SUBJECT: 2009 Internal Audit Work Plan (CM09001) (City Wide)

RECOMMENDATION:

That Appendix “A” attached to Report CM09001, respecting the 2009 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, requests from 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.

The 2009 Internal Audit Work Plan is a combination of audits in progress, new audits and annual recurring projects. 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 CM09001.

Appendix “B” of Report CM09001 provides a listing of the other risk areas identified as high and moderately high in the risk assessment 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. It provides City Council with an overview of how resources in the Audit Services Division will be used during 2009.
ANALYSIS/RATIONALE:
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 fulfils its internal control responsibilities. Internal Audit assists Council and management in meeting their internal control responsibilities by carrying out control and compliance audits. 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.

Follow up of audit recommendations is also important to ensure that management has taken appropriate action to implement recommendations identified in previous audit reports. Auditing standards require an audit follow up process to determine the status of outstanding audit reports. 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 prioritize potential audit projects which pose the greatest risk and liability 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 risk assessment conducted by Internal Audit forms the basis for the 2009 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;
ANALYSIS/RATIONALE: (Continued)

- 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. 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.

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 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:

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. If all construction contracts >$100,000 will be subject to Fair Wage Policy compliance review, one (1) additional FTE will be required. A change form has been submitted for consideration in the 2009 budget process.

Legal
None.
POLICIES AFFECTING PROPOSAL:
None.

RELEVANT CONSULTATION:
Several of the subjects included in the work plan (Appendix “A”) and in the deferred listing (Appendix “B”) result from discussions with and input from Councillors, 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
Some of the functional areas being recommended for review contribute to the environmental well-being of the City.

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

ap:dt
Attachments – Appendix “A” & Appendix “B”
# APPENDIX “A”
## CITY OF HAMILTON
### PROPOSED 2009 INTERNAL AUDIT WORK PLAN PROJECTS

## 1. AUDITS IN PROGRESS

<table>
<thead>
<tr>
<th>Audit Project</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fair Wage Policy Compliance</strong></td>
<td>One to two construction contracts &gt;$100,000 are reviewed for adherence to the City’s Fair Wage Policy.</td>
</tr>
<tr>
<td><strong>Fleet Management – Fuel, Maintenance and Inventory Control</strong></td>
<td>Fleet management functions as they relate to maintenance, inventory control and fuel consumption were reviewed. Management action plans are being finalized. The report should come to the Audit and Administration Committee in early 2009.</td>
</tr>
<tr>
<td><strong>Long-Term Contract – Canada Fibres Limited</strong></td>
<td>The review relates to the management of and compliance with the contract with Canada Fibres Limited for operating the Municipal Recycling Facility (MRF). This review is underway and is expected for a spring 2009 Audit and Administration Committee meeting.</td>
</tr>
<tr>
<td><strong>Capital Project Planning and Budgeting</strong></td>
<td>The capital program in Capital Planning and Implementation (CPI) of Public Works was audited as to the effectiveness of the planning process and the accuracy, quality and completeness of pertinent information in the budgeting process. The fieldwork has been completed and the report with the management action plans is being finalized.</td>
</tr>
<tr>
<td><strong>Wage Payroll and Timekeeping</strong></td>
<td>The audit focused on the adequacy of the systems and procedures for recording and approving timekeeping and the payment of staff wages. The fieldwork has been completed and the report is being finalized.</td>
</tr>
<tr>
<td><strong>Public Health – Compliance with PHIPA</strong></td>
<td>This review includes policies and practices in place to address client consent to collect, use and disclose personal health information as regulated by the Personal Health Information Protection Act (PHIPA). The review is underway and scheduled for completion in January 2009.</td>
</tr>
<tr>
<td><strong>Operational Review of Day Care Service Provider</strong></td>
<td>The financial aspects of the operational review of one of the large multi-site child care centre operators is being audited as they relate to subsidized day care services. This project is underway and scheduled for completion in January 2009.</td>
</tr>
<tr>
<td><strong>Financial Requirements of Development</strong></td>
<td>This audit relates to the collection, safeguarding, monitoring and accounting for various fees, deposits and other financial requirements of development. This item was on the deferred list of the 2008 work plan. Changes in the plan allowed for the resources to carry out this work. This review is in its preliminary stage.</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 Process 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 is conducted.</td>
</tr>
</tbody>
</table>
| Fair Wage Policy Compliance                                  | One or two completed contracts with values >$100,000 are selected for review with respect to contractors’ compliance with the City’s Fair Wage Policy and Wage Schedule.  
(A program change form for 1 additional FTE has been submitted for budget deliberations. If approved, all contracts >$100,000 (estimated at 20-30) will be reviewed for Fair Wage Policy compliance.) |

## 3. NEW PROJECTS

<table>
<thead>
<tr>
<th>Audit Projects</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Follow Up on Outstanding Recommendations from Previous Audit Reports</td>
<td>This work relates to the review of the implementation status of audit recommendations from previous audit reports issued in the prior 12-18 months.</td>
</tr>
<tr>
<td>Review of Office of Energy Initiatives Performance</td>
<td>As directed by Council in November, 2007, the performance of the Office of Energy Initiatives and the activity of the Energy Conservation Initiative Reserve were to be added to the 2009 Internal Audit work plan. This review is to include an assessment of the progress and results of various corporate energy initiatives against established measurable indicators.</td>
</tr>
<tr>
<td>Parking Revenues and Tow Procedures</td>
<td>The audit will entail the collection, depositing, recording and monitoring of parking fees from meters, pay and display machines and pay on foot equipment. Such gross revenues amounted to approximately $6.5 million in 2007. In addition, the Parking Enforcement towing procedures will be included in this review.</td>
</tr>
<tr>
<td>Ticket Agents’ Cash Handling - HSR</td>
<td>Procedures for administering and accounting for funds processed by HSR’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>Blue Box Collection Contract Management</td>
<td>Compliance with the terms of the contract and overall management of the agreement for blue box collection (new outside contractor as of March 31, 2008) will be examined. This is part of the review of all long-term waste management contracts begun in 2008.</td>
</tr>
<tr>
<td>Rostered Service Contracts</td>
<td>The review of rostered-type contract administration has been suggested to ensure that the terms in such contracts are being followed as intended and work is being assigned proportionately in multi-supplier situations.</td>
</tr>
<tr>
<td>Fire Prevention Program</td>
<td>This review will examine administrative and management controls over this operation and compliance with City policies and legislative requirements to ensure effective delivery of existing fire prevention inspection services (including but not limited to safety inspections, code enforcement activities).</td>
</tr>
</tbody>
</table>
3. **NEW PROJECTS (Continued)**

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Telecommunications Services</strong></td>
<td>The audit will cover the City’s ability to track and manage costs, administration of telecommunication related contracts and payments to vendors, telecommunication inventory practices and the management of changes to required equipment and services. The review includes both land and wireless devices.</td>
</tr>
<tr>
<td><strong>Cemeteries Administrative Office</strong></td>
<td>A review of processes, support systems and the control environment will be carried out to assess the effectiveness and efficiency of the services provided.</td>
</tr>
<tr>
<td><strong>Facilities – Maintenance and Administrative Controls</strong></td>
<td>This audit will include 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><strong>Social Housing</strong></td>
<td>The Housing division has planned an operational review of CityHousing Hamilton to be carried out in 2009. Internal Audit has set aside a block of time in order to provide some staff resources to aid in this project. Review of areas such as rent collection processes, wait list management and financial bookkeeping and banking practices could be carried out by Internal Audit.</td>
</tr>
<tr>
<td><strong>Real Estate Asset Management</strong></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 will be examined. Adherence to Council adopted plans and strategies for disposition, acquisition and retention will also be reviewed.</td>
</tr>
<tr>
<td><strong>Community Services</strong></td>
<td>In 2007, Internal Audit carried out the audit of non-active Ontario Works (OW) clients and related overpayments. This year overpayments to active clients is being recommended. As well as reviewing the City’s financial management and administration procedures for overpayments and recoveries from active OW clients, the reasons for such overpayments will be examined with the intent of possible reduction and mitigation by addressing the root causes. An operational review of an as yet undetermined area in the Recreation division is proposed. Under consideration are either recreation centres or food services.</td>
</tr>
</tbody>
</table>
A formalized risk assessment was conducted in 2007/2008. Projects for the 2009 Internal Audit work plan were prioritized based on this risk assessment. The projects 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. Should future priorities and scheduling allow, these projects would be considered for late 2009 or future audit work plans.

- Information Security Framework Review
- Residential Care Facilities
- Information Technology Disaster Recovery and Business Continuity Plans
- 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*
- Business Travel, Training and Related Employee Expenses*
- Purchasing Cards*
- 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
- Child Care Fee Subsidies and Purchase of Service Contracts*
- Freedom of Information Access and Protection
- Compliance with Election Legislation
- Fleet Management*
- Labour Relations – Grievances Tracking, Processing and Resolution
- Compensation Management Process
- Attendance Reporting and Absence Management
- Investments*
- Long-Term Care Facilities*
- ATS Operations and Scheduling
- Accounts Receivable*
- Recreation Revenues*
- Planning and Economic Development – Capital Project Management*

* All items so marked indicate audit/review of some aspect of function/process carried out since amalgamation.