

**CITY OF HAMILTON**

**CITY MANAGER'S OFFICE  
Audit Services Division**

<b>TO:</b> Chair and Members Audit, Finance and Administration Committee	<b>WARD(S) AFFECTED:</b> CITY WIDE
<b>COMMITTEE DATE:</b> December 7, 2011	
<b>SUBJECT/REPORT NO:</b> 2012 Internal Audit Work Plan (AUD11037) (City Wide)	
<b>SUBMITTED BY:</b> Ann Pekaruk Director, Audit Services City Manager's Office	<b>PREPARED BY:</b> Ann Pekaruk 905-546-2424 x4469
<b>SIGNATURE:</b>	

**RECOMMENDATION**

**That Appendix "A" attached to Report AUD11037, respecting the 2012 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 a risk assessment carried out on the identified possible auditable units. In addition, inquiries, prior Council direction, requests from Councillors, senior management and staff, observations made by audit staff during other audits and reviews of audits conducted in other jurisdictions also are taken into consideration. Various level risk factors were considered to prioritize the various projects.

The 2012 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 AUD11037.

Appendix “B” of Report AUD11037 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, Finance 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 2012 budget request.

**Staffing:** The 2012 Work Plan as presented in Appendix “A” is based on the current staff complement. In order to undertake additional audits/reviews such as those noted in Appendix “B”, additional audit staff resources would be required.

**Legal:** None.

**HISTORICAL BACKGROUND (Chronology of events)**

According to the current Council approved Internal Audit Charter, 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 2012.

**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 individual Councillors, departmental management and staff.

**ANALYSIS / RATIONALE FOR RECOMMENDATION**

(include Performance Measurement/Benchmarking Data, if applicable)

Management is primarily responsible for designing, implementing, monitoring and reporting on controls. However, Council, through the Audit, Finance and Administration Committee, is ultimately responsible for ensuring management fulfils these responsibilities. Internal Audit assists Council and management in meeting their internal control responsibilities by carrying out 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 conduct the initial follow up of 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. 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 2011 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 were 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. This allotment may also be used to conduct special investigations, as warranted, such as under the Whistleblower's By-law as the same pool of staff that carry out the audits in the work plan would carry out such work.

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, the number of requests by City Council and management, the level of special investigations 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, Finance 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)**

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

***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 AUD11037  
Appendix "B" to Report AUD11037

ap:dt

**APPENDIX "A"**  
**CITY OF HAMILTON**  
**PROPOSED 2012 INTERNAL AUDIT WORK PLAN PROJECTS**

**1. AUDITS IN PROGRESS OR CARRY FORWARD**

<b>Audit Project</b>	<b>Project Description</b>
PRESTO – Financial Controls	<p>In 2011, the new transit fare card system (branded PRESTO) became operational in Hamilton. It is meant to replace monthly passes and tickets and provide transit customers with the ability to travel on different transit services within the GTA and Hamilton area. As much of the financial aspects of fare administration are with a third party, processes are being reviewed as to their effectiveness in ensuring the City receives its share of transit revenues.</p> <p>The fieldwork is in progress. Completion of the file and the resulting report is expected in the first quarter of 2012.</p>
Parking Infractions and Enforcement	<p>As an additional piece to the POA Office audit reported upon earlier in 2011, processes for POA, Part II tickets (parking infractions) are being reviewed to ensure adequate controls exist in the issuance of tickets, collection of fines and the accounting for revenue in a timely manner.</p> <p>The fieldwork is ongoing with completion of the file and the resulting report expected in the first quarter of 2012.</p>
Complaint and Grievance Processes	<p>This audit focuses on the complaint and grievances processes available to staff. Procedures for the identification, documentation, investigation and resolution of issues are reviewed as well as the administration and management of the processes and actions to reduce the number of grievances filed. Related costs (litigation, settlement, etc.) will be analyzed.</p> <p>The fieldwork has begun on this audit and completion is expected by the end of the first quarter, 2012.</p>

**2. ANNUAL RESPONSIBILITIES**

<b>Audit Projects</b>	<b>Project Description</b>
Police Cash Accounts, Revenue Processes and Procurement Card Usage	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.
Follow Up of Outstanding Recommendations from Previous Audit Reports	This work relates to the review of the implementation status of audit recommendations from approximately 12 audit reports issued in the prior 12-18 months.

**2. ANNUAL RESPONSIBILITIES (Continued)**

<b>Audit Projects</b>	<b>Project Description</b>
Procurement Card Usage	As the findings and recommendations in the past two audits (2010 and 2011) of this area have led to several changes in processes and oversight, the audit of procurement card usage will be included as an annual responsibility until processes have been reviewed and tested for compliance and adequate control.
Annual Follow Up Process	<p>In order to ensure that the Audit, Finance and Administration Committee has adequate information to fulfill its responsibilities for the oversight of governance and control, a follow up system of yearly updating on the status of uncompleted recommendations was developed in 2011 and the results reported to the Committee.</p> <p>This process will be carried out annually.</p>

**3. NEW PROJECTS**

<b>Audit Projects</b>	<b>Project Description</b>
Cash Handling – Recreation Centres and Arenas	The cash collection, handling and balancing processes in the City's recreation facilities and arenas will be audited to ensure controls are adequate and revenue is properly accounted for.
Information Services – Review of Asset Management (Hardware)	Considerable dollars are spent in the provision of technology resources for the City. In 2011, software (applications) was audited. With the forthcoming award of a contract for desktop and mobile computers and servers, a review of the administrative and management processes appears warranted. Such processes will be reviewed and assessed as to their ability to ensure sustainability of assets, provide adequate service to users and guide sound decision making.
Blue Box Contract – Waste	Over the past several years, most of the waste contracts have been reviewed to ensure compliance with contract terms. The blue box collection contract remains one of the last such agreements to review. With a new Request for Proposal (RFP) on the horizon, this audit may also provide some additional controls and procedures to strengthen administration and oversight over a potential new contract.
Social Housing	Considerable funds are expended by the City in the provision of social housing. It is anticipated that a general overview of the various programs will be carried out in order to select a subject area for audit.
Snow Clearing / Sand & Salt Contracts	This audit will review how such contracts are awarded, administered and monitored. The adequacy and effectiveness of controls and processes in the management of the City's contracted winter maintenance program will be assessed.

### 3. NEW PROJECTS (Continued)

Construction Contracts Review – Public Works	This review will focus on the adequacy of controls in tendering, awarding and management of two to three selected contracts. Contract payments and other costs will be reviewed for supporting documents and reasonableness. Compliance with policies, procedures and contract terms and conditions will be assessed.
Grants	The City of Hamilton distributes grants to various outside bodies, some for specific projects and others for operating purchases. This review will include an assessment of the application evaluation process for awarding the grant and the measurement of success in meeting objectives and realizing benefits in the community.
Public Health – Specific Program	Continuing with Internal Audit's past practice of auditing selected programs in the Public Health area, a specific program will be chosen for review. The audit will assess compliance with legislative and reporting requirements as well as the effectiveness / efficiency of the current service delivery model including the administrative procedures for the particular program.
Bridge Maintenance Program	The audit will include a review of processes used for the maintenance of the City's bridges including inspections, records and inventories, methodology used for assigning maintenance priorities and rehabilitation contracts and oversight controls.

### 4. OTHER INITIATIVES

Audit Projects	Project Description
Risk Assessment	In order to assess the relative importance of potential audit areas and develop an audit work plan, the Director of Audit Services has relied on a detailed risk assessment exercise completed in 2007. Although audit standards recommend updating the assessment every year when developing the work plan, the process is very labour intensive and resources are not available on an annual basis to do such updating. However, five years have transpired since the last complete risk assessment and it is important to bring such assessment up to date with the many corporate and departmental changes that have occurred.
Quality Assurance – Audit Services Division	Internal auditing standards (Institute of Internal Auditors (IIA)) require the audit organizations following best practices established by the IIA undergo an external quality assurance review minimally every five years. The City's Audit Services Division underwent such a review in 2007 by Booker & Associates. The IIA allows smaller audit shops to collect and prepare review materials and seek a review by a third party assessor.



**APPENDIX "B"**  
**CITY OF HAMILTON – AUDIT SERVICES**  
**FUTURE POTENTIAL AUDITS AND PROJECTS**  
**(CURRENTLY DEFERRED)**

A formalized risk assessment was conducted in 2007/2008. Projects for the 2012 Internal Audit work plan were prioritized based on this risk assessment. The subjects listed below should be addressed but are being deferred due to the lack of adequate audit resources. Should future priorities, scheduling and resources allow, the projects noted below would be considered for future audit work.

- Information Security and Access Controls
- Information Technology Disaster Recovery and Business Continuity Planning
- Food Purchases – Homes for the Aged, Recreational Facilities
- Accounts Payable
- Accounts Receivable
- Payroll Processes
- Building Permits & Inspections
- Public Health Individual Programs – Compliance with Regulations and Policies, Internal and Financial Controls and Program Results (Not Previously Audited)
- Compensation Management Process
- Absenteeism
- Animal Control – Selected Aspect to be Determined
- Overtime
- Inventory / Asset Management
- Bank Reconciliations / Bank Deposits
- Succession Planning
- Farmers' Market – Revenue Sources
- Ethics
- Red Light Camera Program
- Golf Courses – Revenue Sources and Cash Handling
- Contract Administration for Fleet Services
- City's Website Management
- Dental Program Payments Process
- Hamilton Technology Centre
- Pan Am Stadium Project
- Homes for the Aged – Resident Fees
- Procurement – Compliance with New Policies & Procedures

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 are not currently the resources.

- Review of specific applications / sub-systems used within various operational areas of the City (e.g. Hansen, Amanda, Archibus, etc.).
- Development of a continuous monitoring program to identify, on an ongoing basis, transactions which are unusual based on set parameters for a subject area. These exceptions would then be subject to a detailed follow up process to prevent and detect potential fraud and address control risks and exposure.