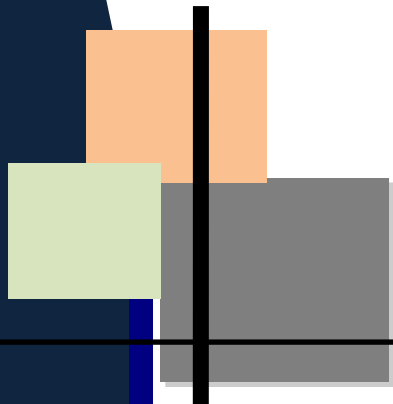


Office of the City Auditor



2015 Annual Report

April 6, 2016



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1. Message from the City Auditor

I am pleased to present the Office of the City Auditor's Annual Report for the year ended December 31, 2015. In accordance with Bylaw 12424, *City Auditor Bylaw*, the City Auditor is responsible for all internal auditing activities within City Programs and City Agencies. As City Auditor, I am accountable to City Council through Audit Committee, not to City Administration. This independence allows my office to be objective, impartial, and resolute when reviewing City-related business and program activities.

Our mission is to add value to the City of Edmonton by promoting accountability, cost-effective municipal services, and ethical practices. The recommendations we made in our 2015 audits helped to achieve this mission.

Our audits for this past year examined a variety of issues, including:

- the City's process for accepting transportation contributed assets from developers;
- the City's processes for managing traffic shortcutting issues;
- the estimated and actual costs of fully absorbing the Automated Photo Enforcement program into City operations;
- the procurement and contract monitoring processes related to seven contracts at the Edmonton Waste Management Centre;
- the events, conditions, and project management processes that resulted in project delays to the Metro Line LRT; and
- the effectiveness, efficiency, and economy of Fleet Services, Coin Processing operations, and Bus and Light Rail Transit operations.

What Actions Were Taken Because of Our Audits?

Our audits identify significant issues and provide practical recommendations to improve the City's operations and services. In 2015, the Administration agreed to implement 100 percent of our audit recommendations. In many instances, the Administration took action prior to our audit report being discussed at an Audit Committee meeting. In addition, our process of following up on recommendations made in previous year's audits highlighted a number of actions (described more fully below) that were implemented by the Administration in 2015.

I am pleased to report that the City has made significant progress in several areas discussed in both this year's and previous year's audits.

New Service Delivery Model for Building Permit and Inspection Services

In 2013, we audited the City's building permit and inspection processes. Our audit resulted in eight recommendations to improve the effectiveness and efficiency of Building Permit and Inspection Services (BPIS), including its service delivery model. Based on our recommendations, BPIS revised its practices for charging re-inspection fees starting in September 2015. In addition, BPIS developed a new Service Delivery Model, which includes risk-based plans examination and inspection processes and related performance targets.

Updated Corporate Procurement Card Handbook

In 2015, we conducted a continuous auditing project to determine whether the City's internal controls were effective in ensuring that Corporate Procurement Card (CPC) transactions are properly authorized, processed, and safeguarded. We identified a number of opportunities for improvement, including revising the CPC processing procedures. As a result, a revised *Handbook for the Corporate Credit Card* was issued by Treasury Management in December 2015. In addition, two online training courses were launched (Cardholder Training and Approver Training). Treasury Management is currently in the process of ensuring all new and current cardholders and approvers complete the training.

Reinforcing the need for performing Privacy Impact Assessments

In 2014, we completed a review of the Google Procurement process. We found that a privacy impact assessment (PIA) on the City's move to cloud based services had not been finalized and accepted by the Office of the Information and Privacy Commissioner of Alberta. The Administration agreed that completion of PIAs is a critical step in the process of implementing new technology. In 2015, a directive was circulated to Branch Managers advising them of the requirement for performing privacy impact assessments.

Traffic Shortcutting Processes Updated

In 2015, we audited the City process for managing traffic shortcutting risks and made two recommendations for improvement. We recommended that the Administration develop a formal traffic shortcutting policy to replace the Council guidelines approved in 2003. We also recommended that they centralize management of neighbourhood traffic shortcutting issues, establish a single point of contact, and increase program transparency and communication. These were all found to be substantial areas of frustration for citizens and other stakeholders. Based on these recommendations, the Administration presented more frequent updates on Traffic Shortcutting issues to Transportation Committee in 2015. In addition, the Administration committed to creating a new policy for City Council approval in 2016 and will start providing annual updates on program activities.

Development of the Corporate Project Management Framework

In our Capital Construction Audit in 2011, we re-stated the need for the Administration to implement corporate guidance for the management of capital projects. Since 2011, the Administration has established the Corporate Centre for Project Management (CCPM) and developed an interactive Project Management Reference Guide (PMRG). Beginning in December 2015, City project managers were required to comply with the PMRG for the Design and Build phases of major construction projects. In addition, the CCPM is enhancing the PMRG and planning to require its use for other types and stages of projects. Our Capital Construction Audit also highlighted budget process risks (i.e. potential for inaccurate, incomplete, and inconsistent information being provided to decision makers). The Administration has replaced the budgeting systems to address these risks, further enhancing the project management framework.

Implementation of SAP Mobility by Drainage Operations

In 2012, we audited the City's Drainage Services Branch. We recommended that Drainage Operations improve data collection, data analysis, and their use of technology. In order to implement these recommendations, Drainage Operations worked with the IT Branch to implement an SAP Mobility solution. This will allow outside workers to receive work orders and notifications in real time and to file time sheets and other documents online. This will increase the efficiency and effectiveness of Drainage Operations, as well as reduce the amount of paper they use. In 2014, we audited Transportation Operations and had similar findings in the pothole repair unit regarding its collection of data. Transportation Operations is also in the process of implementing an SAP Mobility solution.

New Handling of City Money Directive and Handbook

In 2014, we audited the Community and Recreation Facilities (CRF) Branch to determine whether it had appropriate controls and procedures in place to ensure that City Money was safeguarded. As part of the audit, we conducted a review of the *Handbook for the Handling of City Money*. We found that the *Handbook* was outdated and no longer aligned with the operations of CRF. In response, Financial Services initiated a comprehensive review of the *Handbook*. In December 2015, the Corporate Leadership Team approved the revised Administrative Directive and Procedure A1200C *Handling of City Money*, the renewed *Cash Handling Handbook*, and four new site-specific procedures.

Improved Processes for Managing Landscaping Securities

In 2014, we reviewed processes relating to assessing, submitting, and tracking Landscaping Securities. As part of our review, we recommended that process changes be made to minimize risks to the City (such as a lack of sufficient incentive for permit holders to complete landscaping, a lack of enforcement of permit conditions, and inconsistent program management). We also recommended that the Branch determine how best to address the substantial backlog of old securities held by the City (approximately \$6 million at that time). Based on our recommendation, Current Planning Branch implemented a number of changes in 2015 that reduced process risks and allowed release of 65 percent of the old securities.

Delivering High Quality, Innovative, and Cost-Effective Audit Services

In addition to producing high-impact audit reports and providing a number of advisory services, we had several notable accomplishments during the year. These accomplishments included attaining the highest available rating for compliance to the *International Standards for the Professional Practice of Internal Auditing* from an independent external quality assessment consultant.

We have also maintained and enhanced our reputation for leading edge audit work, as evidenced by the local, national, and international partnerships we have formed. As part of the External Quality Assessment of our office, it was concluded that we have "a strong reputation and credibility with other departments within the City as well as the Audit Committee."

Looking Ahead

I discussed the main risks identified in our 2015 reports, including the need for improved project management, contract management, and general oversight, with Linda Cochrane, during her term as Acting City Manager. I am confident that she is taking appropriate action to address these risks. I look forward to working with her as the City of Edmonton's new City Manager and building on the positive relationship that already exists between my office and the Administration.

As was evident during the External Quality Assessment of our Office, our role and the work we do is seen as important and valued by City Council, the Administration, and the citizens of Edmonton. Delivering high quality reports efficiently and effectively requires a competent, dedicated, and enthusiastic workforce. We understand how important it is to effectively manage, develop, and provide our staff members with opportunities to grow. I will continue to focus on providing all our staff with a supportive environment and encouraging them in their roles as we work together to achieve the desired outcomes of the Office of the City Auditor.

In 2016, we will continue to focus our audits on promoting strong internal controls that result in secure, efficient, effective, and economical City operations and services. This will assist in continuing to provide assurance that taxpayer's dollars and resources are being protected and used appropriately.

2. Our Strategic Framework

City Council is responsible for determining the needs of the citizens of Edmonton and providing policy direction to the City Administration. The Administration is then responsible for providing the services and activities required to appropriately address those needs. Audit Committee and City Council rely upon the OCA to provide objective and constructive assessments of how efficiently, effectively, and economically the Administration is fulfilling its mandate within the context of City Council's directives and policies. The scope of our audit work can include all phases of activities through which City Programs or City Agencies provide services to citizens. This requires going well beyond accounting and financial records to developing a good understanding of the operations under review.

Our Vision

Our vision statement defines the focus of the work we do every day:

“Committed to adding value”

Our Mission

Our mission statement defines our purpose within the organization:

“We strive to add value to the City of Edmonton by promoting accountability, cost-effective municipal services, and ethical practices.”

Our Principles

As audit professionals we must uphold the principles of all the professional associations we represent and those of the City of Edmonton. The following principles define our expected behaviour as leaders:

***Integrity
Objectivity
Confidentiality
Competency***

Our Goals

Our strategic goals identify the things toward which we must strive in order to fulfill our mission:

- 1. To support the City's achievement of its strategic goals.***
- 2. To improve the effectiveness of the City's risk management, control, and governance processes.***
- 3. To promote efficient, effective, and economical City operations.***
- 4. To promote an ethical public service environment.***
- 5. To deliver high quality, innovative, and cost-effective audit services.***
- 6. To maintain a respectful, team-oriented workplace that helps individuals reach their career potential and achieve personal growth goals.***

3. Adherence to Professional Standards

We follow the *International Standards for the Professional Practice of Internal Auditing (Standards)*, established by the Institute of Internal Auditors (IIA). These *Standards* are the internationally accepted criteria by which the operations of internal audit departments around the world are evaluated and measured.

Bylaw 16097, *Audit Committee Bylaw*, Section 14(f) states that Audit Committee has authority to receive “annual reports on the Office of the City Auditor’s compliance with professional standards.”

In 2015, to further demonstrate our compliance with the professional auditing standards and per Bylaw 12424, *City Auditor Bylaw*, Section 11(1) that states that “the City Auditor will arrange for peer reviews at intervals not to exceed five years,” MNP LLP performed an External Quality Assessment of our office. The objectives of the External Quality Assessment were to:

- Assess the OCA’s conformance to the Institute of Internal Auditors’ International Professional Practices Framework (“IPPF” or “the Standards”);
- Assess the adequacy of the OCA’s plans, policies, procedures and practices;
- Benchmark, identify and report leading practices that could assist the OCA in becoming more efficient and/or effective; and
- Identify recommendations to improve the operations of the OCA.

The review took place during the months of May to August, 2015 and consisted of:

- Interviews with nine (9) representatives from across the organization including:
 - o The Mayor;
 - o Public Members of the Audit Committee;
 - o Members of Corporate Leadership Team; and
 - o The City Auditor and selected OCA staff members.
- Review of the City Auditor and Audit Committee Bylaws, OCA audit guidelines, current and prior year internal audit plans, a sample of five (5) completed audit engagements including supporting internal audit reports and working paper files.

Based on the IIA's rating system for assessing an internal audit department's conformance to its *Standards*, MNP LLP confirmed that we "Generally Conform" to all the Standards. This is the highest rating that an internal audit office can achieve with respect to the standards per the ratings established by the IIA.

Standards Conformance Evaluation Summary		GC¹	PC²	DNC³
Attribute Standards				
1000	Purpose, Authority, and Responsibility <i>The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.</i>	✓		
1100	Independence and Objectivity <i>The internal audit activity must be independent, and internal auditors must be objective in performing their work.</i>	✓		
1200	Proficiency and Due Professional Care <i>Engagements must be performed with proficiency and due professional care.</i>	✓		
1300	Quality Assurance and Improvement Program <i>The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.</i>	✓		
Performance Standards				
2000	Managing the Internal Audit Activity <i>The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.</i>	✓		
2100	Nature of Work <i>The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.</i>	✓		
2200	Engagement Planning <i>Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.</i>	✓		
2300	Performing the Engagement <i>Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.</i>	✓		
2400	Communicating Results <i>Internal auditors must communicate the results of engagements.</i>	✓		
2500	Monitoring Progress <i>The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.</i>	✓		
2600	Resolution of Senior Management's Acceptance of Risks <i>When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive must report the matter to the board for resolution.</i>	✓		

The entire External Quality Assessment report can be found on our website at <http://edmonton.ca/auditor>.

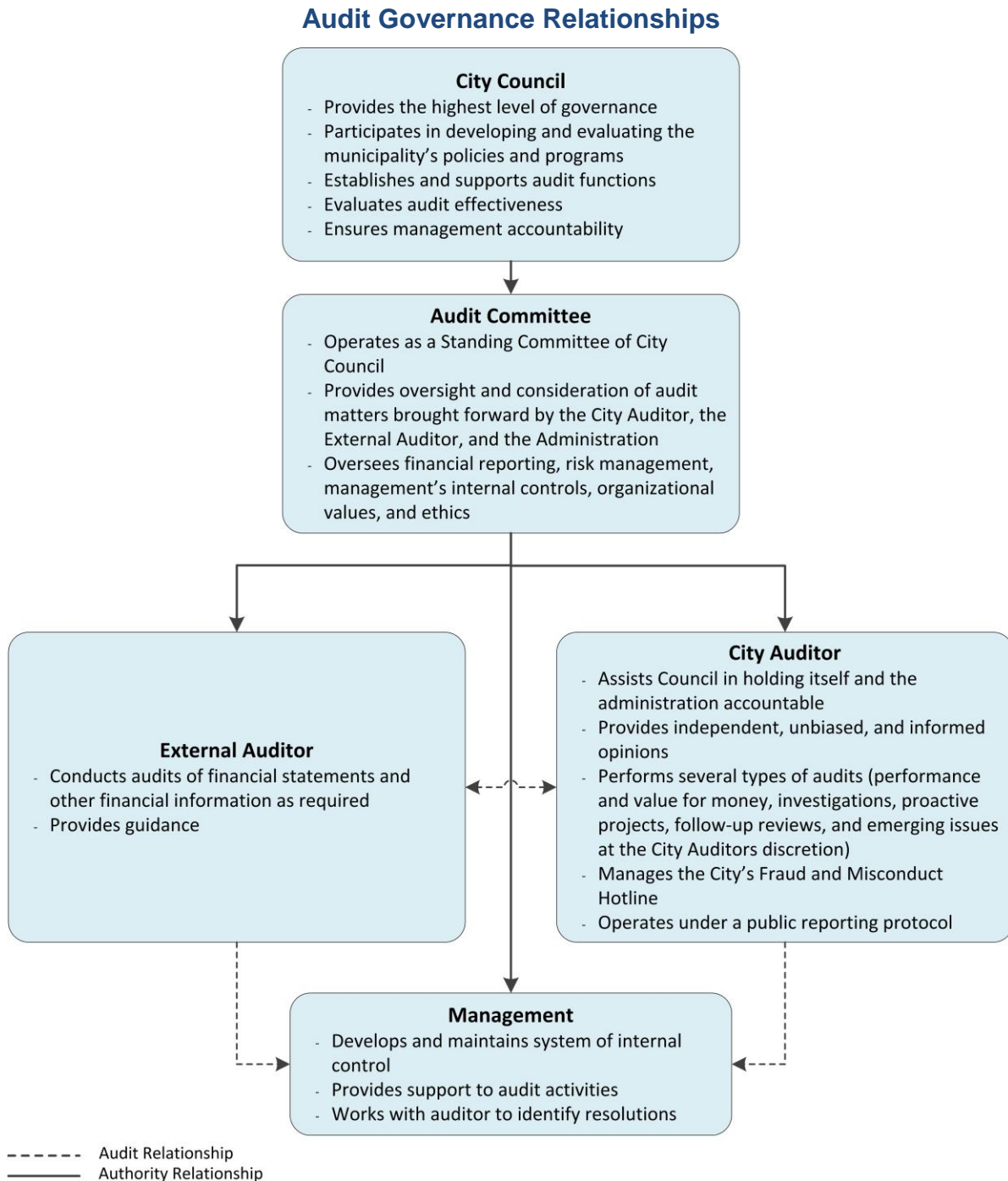
¹ "Generally Conforms": an audit office's structures, policies, procedures, and processes are assessed to be in compliance with the Standards.

² "Partially Conforms": an audit office is making good-faith efforts to comply with the requirements of the Standards, but some practices do not comply.

³ "Does Not Conform": significant deficiencies exist whereby an audit office has little potential to be effective or to add value.

4. Audit Governance

The figure below provides a high-level overview of audit roles, responsibilities, and the interrelationships of City Council, Audit Committee, Management, the City Auditor, and the External Auditor. The goal of each group, both individually and collectively, is to ensure that the City effectively achieves its goals while providing assurance that City operations are being conducted appropriately and cost-effectively.



5. Projects Completed in 2015

All members of Audit Committee and City Council receive reports from the City Auditor. Upon completion, the City Auditor's reports are forwarded to members of Audit Committee and City Council and are then available for discussion at a subsequent Audit Committee meeting. The OCA operates under a public reporting protocol that requires audit reports to be issued publicly unless a specific exemption to disclosure exists under the *Freedom of Information and Protection of Privacy Act* (FOIP). In addition to being distributed to members of Audit Committee and City Council, reports are also distributed to the City Manager, the operational area(s) reviewed, and posted to the OCA website (<http://www.edmonton.ca/auditor>).

Title	Description
Value for Money Audits – These audits and reviews determine whether a department, service, or program operates efficiently, effectively, and economically and whether risks are appropriately mitigated. In 2015, we performed seven value for money audits.	
Transportation Contributed Assets Review	The results of the <i>Transportation Contributed Assets Review</i> were presented at the February 11, 2015 Audit Committee meeting. The objective of this review was to determine if the City has an effective process to accept transportation contributed assets.
Automated Photo Enforcement Cost Analysis	The results of the <i>Automated Photo Enforcement Cost Analysis</i> were presented at the April 15, 2015 Audit Committee meeting. This review included an up-to-date, all-in cost comparison of the estimated and actual costs of fully absorbing the Automated Photo Enforcement program into City operations.
Traffic Shortcutting Audit	The results of the <i>Traffic Shortcutting Audit</i> were presented at the June 22, 2015 Audit Committee meeting. The objective for this project was to determine if the City has adequate processes to effectively manage traffic shortcutting issues.
Metro Line LRT Signalling System Audit	The results of the <i>Metro Line LRT Signalling System Audit</i> were presented at the August 24, 2015 Audit Committee meeting. The objective of the audit was to identify events, conditions, and project management processes that resulted in project delays and to identify process changes and/or enhancements that could mitigate the risks of experiencing similar project issues in the future.
Fleet Services Branch Audit	The results of the <i>Fleet Services Branch Audit</i> were presented at the October 8, 2015 Audit Committee meeting. The overall objective of this branch audit was to assess the effectiveness, efficiency, and economy of the services provided by the Branch.

Title	Description
Coin Processing Audit	The results of the <i>Coin Processing Audit</i> were presented at the February 19, 2016 Audit Committee meeting. The overall objective of this audit was to determine if the City's coin processing operations are operated effectively, efficiently, and economically.
Edmonton Transit System Bus and Light Rail Transit Review	The results of the <i>Edmonton Transit System Bus and Light Rail Transit Review</i> were presented at the February 19, 2016 Audit Committee meeting. The overall objective for this review was to determine if the City's Bus and LRT program is being delivered in an effective, efficient, and economical manner.
Emerging Issues – These are audits or projects that are not listed in the Annual Work Plan. These projects may be identified by the OCA during a scheduled audit, by City Council, by the Administration, or by a member of the public. In 2015, we performed one additional project that was not on our original work plan.	
Edmonton Waste Management Centre Contract Review	The results of the <i>Edmonton Waste Management Centre Contract Review</i> were presented at the November 12, 2015 Audit Committee meeting. This review examined procurement and contract monitoring processes related to seven contracts at the Edmonton Waste Management Centre.
Investigations – These are designed to prove or refute alleged fraudulent behavior or misconduct by a City employee or other parties.	
Investigation Projects	As per the City's Administrative Directive A1454, <i>Fraud</i> , the City Auditor has primary responsibility for investigating suspected fraud and will involve the City Manager as appropriate depending on the nature and scope of the complaint. Allegations of fraud were investigated as required and are discussed in Section 6.
Hotline Administration	The OCA coordinates the City's Fraud and Misconduct Hotline. It is available to City employees 24 hours a day, seven days a week, all year round, by phone or via the Internet. Hotline activity is discussed in Section 5.

Title	Description
<p>Proactive Projects – These projects allow the OCA to provide proactive, strategic, risk, and control-related advice prior to and during the development and implementation of projects, programs, and systems.</p>	
<p>Continuous Auditing – Cashier Transactions</p>	<p>We continue to support the Community and Recreation Facilities Branch by providing them with an analysis of cashier transactions on a quarterly basis. We provide analysis of all cashier transactions at recreation and community facilities, including golf courses. The Branch uses this information to identify anomalies and potential training requirements.</p>
<p>Continuous Auditing – Corporate Procurement Card Controls</p>	<p>The results of the <i>Continuous Auditing: Corporate Procurement Card Controls</i> testing was presented at the February 19, 2016 Audit Committee meeting. The objective of this audit was to determine whether the City's controls are effective in ensuring that CPC transactions are properly authorized, processed, and safeguarded.</p>
<p>Edmonton Police Commission Self-Assessment</p>	<p>Since 2007, we have supported the Edmonton Police Commission's self-assessment exercise. The Commission monitors its progress towards achieving its priorities and strategic plan and annually assesses the need for adjustments. We presented the results of the assessment to the Police Commission at its regularly scheduled December 17, 2015 meeting.</p>
<p>Enterprise Risk Management Framework</p>	<p>In 2015, the OCA further supported the Administration's efforts to expand the corporate role of Enterprise Risk Management. A City Council Policy and an Administrative Directive and Procedure in relation to Enterprise Risk Management was presented by the Administration at the February 19, 2016 Audit Committee meeting.</p>
<p>Performance Measures Validation</p>	<p>The results of the <i>Performance Measures Validation</i> was presented at the October 8, 2015 Audit Committee meeting. In 2015, we validated six corporate measures from <i>The Way Ahead Progress Report 2014</i> (the Progress Report). We validated each of the six measures against criteria relating to reliability, understandability and comparability of the performance measure.</p>
<p>Capital Projects Advisory Assistance</p>	<p>Over the past three years, we have met with project management teams in various departments to observe and provide feedback on project management practices. The results of the OCA's <i>Proactive Involvement in Capital Projects</i> were presented at the April 15, 2015 Audit Committee meeting. The objective of our proactive audit involvement in major capital projects is to determine the degree to which sound project management practices, as described in the City's Project Management Reference Guide are being applied throughout all stages of a project.</p>

Title	Description
<p>Follow-up Reviews – These projects allow the OCA to determine the adequacy, effectiveness, and timeliness of actions taken by management on recommendations made in audit reports.</p>	
<p>Follow-up of Recommendations</p>	<p>We perform follow-up reviews to assess the adequacy, effectiveness, and timeliness of action taken by management on reported observations. Our audit monitoring program consists of reviewing the status of actions taken on recommendations in previously released audit reports with the appropriate management staff. It is intended to provide assurance that proposed action plans were or are being carried out and to assess the rationale where action will not be taken or has been delayed. As of the November 12, 2015 Audit Committee meeting, we started to present <i>Recommendation Follow-up Dashboard</i> reports as a regular agenda item for each Audit Committee meeting. These reports highlight recommendations more than one year overdue (red), less than one year overdue (yellow), and not yet due (green).</p>
<p>OCA Governance and Leadership Activities – The OCA participates in a number of initiatives that support City Council and Audit Committee’s governance responsibilities and contributes to leading audit practices by others.</p>	
<p>Annual Report</p>	<p>Bylaw 1242, <i>City Auditor Bylaw</i>, states that the “City Auditor will submit to Council an Annual Report.” We issued the City Auditor’s 2014 Annual Report on April 15, 2015. The report summarized the activities of the OCA for the calendar year 2014.</p>
<p>Annual Work Plan</p>	<p>Bylaw 16097, <i>Audit Committee Bylaw</i>, Section 9 states that, “Committee has the power to approve the City Auditor’s annual work plan and any changes to the work plan requested by the City Auditor within approved budgets.” The OCA’s annual planning process is designed to ensure that it prepares a risk-based work plan and that, through its execution, adds value to the corporation. The Office of the City Auditor’s 2016 Annual and Long Term Work Plans were presented and approved at the November 12, 2015 Audit Committee meeting.</p>

6. 2015 Fraud and Misconduct Hotline Summary

The *City Auditor Bylaw* section 22(2) states “The City Auditor will lead the implementation and operation of the City’s hotline.” The City implemented its Fraud and Misconduct Hotline on January 2, 2007. Since implementation, we have managed the City of Edmonton’s hotline.

Section 27(2)(g) of Bylaw 12424, *City Auditor Bylaw*, requires the City Auditor to provide Audit Committee with periodic reports related to overall hotline activity.

The following sections include a summary of hotline activities, as well as a brief narrative describing the categories of cases resolved during the year.

6.1. Background

The City of Edmonton introduced a combined fraud and whistleblower policy in 2006. In 2007, the City’s Fraud and Misconduct Hotline was implemented as an additional channel for employees to confidentially and anonymously report suspected fraud and significant misconduct by City employees. In 2011, City Policy C522 – *Fraud and Misconduct*, was repealed and replaced with two Administrative Directives to help City employees more easily understand their responsibilities and the processes to follow.

The *Fraud* Administrative Directive outlines the process for employees to report suspected fraud and for the Office of the City Auditor to investigate those reports. The *Whistleblower Protection* Administrative Directive outlines the process to report any retaliation an employee may experience and how the City will investigate those reports. Nothing has changed in the way employees report concerns, including the ability of employees to use the City’s Fraud and Misconduct Hotline.

6.2. Hotline Operation

The hotline is available 24 hours a day, 7 days a week, year-round. Employees can provide anonymous reports using an online web reporting service or through professionally-trained live agents via a toll free telephone service. So far, we have been able to administer the hotline using existing staff who conduct investigations in addition to their normal duties.

Hotline reports are classified into the following eight categories:

- Financial reporting and accounting
- Health and safety or environment
- Unethical conduct and conflict of interest
- Manipulation or falsification of data, records, reports, contracts
- Harm to people or property
- Theft, embezzlement, fraud
- Violation of laws, regulations, policies, procedures
- Miscellaneous

The reporters are asked to indicate the category that best represents or describes the nature of their complaint when providing reports to the hotline. They are also asked to anonymously answer additional questions to validate the information provided and to

gather pertinent information should an investigation be initiated. Automatic email notifications immediately alert authorized OCA employees when newly submitted or updated reports are received. All information is stored on the service provider's Canadian-based secure servers.

When reports are received, authorized OCA employees conduct a preliminary screening to determine the disposition of the reports. Depending on the nature of the complaints, we decide whether or not to initiate an investigation. Reports on operational matters are referred to the City Manager. The case management system provides a variety of summary and detailed reports to facilitate tracking and reporting.

To ensure that all alleged fraud and misconduct reports are tracked, monitored, and reported using a common system, we input reports that we receive directly from employees via the City's email, telephone, general mail, etc. into the hotline system with a unique identifier. This method also provides an effective quality assurance tool to help us ensure that the hotline system is operating as intended.

6.3. Hotline Activity

The table below summarizes the reports received by the hotline and the OCA for 2015 by category. For comparison purposes, summaries for the previous two years have also been provided.

Reports Received by the Hotline and the OCA (2013 – 2015)

Report Category	2013	2014	2015
Health and Safety or Environment	3	0	1
Unethical Conduct and Conflict of Interest	14	20	30
Manipulation or Falsification of Data	0	0	1
Harm to People or Property	1	1	5
Theft, Embezzlement, Fraud	3	5	19
Violation of Laws, Regulations, Policies, Procedures	8	12	14
Miscellaneous	9	8	10
Total	38	46	80

In 2015, we received and reviewed a total of 80 reports. This was a 74% increase over 2014. We received 79 of the reports through the hotline, of which 25 (32%) were through live agents, 51 (65%) were through the online web service, 2 (2%) were the hotline voice-mail service, and 1 (1%) was through the hotline post office box service. We received 1 report directly. All but 2 of the 80 reports were closed as of the year-end.

Disposition of reports

We screen all hotline reports to determine their disposition. Due to the nature of the reports and the knowledge and expertise required, we referred those that pertained to operational matters to the City Manager for investigation. In those cases, we asked the assigned departmental managers to report back to us on the resolution and any actions taken. We reviewed the results of those investigations prior to closing the reports on the hotline system.

The system's interactive dialogue capability allows us to ask additional questions of the reporter within the security of the web application, while maintaining the employee's anonymity. Despite our attempts to obtain additional information through the hotline system, we were unable to take action on some reports due to insufficient information. Employees may not provide the requested information because they may not be able to substantiate their complaint or may not check the status of their report on the system. They may also have addressed their concern through other resources or decided not to pursue further action.

We investigated the remaining reports on fraud and misconduct in accordance with our internal procedures and guidelines, as well as professional standards. We gathered evidence to confirm or dispel the allegations reported. We also consulted with internal experts from Corporate Security, Law, and Human Resources Branches, and other appropriate departmental staff as required.

The number of hotline reports increased significantly compared to the previous two years. We received a number of reports that pertained to operational matters/workplace issues that fell within the jurisdiction of the City Manager. In many of the workplace issues received in 2015, employees believed that their complaints to management had not resulted in appropriate action and used the hotline as an additional avenue to elevate their complaint. We have regular meetings with the City Manager to evaluate the nature of the complaints received and determine whether any corporate action needs to be taken. In addition, in 2016, we are undertaking a proactive Fraud Risk Management project with the Administration that will include developing a cohesive communication strategy on fraud awareness and what to report to the hotline.

The table below summarizes the disposition of the 80 reports we received in 2015. For comparison purposes, a summary of the previous two years has also been provided.

Disposition of Reports/Complaints (2013 – 2015)

Description	2013	2014	2015
No action taken (insufficient information, comments and inquiries on the hotline, follow-up on previously submitted report, etc.)	6	6	14
Tips provided that will be used in future audits	1	2	1
Referred to the City Manager (operational matters, retaliation complaints, etc. that are outside the scope of the OCA)	17	17	30
Reports Investigated by the OCA and/or the Administration (Corporate Security, Labour Relations, etc.)	14	21	35
Total	38	46	80

6.4. Outcomes of the Completed Investigations

In 2015, the OCA and Administration investigated 35 reports. We also reviewed all findings from reports investigated by the Administration to ensure that the investigations were thorough and that remedial action plans were sufficient. Based on our review, we determined whether additional action was required prior to us closing the report in the tracking system. All employees participating in the review and/or investigation of reported allegations were required to maintain confidentiality and comply with the *Freedom of Information and Protection of Privacy Act*. Employees who submitted the reports through the hotline were given the opportunity to provide additional information during the investigation.

Of the 35 complaints that were investigated, 34 were closed and 1 investigation was still in progress at year-end. Of the 34 investigations that were closed, 16 allegations could not be substantiated or confirmed based on the information available. Therefore, no further action was taken. The remaining 18 allegations were either confirmed or led to recommendations based on additional findings that came about through the investigations. The following is a summary of the outcomes relating to the 18 investigations.

Treatment of staff

A complaint was received that an employee “bullies and harasses” people in the work place and, “treats everyone like we are nothing.” Interviews with staff revealed that the employee was sometimes harsh in their communication. However, it was also confirmed that the employee’s behaviour was improving. In the interviews, it was stated a number of times that the employee’s communication was direct and short, and that this could be interpreted as insensitive and harsh. Management of the area met with the employee and discussed their concerns and formally addressed the matter.

Inappropriate use of email

It was alleged that an employee emailed a video clip email that was offensive. It was confirmed that the employee did send an email containing a video clip to several co-workers. The investigation found that while the employee did not intend to cause offense, the language in the video was clearly inappropriate for the workplace and should not have been disseminated through the City of Edmonton email system. It was communicated to the employee that by sharing this type of material with coworkers that it can create the impression that this is accepted behavior in the City, which it is not. The incident was documented on the employee’s personnel file in accordance with the City’s Performance Improvement process.

Disrespectful workplace behaviour

A complaint was received that a team lead in a work group was using inappropriate language and insulting other employees within the group. The investigation included both interviews and written statements being collected by a number of employees in the same work group. It was confirmed by all the witnesses that the team lead addressed the employees using inappropriate and disrespectful language. The actions by the employee violated the City’s Code of Conduct and Respectful Workplace policies. The employee received a three day suspension with a warning that future occurrences could result in removal from a leadership position.

Misuse of parking privileges

A complaint was received regarding the inappropriate use of a parking pass by an employee. It was found that one employee was using parking privileges that were already assigned to another employee. The business unit formalized the process and requirements around the appropriate use of parking passes and communicated this to all supervisory staff.

Inconsistent treatment of employees

It was alleged that an employee was provided favorable treatment by being allowed to work from home without notifying their supervisor and that the employee does not wear a uniform allowing the employee to conduct personal business on city time. A review of the situation confirmed that the employee did work from home on two occasions with the employee's supervisor's permission. As a result of this complaint, management agreed that the work area will not request the employee to work from home, nor approve requests to work from home, in the future. The work area also reviewed and updated the dress code for all employees and clearly communicated the dress requirements to all employees in a similar position to the employee.

Use of social media

A complaint was received that a city employee was using inappropriate language on a "microblogging" website. Microblogging is a hybrid of Twitter and Facebook. It allows people to post stories, have "followers" and comment on other bloggers postings. Difficulties were encountered in the investigation on determining whether the time zone on the postings was local Edmonton time and whether the postings were occurring during work hours. The City's expectation that working hours be focused on work activities was reinforced and the employee was provided with a copy of the City's *Acceptable use of Communications Technology Directive*.

Vacation approval processes not followed

A complaint was received that an employee seemed to have too many vacation days. The excessive vacation was causing other employees to question how the employee can have this many days off. It was determined that the employee did not accrue enough vacation time to cover the total vacation. However, the employee was given approval for the time off from their immediate supervisor. The investigation concluded that some City processes were not properly followed to advance the vacation time and document the time away. In addition, the time was not correctly entered into the City's time entry system. A performance expectations letter was issued to the supervisor highlighting the importance of proper approval/documentation processes and ensuring that City directives are properly followed. The employee was also provided a performance expectation letter and informed that they will not be permitted to take any additional vacation time until the employee has reached a positive vacation balance. The time coding for the employee was also corrected.

Respect in the workplace

A complaint was received that an employee was being "verbally abused" in the workplace. The complaint was reviewed with the Director and General Manager in the area with both being informed of the concerns over respect in the workplace. Steps were taken to address specific concerns through additional resources and coaching around respect in the workplace.

Employees leaving work early

It was alleged that a number of staff at a work site were leaving work early on weekends. The investigation did reveal that not all the employees were scanning their ID cards in and out of the workplace. However, it was able to be determined that the employees were in many cases arriving early and compensating by leaving prior to their normal end of their shift. All employees were provided with letters indicating that any changes to their hours of work would require their Foreman and/or Manager approval. In addition, the expectation going forward is that the employees are to scan in when they start work and finish work.

No formal control over salvaged material

It was alleged that a City contractor was stealing scrap metal from a city work site. It was determined that there is a large amount of material that gets dropped off at the site that can be utilized in other ways. The City contractor was given permission to use some of this material. However there was only an informal process for tracking the materials used and not a formal inventory control plan. The area was working with IT to implement a system to track the inventory. It was concluded that a policy around the salvaging of material should be finalized. Once it has been finalized, it will be communicated to all staff. The policy will include what the responsibilities are of staff, the approvals required and how salvaging is to be recorded. It will also include clarification on how contractors use salvaged material for the work they are performing on site.

Improper recording of time off

An allegation was received that three employees were golfing on city time and not recording this time as vacation time. It was determined that one of the employees had correctly recorded this as vacation time. However, the other two employees had recorded some of the golf days as regular time. The employees stated that they did not believe there was any direction on how to code the golf time. As a result of this complaint, the two employees had their time off for the golf event changed from regular time to vacation time and they were counselled in regards to time reporting expectations. In addition to address proper reporting/approval of time, a memo was issued to all staff on time reporting expectations.

Unclear hiring practices

An allegation was received that a supervisor showed favoritism in the promotion of a City employee. It was alleged that a supervisor tailored the Position Description and requirements, including education credentials, to accommodate a City employee and, thereby, excluding other potentially qualified candidates. It was determined that the position did go through the standard classification determination process, which is required for all new position, and was confirmed by an independent job evaluation committee. However, it was also determined that the business unit recently underwent restructuring. This restructuring stirred a lot of emotions and triggered reactions in employees ranging from positive support to distrust and resistance. Meetings with area staff uncovered misconceptions and lack of understanding around the reasoning for various qualification requirements, including education requirements, and the processes involved in creating a new position. Based on this, it was recommended that consideration should be given to communicating newly developed positions to potentially interested internal staff members prior to posting the position.

Inappropriate relationship between two employees

An allegation was received that a team lead showed favoritism to another employee because they were friends. The allegation of an inappropriate relationship between the two employees was partially substantiated. While the two employees can be friends outside of work, it was brought into the workplace. Considering that one employee was in a leadership position, it had a negative impact on the employee as a fair and trustful leader with other staff. Corrective action was taken by counseling the employee in the leadership position.

Arriving late to work

A complaint was received alleging an employee was “showing up late to work on a consistent basis for over a year...on average 15 minutes a day.” A meeting was held with the employee and the employee’s supervisor to address some performance issues including concerns around the employee’s arrival time at work. The area was advised to monitor the employee arrival time to ensure continued adherence to the established start time. In addition, oversight options were provided to various levels of area management to address similar concerns in the work area.

Employee time theft

A complaint was received alleging a conflict of interest involving an employee who had a second job. It was determined that the employee did leave his City job for approximately 2.5 hours to attend to matters regarding his other job. It was also confirmed that the employee was paid by the City and the other company he works for in relation to the same time he was not performing the required City duties. It was concluded that the employee’s behavior was pre-meditated and in violation of the City’s Code of Conduct. It was also concluded that there was a lack of oversight on behalf of the employee’s supervisor. While this was not a conflict of interest as the employee was not performing work that would otherwise be performed by the City, the employee was paid for hours that they were not entitled to. Both the employee and the employee’s supervisor were disciplined, as per the City’s Performance Improvement process.

Lack of oversight over out of office meetings

A complaint was received alleging an employee may be using City time for work related to their two personal businesses. This was alleged because the complainant believed that the employee had a lot of freedom to come and go in their City position. It was determined that the employee did have two personal businesses. While the employee’s supervisor had no concerns with the employee’s productivity; performance expectations were still reinforced with the Manager and the employee involved. In addition, the Code of Conduct was reviewed with the staff in the area, in particular the use of City time and Electronic devices. A process was also put in place to better track the out of office movement of all employees to allow for transparency in work location and meetings.

Procurement and Contract Monitoring Practices

While investigating allegations of misconduct, the OCA made a number of observations related to procurement and contract monitoring practices at the Edmonton Waste Management Centre. The results of the *Edmonton Waste Management Centre Contract Review* were presented at the November 12, 2015 Audit Committee meeting.

Conducting personal business on City time

A complaint was received alleging an employee owned a vending machine in a City operated building and the employee is stealing City time by filling the machine during work hours. The investigation found that the employee owned and operated three vending machines out of two separate City operated buildings. A plan was put in place to have all the vending machines removed. It was also recommended that in the future, if there is a desire to have vending machines installed on site, the Department should follow the established guidelines outlined in the City of Edmonton Administrative Directive A1439 – *Procurement of Goods, Services and Construction*.

7. Measuring Our Performance

We have implemented a range of performance indicators that are designed to provide assessments of both our internal business processes and external outcomes. We measure key quality and efficiency indicators in order to continuously improve our strategic performance and outcomes. Each of these measures is an indicator of our success towards achieving our strategic vision and mission. The Association of Local Government Auditors (ALGA) represents local government audit organizations in both the United States and Canada. Based on biennial surveys of members, performance benchmarks are established for audit organizations by size. The OCA falls within the group having 11 to 15 auditors. The latest comparative survey was published in November 2015 and is based on 2014 data. Where possible, we have included the latest comparative ALGA survey results in the following measures.

7.1. Customer Relationships

We strive to deliver high-quality, innovative and cost-effective audit services. To accomplish this objective, we emphasize the importance of our relationships and communications with audit clients. At the conclusion of all major projects, we issue a customer satisfaction survey to obtain feedback on our performance and to identify areas where we can improve our operations. Our customer satisfaction survey focuses on how well we communicated throughout the audit, our understanding of the client's issues, the professionalism of our audit staff, and the quality of our findings.

Customer Satisfaction Survey Results

Performance Indicator	Industry ⁴	2011	2012	2013	2014	2015
Communication How well the client was informed of objectives, process, timeframe, and emerging findings.	N/A	4.6	4.6	4.9	4.4	4.4
Understanding of client's business How well the audit staff demonstrated their under-standing of the client's issues and challenges.	N/A	4.3	4.4	4.4	4.0	4.1
Professionalism How well the audit staff demonstrated professional behaviours/attitudes in their dealings with clients.	N/A	4.8	4.8	4.9	4.6	4.4
Quality of findings Practicality, adequacy, and openness of communication with the clients.	N/A	4.3	4.5	4.2	4.2	4.2
Overall average Client's overall assessment of value.	N/A	4.5	4.6	4.6	4.3	4.3

⁴ The Association of Local Government Auditors 2014 Benchmarking and Best Practices Survey did not have any results for the audit departments in the eleven to fifteen range for this measure.

Our communication and professionalism during all our audits kept our overall client rating for 2015 at the same level of 2014 even with the significant number of audits that received negative press coverage directed toward the Administration.

7.2. Optimize Productivity

We also have a number of internal measures to monitor our effectiveness and productivity. These include percentage of recommendations accepted, project time, and audit plan completion. The ALGA benchmarking survey also requested information on areas that were considered best practice initiatives to increase an audit office's effectiveness, such as the use of a fraud hotline, computer assisted audit techniques, use of audit effectiveness questionnaires and audit management software. We use all four of these best practices.

Effectiveness and Productivity Results

Performance Indicator	Industry	2011	2012	2013	2014	2015
Percent of recommendations accepted A measure of the value provided by the audit.	95%	100%	100%	100%	100%	100%
Percent of project time vs. available time A measure of the available time spent working on projects.	69%	79%	80%	79%	81%	81%
Percent of completed or partially completed projects to number scheduled A measure of office productivity.	72%	94%	96%	92%	96%	92%
Use of a fraud hotline A tool to enhance accountability and promote ethical operating practices.	66%	Yes	Yes	Yes	Yes	Yes
Use of computer assisted audit techniques A tool to optimize productivity.	47%	Yes	Yes	Yes	Yes	Yes
Use of an audit effectiveness questionnaire A tool to ask clients to value audit after the engagement has been completed.	48%	Yes	Yes	Yes	Yes	Yes
Use of audit management software A tool to optimize productivity.	58%	No	No	Yes	Yes	Yes

Recommendations accepted

We are committed to providing recommendations that identify potential efficiency gains, improve operational effectiveness, and provide guidance for providing more economical services to citizens. It is our responsibility to present accurate and convincing information that clearly supports our recommendations. The percent of recommendations accepted by the Administration is an indication of our effectiveness in this regard. Management accepted 100 percent of the recommendations we made in 2015.

Productivity – project time

Productive time is considered time spent directly working on audits, investigations, follow-up audits, or other audit projects. Our productivity ratio was 81 percent in 2015, which was the same as in 2014.

Productivity – audit plan completion

We develop our annual audit plan through a formal risk assessment process, with input from City Council, Audit Committee, and Administration. With the exception of two projects, we either completed or were near completion of all projects approved in our 2015 Annual Work Plan. In addition to the scheduled projects, we also completed a number of projects that were not in the original work plan.

Ethical operating practices – use of a fraud hotline

The use of a fraud hotline in an organization is fundamental to enhancing public confidence in civic government. It demonstrates an organization's commitment to corporate accountability, responsibility, and sound and ethical operating practices. It helps to support a high level of integrity of employees in the workplace and also to protect City property, resources, and information.

Productivity – use of computer assisted audit techniques

The main advantage of computer assisted audit techniques is that they can be used to scrutinize large volumes of data. This is much more efficient than doing this manually. The programs can then present the results so that they can be investigated further. This can simplify the auditor's task by selecting samples for testing, identifying risk areas, and performing specific substantive procedures.

Effectiveness – use of an audit effectiveness questionnaire

We issue a customer satisfaction survey to the client to help us monitor our performance and to identify areas where improvements in our operations can be made.

Productivity – use of audit management software

Audit management software is designed to integrate and automate numerous activities within an audit process. System capabilities include long range audit planning, electronic working papers, document management, resource use, recommendation follow-up, and performance management. With the introduction of audit management software in 2013, we were able to standardize and automate numerous quality control activities, including project supervision and review of audit working papers. The system is being used effectively to assist with managing both small and large audits and to more efficiently and effectively plan, monitor, and control our audit projects. In 2015, we also started using this software to support our recommendation follow-up process.

7.3. Human Resources

One of our goals is to maintain a respectful, team-oriented workplace that helps individuals reach their career potential and achieve personal growth goals. Strategies to help achieve this goal include providing encouragement to pursue training and professional certifications and to foster a positive working climate.

Human Resource Related Results

Performance Indicator	Industry	2011	2012	2013	2014	2015
Average days of City-funded training & development A measure of commitment to maintaining and enhancing professional certifications and skills.	8 – 12	9.6	8.9	10.0	8.0	6.8
Percent of staff certified or with advanced designations A measure of staff qualifications.	N/A	92%	92%	92%	92%	92%
Maintain a positive working climate A measure of the average level of staff job satisfaction (data from employee engagement surveys).	69%	N/A	100%	100%	100%	100%

Training

Training is vital because it keeps us fresh both professionally and with technology. Internal auditing standards require that our staff enhance their knowledge, skills, and other competencies through continuing professional development. Those staff members who are Certified Internal Auditors are required to complete at least 40 hours (5 days) of continuing education every year. In addition, staff must also satisfy the continuing education requirements of any other professional certifications they hold. In 2015, our staff completed an average of 6.8 days of professional development by attending courses, seminars, workshops, conferences, monthly professional association luncheons, and in-house training sessions. To help minimize training costs in 2015, we held two in-house retreats that incorporated topical training courses and utilized cost-effective webinars.

Professional certification

Professional certifications are strongly encouraged within the OCA. The extensive variety of skill sets offered by staff members enables us to conduct most of our tasks with internal resources. Ninety-two percent of the professional staff members possess one or more certifications or advanced degrees.

Employee satisfaction – maintaining a positive work climate

The City of Edmonton's Employee Satisfaction Survey is conducted every two years. In 2012 and 2014, OCA staff members were part of the City's comprehensive Employee Engagement Survey that integrated employee engagement, diversity, inclusion, workplace, and culture. In the last survey conducted, the overall Employee Job

Satisfaction score for the OCA was 100 percent favourable as compared with the City's overall average of 69 percent. The next Employee Engagement Survey is scheduled for 2016.

7.4. Financial Perspective

As an independent audit office reporting on the efficiency, effectiveness, and economy of City operations, we must operate in a cost-effective and clearly accountable manner. We have two measures that monitor our cost effectiveness. We monitor our percentage of actual versus budgeted expenditures. We also benchmark our staffing levels.

Cost Effectiveness Results

Performance Indicator	Industry	2011	2012	2013	2014	2015
Prudently manage public resources Percent actual vs. budgeted expenditures	95 to 105%	96%	92%	94%	101.7%	96%
Audit department resourcing Audit department expenditures as % of Entire Organization	0.073%	0.115%	0.114%	0.109%	0.105%	0.096%

Actual versus budgeted expenditures

Approximately 92 percent of the OCA's budget consists of salary and benefits. Our financial objective is to manage our expenditures so that actual year-end expenditures are within +/- 5 percent of budgeted expenditures. Our 2015 results were approximately 4 percent below budgeted expenditures.

Audit Department resourcing

In 2015, our budgeted expenditures were approximately 0.096% compared to the total net expenditures for the corporation as a whole. There has been a steady decline in the OCA's audit expenditures as a percentage of the entire organization since our resources have grown at a smaller percentage than the corporation as a whole.

8. Conclusion

In this Annual Report, I have reported on the results of our projects and other accomplishments in 2015 and provided a report on Fraud and Misconduct Hotline activities. I am proud of our accomplishments and our contributions to the City of Edmonton. Implementation of the recommendations contained in our reports facilitates a more responsive and accountable municipal government.

Consistent with our Mission, we believe that Edmontonians want our audit projects to add value to the City of Edmonton by promoting accountable, cost-effective municipal services, and ethical practices. In 2015, we tackled some issues that were both challenging and highly sensitive. I believe that by reviewing these issues, we were able to provide recommendations that will improve City services and provide better value for citizen's tax dollars.

I acknowledge the support and keen interest in our work that members of Audit Committee and City Council demonstrate as we support them in their governance role. I value my strong, open relationship with Audit Committee and City Council. This relationship is a critical contributor to our success.

I also appreciate the support and the cooperation that is extended to us by the City Administration. Continuing to nurture this mutual cooperation is conducive to our common goal of ensuring that the operations of the City of Edmonton are carried out in an efficient, effective, and economical manner.

In closing, I wish to pay tribute to my staff. The goals of the OCA were achieved in 2015 as a result of my staff's hard work, perseverance, and commitment to delivering high quality, innovative, and cost-effective audit services. Their ability to willingly adapt and rise to new challenges and complexities in our work needs to be acknowledged. I am very fortunate to work with the following talented and professional group of individuals:

Staff of the Office of the City Auditor

Gordon M. Babey
Chrisy Burton
Lisa Callas
Bill Cook
Queena Dong
Paul Ebenezer
Leslie Glasbeek
Sophia Kasozi
Larry Laver
Janine Mryglod
Edwin Ryl
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