
<thead>
<tr>
<th>Audit Project</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities – Maintenance and Administrative Controls</td>
<td>This audit includes the assessment of the processes utilized to manage and maintain City facilities as well as to ensure the long-term sustainability of these assets.</td>
</tr>
<tr>
<td></td>
<td>The fieldwork has been partially completed (staff person originally carrying out this review left the City before completion) and audit staff are awaiting additional information from operational staff in order to complete the fieldwork. It is expected that the audit will be completed by April, 2010.</td>
</tr>
<tr>
<td>Review of Office of Energy Initiatives Performance</td>
<td>The fieldwork regarding the performance of the Office of Energy Initiatives and the activity of the related reserve has been completed and the report is being finalized.</td>
</tr>
<tr>
<td>Real Estate Asset Management</td>
<td>The processes used for the management of the City’s real estate assets as they relate to leasing, acquisitions and disposals and site improvements are being examined. Adherence to Council adopted plans and strategies for disposition, acquisition and retention is also being reviewed.</td>
</tr>
<tr>
<td></td>
<td>The fieldwork is underway and completion is expected in April, 2010.</td>
</tr>
<tr>
<td>Ticket Agents’ Cash Handling - Transit</td>
<td>Procedures for administering and accounting for funds processed by Transit’s own ticket agents as well as those collected by third parties will be addressed as to the strength and adequacy of controls and the effectiveness of procedures in mitigating the risks.</td>
</tr>
<tr>
<td></td>
<td>Due to staff vacancies and a lack of adequate resources, this audit has not yet begun and is being carried forward to 2010.</td>
</tr>
</tbody>
</table>

2. ANNUAL RESPONSIBILITIES

<table>
<thead>
<tr>
<th>Audit Projects</th>
<th>Project Description</th>
</tr>
</thead>
<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>
</tbody>
</table>
## 3. NEW PROJECTS

<table>
<thead>
<tr>
<th>Audit Projects</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Follow Up on Outstanding Recommendations from Previous Audit Reports</strong></td>
<td>This work relates to the review of the implementation status of audit recommendations from approximately 15 audit reports issued in the prior 12-24 months.</td>
</tr>
<tr>
<td><strong>Development Charges</strong></td>
<td>The 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 will also be considered.</td>
</tr>
<tr>
<td><strong>POA Office</strong></td>
<td>Functions conducted out of the POA Office will be reviewed with an emphasis on controls relating to cash handling and revenue sources. An audit of this area has not been conducted since 2004.</td>
</tr>
<tr>
<td><strong>Tool Inventories</strong></td>
<td>As assessment of the adequacy of controls for the receipting, stocking and issuance of tools as well as the physical safeguards and accounting for the protection of the inventory across several divisions of the City will be completed.</td>
</tr>
<tr>
<td><strong>Procurement Cards Usage</strong></td>
<td>The review will include an assessment of compliance with specific policies and procedures related to procurement cards (P-cards) as well as ensuring the accuracy, completeness, authorization and proper recordkeeping in regard to usage. This area has not been reviewed since 2004 and as per best practices, should have a cyclical review standard as it is an area of high public interest and scrutiny.</td>
</tr>
<tr>
<td><strong>Cash Handling – Front Counter (City Hall)</strong></td>
<td>With the move back to City Hall, a common counter for all types of payments will be set up. The cash handling and balancing processes will be audited to ensure controls are adequate as well as whether the procedures result in efficient and effective services.</td>
</tr>
<tr>
<td><strong>Information Services (IS) Help Line</strong></td>
<td>An audit of the Information Services business processes will be completed, specifically including the problem and incident management system to ensure that operation events that are not part of standard operations (incidents, problems, errors) are recorded, analyzed and resolved in a timely manner. In addition, change and release management processes will also be assessed.</td>
</tr>
<tr>
<td><strong>Human Resources – Recruitment</strong></td>
<td>This is a review of the efficiency and effectiveness of City employee recruitment and selection processes.</td>
</tr>
</tbody>
</table>
### 3. NEW PROJECTS (Continued)

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of the Food Safety Program</td>
<td>The focus of this audit will be on compliance with legislative requirements in terms of the extent of food inspections and the levying of appropriate penalties. The effectiveness and efficiency of the current service delivery model including the administrative procedures will also be assessed.</td>
</tr>
<tr>
<td>Domiciliary Hostels</td>
<td>The 2010 program costs are budgeted at $7.459 million, cost shared 80/20 with the Province. A portion of this total amount is spent on administration costs (up to 10%) and the balance is for per diems to the operators. The audit will assess the administration of the City's domiciliary hostel system in providing shelter and care services with a view to identifying opportunities for operational efficiencies, improved controls and potential cost savings.</td>
</tr>
</tbody>
</table>

### 4. OTHER INITIATIVES

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<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. In order to ensure that the Audit 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 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, procedures and forms will need to be developed to ensure that the By-law is consistently and appropriately applied. In addition, 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>
</tr>
</tbody>
</table>
APPENDIX “B”
CITY OF HAMILTON
DEFERRED AUDITS AND PROJECTS

A formalized risk assessment was conducted in 2007/2008. Projects for the 2010 Internal Audit work plan were prioritized based on this risk assessment. The subjects listed below are audits/reviews that were rated high or moderately high and should be addressed but are being deferred due to the lack of adequate audit resources. Areas which were identified as high or moderately high risk in the assessment but have been audited or reviewed since the exercise have been excluded in this Appendix. Should future priorities and scheduling allow, the projects noted below would be considered for future audit work plans.

- Information Security and Access Controls Review
- Information Technology Disaster Recovery and Business Continuity Plans
- Information Services – Review of Asset Management
- Procurement – Tendering Exceptions (Sole Source, Emergency)
- Food Purchases – Homes for the Aged
- Reserves
- Fire/EMS Response Time
- Waste Management Closed Landfill Management
- Construction Contract Management
- Accounts Payable
- Payroll Processes
- Building and Other Permit Administration
- Licensing Administration
- Property Tax Registrations & Sales
- Waste Collection, Processing, Recycling
- Ontario Works
- Emergency Social Support
- Waste Management Contract Management (blue box)
- Business Travel, Training and Related Employee Expenses
- Bridge Maintenance Program
- Wastewater Collection and Treatment
- Planning and Economic Development Contract Management and Land Acquisition (Industrial Parks/Airport)
- Public Health Individual Programs – Compliance with Regulations and Policies, Internal and Financial Controls and Program Results
- Freedom of Information Access and Protection
- Compliance with Election Legislation
- Labour Relations – Grievances Tracking, Processing and Resolution
- Compensation Management Process
- Attendance Reporting and Absence Management
Long-Term Care Facilities
Accounts Receivable
Recreation Revenues
Hostel Services
Social Housing – Review of Application/Subsidy Process
EMS – Controlled Substances

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 is a lack of
current resources.

- Review of specific applications/sub-systems used within operational areas of the City
  (e.g. Hansen, Amanda, Archibus, etc.).
- One operational review to initiate progression towards regular inclusion of such
  reviews in the work plan.
- Development of a continuous monitoring program to identify, on an ongoing basis,
  transactions which are unusual based on set parameters for the subject area. These
  transactions would then be subject to a detailed follow up process to prevent and
  detect potential fraud and address control risks and exposures.
- 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.
- Status of implementation of recommendations from various program and operational
  reviews conducted under the City Manager's Office/retained consultants.