



AUDIT, FINANCE AND ADMINISTRATION COMMITTEE REPORT 19-012

9:30 a.m.

September 5, 2019

Council Chambers

Hamilton City Hall

Present: Councillors C. Collins (Chair), M. Wilson, B. Clark, J. Partridge, M. Pearson, L. Ferguson and A. VanderBeek

Absent: Councillor B. Johnson – Personal

THE AUDIT, FINANCE AND ADMINISTRATION COMMITTEE PRESENTS REPORT 19-012, AND RESPECTFULLY RECOMMENDS:

1. Citizen Committee Report - Selection of Additional Committee Members to the Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Advisory Committee (Item 10.1)

That the Interview Sub-Committee to the Audit, Finance and Administration Committee reconvene to review original applicants for the 2018-2022 term, to the Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Advisory Committee to add up to 6 additional members, with a specific focus on increasing the diversity of the Committee and adding applicants who are young adults.

2. Office of the City Auditor Charter (AUD19005) (City Wide) (Item 10.2)

- (a) That Appendix “A” attached to Report AUD19005 respecting the Office of the City Auditor Charter be approved; and,
- (b) That legal staff be directed to prepare an amending by-law that would replace Schedule F1 of the Procedural By-law 18-270, with the revised Audit Charter, attached as Appendix “A” to Report AUD19005, respecting the Office of the City Auditor Charter.

3. Office of the City Auditor Work Plan 2019 to 2022 (AUD19007) (City Wide) (Item 10.3)

That Report AUD19007, respecting the Office of the City Auditor Work Plan 2019 to 2022, be approved.

4. Negotiation for the Continued Supply of Raw Water to 690 Strathearne Avenue North (FCS18049(c) / LS18014(a)) (Ward 4) (Item 14.1)

That the contents of Report FCS18049(c) / LS18014(a), respecting Negotiation for the Continued Supply of Raw Water to 690 Strathearne Avenue North remain confidential and not be released as a public document, except as necessary to implement Council's directions and at the discretion of the City Solicitor.

5. Budgeting and Forecasting (FCS19066) (City Wide) (Item 14.2)

That the contents of Report FCS19066, respecting Budgeting and Forecasting remain confidential and not be released as a public document except as necessary to implement Council's directions and at the discretion of the City Solicitor.

FOR INFORMATION:

(a) CHANGES TO THE AGENDA (Item 2)

The Committee Clerk advised of the following changes to the agenda:

1. DELEGATION REQUESTS (Item 6)

- 6.1 Violetta Nikolskaya, Vice-Chair of the LGBTQ Advisory Committee, respecting Item 10.1 Citizen Committee Report - Selection of Additional Committee Members to the Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Advisory Committee (For today's meeting)

The agenda for the September 5, 2019 Audit, Finance and Administration Committee meeting was approved, as amended.

(b) DECLARATIONS OF INTEREST (Item 3)

Councillor Clark declared an interest in Item 13.1(a), Amendments to the Outstanding Business List as he has a former professional relationship with Habitat for Humanity Hamilton.

(c) APPROVAL OF MINUTES OF PREVIOUS MEETING (Item 4)

(i) August 15, 2019 (Item 4.1)

The Minutes of the August 15, 2019 meeting of the Audit, Finance and Administration Committee were approved, as presented.

(d) DELEGATION REQUESTS (Item 6)

- (i) Violetta Nikolskaya, Vice-Chair of the LGBTQ Advisory Committee, respecting Item 10.1 Citizen Committee Report-Selection of Additional Committee Members to the Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Advisory Committee (For today's meeting) (Added Item 6.1)**

The delegation request from Violetta Nikolskaya, Vice-Chair of the LGBTQ Advisory Committee, respecting Item 10.1 Citizen Committee Report-Selection of Additional Committee Members to the Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Advisory Committee, was approved for today's meeting.

(e) PUBLIC HEARINGS / DELEGATIONS (Item 8)

- (i) Karin Dearness, Andy Stone, Philip Toms, and John Ariens respecting reimbursement of rezoning and development charges related to a laneway house at 390.5 Aberdeen Avenue, Hamilton (Ward 1) (Approved July 11, 2019) (Item 8.1)**

Karin Dearness, Philip Toms, and John Ariens addressed the Committee respecting reimbursement of rezoning and development charges related to a laneway house at 390.5 Aberdeen Avenue, Hamilton, with the aid of a presentation.

A copy of the presentation is available on the City's website at www.hamilton.ca or through the Office of the City Clerk.

The delegation from Karin Dearness, Philip Toms, and John Ariens, respecting reimbursement of rezoning and development charges related to a laneway house at 390.5 Aberdeen Avenue, Hamilton, was received.

That staff be directed to prepare a motion respecting the fees to be reimbursed through a Compassionate Grant equivalent to the value of the Development Charges, Rezoning Fees, and the Parkland Dedication Fees (less \$1,000.00), as it relates to 390.5 Aberdeen Avenue, Hamilton, for consideration by Council on September 11th, 2019.

- (ii) Violetta Nikolskaya, Vice-Chair of the LGBTQ Advisory Committee, respecting Item 10.1 Citizen Committee Report - Selection of Additional Committee Members to the Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Advisory Committee (Added Item 8.2)**

Violetta Nikolskaya, Vice-Chair of the LGBTQ Advisory Committee, addressed the Committee respecting Item 10.1 Citizen Committee Report - Selection of Additional Committee Members to the Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Advisory Committee.

The delegation from Violetta Nikolskaya, Vice-Chair of the LGBTQ Advisory Committee, respecting Item 10.1 Citizen Committee Report - Selection of Additional Committee Members to the Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Advisory Committee, was received.

For further disposition of this matter, refer to Items 1 and (f)(i).

(f) DISCUSSION ITEMS (Item 10)

(i) Citizen Committee Report - Selection of Additional Committee Members to the Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Advisory Committee (Item 10.1)

Citizen Committee Report - Selection of Additional Committee Members to the Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Advisory Committee, was received.

For further disposition of this matter, refer to Item 1.

(ii) Office of the City Auditor Charter (AUD19005) (City Wide) (Item 10.2)

The Chair advised that public notice was given respecting Report AUD19005, Office of the City Auditor Charter as it proposes amendments to Schedule F1 of the City of Hamilton Procedural By-law 18-270. There were no registered speakers and no one in attendance came forward to speak to the proposed changes.

For further disposition of this matter, refer to Item 2.

(g) GENERAL INFORMATION / OTHER BUSINESS (Item 13)

(i) Amendments to the Outstanding Business List:

The following amendments to the Audit, Finance & Administration Committee's Outstanding Business List, were approved:

(a) Items Requiring a New Due Date:

OBL Item: 19-K

Habitat for Humanity Hamilton - reduction of fees billed on the construction of affordable housing

Original Due Date: September 19, 2019

New Due Date: October 2019

(b) Items to be Removed:

OBL Item: C

Outstanding Uncompleted Audit Recommendations

Item 10.3 on today's agenda

(h) PRIVATE AND CONFIDENTIAL (Item 14)

Committee moved into Closed Session respecting Items 14.1 & 14.2, pursuant to Section 8.1, Sub-sections (e), (f) and (k) of the City's Procedural By-law 18-270, and Section 239(2), Sub-sections (e), (f) and (k) of the Ontario Municipal Act, 2001, as amended, as the subject matter pertains to litigation or potential litigation, including matters before administrative tribunals, affecting the municipality or local board; advice that is subject to solicitor/client privileges, including communications necessary for that purpose; and a position, plan, procedure, criteria or instruction to be applied to any negotiations carried on or to be carried on by or on behalf of the municipality or local board.

(i) Negotiation for the Continued Supply of Raw Water to 690 Strathearne Avenue North (FCS18049(c) / LS18014(a)) (Ward 4) (Item 14.1)

Staff were provided with direction in Closed Session.

For further disposition of this matter, refer to Item 4.

(ii) Budgeting and Forecasting (FCS19066) (City Wide) (Item 14.2)

Staff were provided with direction in Closed Session.

For further disposition of this matter, refer to Item 5.

(k) ADJOURNMENT (Item 15)

There being no further business, the Audit, Finance and Administration Committee, adjourned at 12:30 p.m.

Respectfully submitted,

Councillor Collins, Chair
Audit, Finance and Administration
Committee

Angela McRae
Legislative Coordinator
Office of the City Clerk

**CITY OF HAMILTON
OFFICE OF THE CITY AUDITOR CHARTER**

INTRODUCTION

The Office of the City Auditor provides independent, objective audit assurance and consulting services designed to add value and improve the City of Hamilton’s operations. The Office of the City Auditor (OCA) brings a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

In the capacity of Auditor General, the City Auditor assists City Council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in City operations.

SCOPE

The Office of the City Auditor completes the following types of work:

- Compliance Auditing
- Value for Money Auditing
- Special Investigations (Fraud and Waste, Whistleblower)
- Risk assessments
- Consulting

The first three activities are conducted by the Office in its capacity as Auditor General.

Audit Assurance and Special Investigations

Audit and Assurance work includes the examination and evaluation of the adequacy and effectiveness of the City’s governance, risk management process, systems of internal control and the quality of performance in carrying out assigned responsibilities to achieve the organization’s goals and objectives. This includes both compliance and value for money audits. The City’s processes should function in a manner that ensures:

- Risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable and timely.
- Actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently and are adequately protected.
- Programs, plans and objectives are achieved.

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- Significant legislative and regulatory issues impacting the City are recognized and addressed properly.
- Quality and continuous improvement are fostered in the organization’s internal control processes.

In addition to audits, special investigations may be undertaken by the OCA pursuant to Council having given that authority under the Whistleblower By-law (19-181) and the City of Hamilton’s Fraud Policy and Protocol. These include reviews or investigations of matters of alleged or suspected wrongdoing, per the Whistleblower By-law or fraud, waste or other similar activities reported by employees or residents through the Fraud and Waste Hotline or other mechanisms.

The City Auditor has been appointed by By-law 19-180 (City Auditor By-law) as an Auditor General under Section 223.19 of the *Municipal Act, 2001*, with the responsibilities, including the powers, duties and protections, under Sections 223.19 to 223.23 of the *Municipal Act, 2001*. These responsibilities apply to the extent authorized by these sections of the *Municipal Act, 2001*. The powers and protections provided to the City Auditor (by appointment as an Auditor General) strengthens the position of independence and institutional authority of the City Auditor while providing information to Council for its oversight role.

Consulting and Risk Assessment

In addition to audit engagements, the Office of the City Auditor provides advisory or other consulting services, as planned, or at the request of Council or senior management. These types of services may include:

- Risk assessments and related workshops;
- Performing research;
- Providing education/training on audit related topics such as risk management, fraud awareness, performance measurement and internal controls;
- Performing Lessons Learned/Opportunities Assessments on project/program implementations that have experienced difficulties or challenges; and
- Providing counsel or advice (e.g. on the adequacy of draft procedures).

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AUTHORITY

The Office of the City Auditor is granted full, free and unrestricted access to any and all records, property and personnel relevant to any function under review. Access to personal information is provided for under the *Municipal Freedom of Information and Protection of Privacy Act* (in particular, Subsections 31(c) and 32(d)).

The OCA has the authority to conduct audits and reviews of all City departments, Members of Council, agencies, boards and commissions, as well as other entities the City is related to or has an interest in.

All employees will assist the OCA in fulfilling its objectives.

As an Auditor General, the OCA has the responsibilities, including the powers, duties and protections, under Sections 223.19 to 223.23 of the *Municipal Act, 2001* for:

- City Departments;
- Members of Council;
- Local boards (not including the Board of Health, the Hamilton Public Library Board, the Police Services Board or other local boards in accordance with the current definition of "local board" under Section 223.1 of the *Municipal Act, 2001*);
- Municipally-controlled corporations (a corporation that has 50 per cent or more of its issued and outstanding shares vested in the City or that has the appointment of a majority of its board of directors made or approved by the City, not including a corporation established in accordance with Section 203 of the *Municipal Act, 2001*); and
- Grant recipients (as currently defined under Section 223.1 of the *Municipal Act, 2001* as "a person or entity that receives a grant directly or indirectly from the municipality, a local board or a municipally-controlled corporation");

These responsibilities under Section 223.19 to 223.23 of the *Municipal Act, 2001* include the powers to access information and to examine persons under Section 33 of the *Public Inquiries Act, 2009*; the duty to preserve secrecy with respect to all matters that come to its knowledge in the course of performing its functions; and the protection of not being a competent or compellable witness in a civil proceeding.

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The relevant excerpts from the Municipal Act (accessed on July 16, 2019 at <https://www.ontario.ca/laws/statute/01m25#BK272>) are included below for reference:

Auditor General

223.19 (1) *Without limiting sections 9, 10 and 11, those sections authorize the municipality to appoint an Auditor General who reports to council and is responsible for assisting the council in holding itself and its administrators accountable for the quality of stewardship over public funds and for achievement of value for money in municipal operations. 2006, c. 32, Sched. A, s. 98.*

Same

(1.1) *The Auditor General shall perform his or her responsibilities under this Part in an independent manner. 2009, c. 33, Sched. 21, s. 6 (11).*

Exceptions

(2) *Despite subsection (1), the responsibilities of the Auditor General shall not include the matters described in clauses 296 (1) (a) and (b) for which the municipal auditor is responsible. 2006, c. 32, Sched. A, s. 98.*

Powers and duties

(3) *Subject to this Part, in carrying out his or her responsibilities, the Auditor General may exercise the powers and shall perform the duties as may be assigned to him or her by the municipality in respect of the municipality, its local boards and such municipally-controlled corporations and grant recipients as the municipality may specify. 2006, c. 32, Sched. A, s. 98.*

Grant recipients

(4) *The authority of the Auditor General to exercise powers and perform duties under this Part in relation to a grant recipient applies only in respect of grants received by the grant recipient directly or indirectly from the municipality, a local board or a municipally-controlled corporation after the date on which this section comes into force. 2006, c. 32, Sched. A, s. 98.*

Delegation

(5) *The Auditor General may delegate in writing to any person, other than a member of council, any of the Auditor General's powers and duties under this Part. 2006, c. 32, Sched. A, s. 98.*

Same

(6) *The Auditor General may continue to exercise the delegated powers and duties, despite the delegation. 2006, c. 32, Sched. A, s. 98.*

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Status

(7) The Auditor General is not required to be a municipal employee. 2006, c. 32, Sched. A, s. 98.

Duty to furnish information

223.20 *(1) The municipality, its local boards and the municipally-controlled corporations and grant recipients referred to in subsection 223.19 (3) shall give the Auditor General such information regarding their powers, duties, activities, organization, financial transactions and methods of business as the Auditor General believes to be necessary to perform his or her duties under this Part. 2006, c. 32, Sched. A, s. 98.*

Access to records

(2) The Auditor General is entitled to have free access to all books, accounts, financial records, electronic data processing records, reports, files and all other papers, things or property belonging to or used by the municipality, the local board, the municipally-controlled corporation or the grant recipient, as the case may be, that the Auditor General believes to be necessary to perform his or her duties under this Part. 2006, c. 32, Sched. A, s. 98.

No waiver of privilege

(3) A disclosure to the Auditor General under subsection (1) or (2) does not constitute a waiver of solicitor-client privilege, litigation privilege or settlement privilege. 2006, c. 32, Sched. A, s. 98.

Powers re examination

223.21 *(1) The Auditor General may examine any person on oath on any matter pertinent to an audit or examination under this Part. 2006, c. 32, Sched. A, s. 98.*

Application of Public Inquiries Act, 2009

(2) Section 33 of the Public Inquiries Act, 2009 applies to an examination by the Auditor General. 2009, c. 33, Sched. 6, s. 72 (3).

Duty of confidentiality

223.22 *(1) The Auditor General and every person acting under the instructions of the Auditor General shall preserve secrecy with respect to all matters that come to his or her knowledge in the course of his or her duties under this Part. 2006, c. 32, Sched. A, s. 98.*

Same

(2) Subject to subsection (3), the persons required to preserve secrecy under subsection (1) shall not communicate information to another person in respect of any matter described in subsection (1) except as may be required,

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*(a) in connection with the administration of this Part, including reports made by the Auditor General, or with any proceedings under this Part; or
(b) under the Criminal Code (Canada). 2006, c. 32, Sched. A, s. 98.*

Same

(3) A person required to preserve secrecy under subsection (1) shall not disclose any information or document disclosed to the Auditor General under section 223.20 that is subject to solicitor-client privilege, litigation privilege or settlement privilege unless the person has the consent of each holder of the privilege. 2006, c. 32, Sched. A, s. 98.

Section prevails

(4) This section prevails over the Municipal Freedom of Information and Protection of Privacy Act. 2006, c. 32, Sched. A, s. 98.

Testimony

223.23 *Neither the Auditor General nor any person acting under the instructions of the Auditor General is a competent or compellable witness in a civil proceeding in connection with anything done under this Part. 2006, c. 32, Sched. A, s. 98.*

INDEPENDENCE

Independence is an essential component to maintaining public trust and preserving objectivity and integrity associated with the audit function.

To provide for the independence of Office of the City Auditor, its personnel report to the City Auditor, who reports administratively to the City Manager and functionally to the Audit, Finance and Administration Committee of Council. Audit and other reports are sent directly to the Audit, Finance and Administration Committee for discussion and approval and then to Council. These reporting relationships help ensure independence, promote comprehensive audit objectivity and coverage and assure adequate consideration of audit recommendations.

All OCA activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of an independent and objective attitude necessary in rendering reports. The City Auditor has the authority to revise and extend the scope of any audit or investigation in the course of their examination.

The OCA shall have no direct operational responsibility or authority over any of the activities it reviews. Accordingly, it shall not develop nor install systems or procedures, prepare records or engage in any other activity which would normally be audited.

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RESPONSIBILITIES

The City Auditor and the staff of the OCA have the responsibility to:

- Review operations within the City at appropriate intervals to determine whether planning, organizing, directing and controlling are in accordance with management instructions, policies and procedures and in a manner that is consistent with both City objectives and high standards of administrative practice.
- Determine the adequacy and effectiveness of the systems of internal accounting, financial and operating controls.
- Review the reliability, utility and integrity of financial information and the means used to identify, measure, classify and report such information.
- Review the established systems to ensure compliance with those policies, plans, procedures, laws and regulations which would have a significant impact on operations and reports and determine whether the organization is in compliance.
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- Carry out value for money (VFM) / performance audits to determine the efficiency and effectiveness of services and evaluate attainment of corporate objectives and value to residents.
- Report to those members of management who should be informed or who should take corrective action, the results of audit examinations, the audit opinions formed, and the recommendations made.
- Evaluate any plans or actions taken to correct reported conditions and provide timely follow-up to ensure satisfactory disposition of audit findings in the manner and timeframe committed to by management in the original audit report. If the corrective action is considered unsatisfactory, hold further discussions to achieve acceptable disposition.
- Develop a flexible multi-year work plan, including any risks or control concerns identified by management or other audits as well as appropriate special tasks or projects requested by management.
- Undertake assessments, investigations, or refer issues to other appropriate parties as a result of disclosures under a Whistleblower By-law or the Fraud and Waste Hotline.

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- Maintain a professional audit staff with sufficient knowledge, skills and experience.

AUDIT PLANNING

Each term of Council, the City Auditor shall prepare a multi-year work plan, setting out the proposed work for the term.

For the projects, the following sources are considered:

- Prioritization of the audit universe using a risk-based methodology;
- Requests from Members of Council, senior management and staff;
- Any audits planned for the past term but delayed or not completed;
- Any conditions or concerns discovered or communicated throughout past years; and
- Input from members of the public, via the Fraud and Waste Hotline and resident complaints or suggestions.
- Areas likely to provide significant payback in terms of increased revenues, reduced costs, operational efficiencies and quality of services.

The multi-year work plan will be presented to the Audit, Finance and Administration Committee for approval. Any changes to the work plan requested by Council or individual Members of Council will require a majority of at least two-thirds the total members of Council present and not prohibited by statute from voting for the City Auditor to consider.

REPORTING

A written report is prepared and issued by the City Auditor following the conclusion of each audit assurance project. The report will include management’s responses to the report findings and recommendations. Management’s response will include a statement of general agreement or disagreement with the stated findings and recommendations as well as a timeframe for anticipated completion of action to be taken and an explanation for any recommendation not addressed.

The OCA is responsible for appropriate follow up on audit findings and recommendations. All significant findings will remain open until the City Auditor has determined management has appropriately taken action to resolve the finding.

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By-law 19-181 (Whistleblower By-law), Section 19 – Responsibility of the City Auditor requires a quarterly report for, in the aggregate, on the number, nature and outcome of disclosures of serious wrongdoing made under this By-law. Quarterly reports known as "Whistleblower, Fraud and Waste Information Updates" are submitted to the Audit, Finance and Administration Committee and capture at a high level the special investigations activity undertaken by the OCA.

Consulting and risk assessment project reports are issued at the discretion of the City Auditor. Considerations for reports include project size and type, topic, risk profile and organizational impact.

All reports are generally presented to the Audit, Finance and Administration Committee. Reports may be presented to the General Issues Committee, if appropriate.

PROFESSIONAL STANDARDS

Under the City Auditor's authority granted in this Office of the City Auditor Charter, all OCA activity will be guided by the following professional standards and/or legislative requirements:

- Municipal Act, Sections 223.19-223.23 (Auditor General), as applicable.
- City of Hamilton Whistleblower By-law (19-181).
- International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, for research and general consulting work.
- Certified Fraud Examiners Code of Professional Standards issued by the Association of Certified Fraud Examiners for Fraud, Waste and Whistleblower assessments and investigations.

When working as an Auditor General performing audit assurance engagements, work activities will be guided by professional standards and/or legislative requirements, as applicable.

Audit Services professional staff are also bound by the standards and ethics of their respective professional organizations, which include the Chartered Professional Accountants of Canada (CPA), Institute of Internal Auditors (IIA) and Association of Certified Fraud Examiners (ACFE).



CITY OF HAMILTON
CITY MANAGER'S OFFICE
Office of the City Auditor

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	September 5, 2019
SUBJECT/REPORT NO:	Office of the City Auditor Work Plan 2019 to 2022 (AUD19007) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Charles Brown CPA, CA, CPA (Illinois) (905) 546-2424 Ext. 4469 Brigitte Minard CPA, CA, CIA, CGAP (905) 546-2424 Ext. 3107
SUBMITTED BY: SIGNATURE:	Charles Brown CPA, CA, CPA (Illinois) City Auditor Office of the City Auditor

RECOMMENDATION(S)

- (a) That Report AUD19007 respecting the Office of the City Auditor Work Plan 2019 to 2022, be approved.
- (b) That the item regarding the follow up of outstanding recommendations older than five years be removed from the Outstanding Business List.

EXECUTIVE SUMMARY

The Office of the City Auditor develops a work plan which outlines the scope of work the Office intends to conduct during a defined time period. Previously a three-year work plan was submitted, this is a four-year, term of Council work plan for 2019-2022. The work plan is based on an updated risk assessment of all the services identified in the City's Trust and Confidence Report (www.hamilton.ca/trustandconfidence).

In addition, inquiries, input from Council members, consultation with senior management and staff, observations made by audit staff during other audits and

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reviews of audits conducted in other municipalities are also taken into consideration. Various risk factors and related criteria were considered to prioritize the various projects.

As noted in our 2019 budget presentation (as part of the City Manager's Office presentation), the Office of the City Auditor completes the following types of work:

- Compliance Auditing
- Value for Money Auditing
- Special Investigations (Fraud and Waste, Whistleblower)
- Risk assessments
- Consulting

The first three activities are conducted by the Office in its capacity as Auditor General. Please refer to the attached Appendix "A" for a description of each of the above services.

Alternatives for Consideration – See Page 4

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The recommendation in this Report has no financial impact beyond the amount provided in the Office of the City Auditor's 2019 budget request. If speciality, external expertise is needed, requests for Council approval will be submitted as required.

Staffing: The Work Plan has been developed based on the current approved complement.

Legal: None.

HISTORICAL BACKGROUND

According to the current Council-approved Audit Charter, the City Auditor (formerly known as Director of Audit Services) is required to prepare a Work Plan for Council approval. The Plan describes projects and related work proposed. It also provides City Council with an overview of how resources in the Office of the City Auditor will be used during 2019-2022.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Municipal Act, sections 222.19 to 223.23

Office of the City Auditor Charter (AUD19005)

City of Hamilton By-law 19-180 (City Auditor By-law)

City of Hamilton Fraud Policy and Protocol

City of Hamilton By-law 19-181 (Whistleblower By-law)

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RELEVANT CONSULTATION

Members of Council, departmental management and staff were asked to provide input for the work plan.

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

Management Responsibility and Council Oversight

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.

The Office of the City Auditor assists Council and management in meeting their governance, oversight and internal control responsibilities by carrying out projects and audits with the goal of enhancing internal controls 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 to Council as Part of Effective Oversight

Reporting project findings, audit results and management action plans to the Committee is an important step in the Committee's role for the effective oversight of the control environment and culture and promotes accountability and transparency with City Council.

Follow up of recommendations are also important to ensure that management has taken appropriate action to implement recommendations identified in previous reports and improvements have been realized as a result. Auditing standards require that an audit follow up process to determine the status of outstanding audit recommendations be administered. However, the methodology, timing and frequency are not prescribed. A portion of the available time is set aside to conduct the initial follow up of audit and other project reports issued within the last 12-36 months. This process provides management and Council with a snapshot of the progress of implementation.

In previous years, the practice has been to have formal follow-ups that validate all recommendations as to actions taken, an annual report of the status of all report recommendations, and a special report of outstanding recommendations older than five years. In order to streamline these reporting mechanisms and ensure sufficient resources to carry out hotline related activities and audit work, the OCA proposes that formal follow-ups be focused on validation of management actions listed as completed, and be sample based, and that the special report on older five-year recommendations be eliminated and only included in the annual status report.

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Flexibility of Work Plan

Due to the nature of work that the Office performs, special projects and investigations can arise without much notice, so it is important for the work of the Office of the City Auditor to remain flexible in order to provide the timeliest service to Council and management. At the same time, there should be a logically structured work plan to focus scarce resources on major areas of concern and risk, and to balance coverage across the types of services delivered. The Work Plan serves as a standard against which to measure the performance of the Office.

If Demand Exceeds Available Resources

Should the special requests and investigations exceed the level estimated for the work plan, it will be necessary to defer the timelines of projects included in the work plan. Any deferrals will be reported to the Committee as part of an annual Work Plan Update (detailing any revisions to the plan) submission. However, should scheduling and resources allow, projects from the “B” list (Appendix “B” to Report AUD19007) would be considered for additional completion or substitution in the 2019-2022 work plan, or the timing of projects may be earlier than indicated in the plan.

The extent of completion of the projects will be dependent on the approval of the Office’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 years.

Impact of Fraud and Waste Hotline

The Fraud and Waste Hotline launched in July 2019. At this point in time, volumes are unknown as the Hotline has been operational for a short period of time. It is the same pool of staff that handles fraud and waste hotline assessment and intake and completes audit work.

Impact of Judicial Investigation

The Office of the City Auditor anticipates some involvement in the judicial investigation for the Red Hill Valley Parkway to share information and support such work; however, the extent of the Office’s involvement and the associated time commitment is not known at this time.

Plan will Improve Overall Operations of the City

The Office of the City Auditor believes that the proposed work plan provides a balance of work that, once completed, will result in improving the overall operations of the City by proactively identifying and assessing risks, strengthening management controls, improving accountability and transparency and helping the Audit, Finance and Administration Committee with its governance and internal control oversight role.

ALTERNATIVES FOR CONSIDERATION

The Committee can decide to add/delete/replace projects from the proposed work plan, taking into consideration resource limitations or preferred alternatives. Also, the current Audit Charter requires a majority of at least two-thirds the total members of Council present to make any changes to the proposed work plan once it is approved. Any significant changes resulting in increased time commitments will require a reallocation of 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.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report AUD19007 - Office of the City Auditor Work Plan 2019 to 2022

Appendix “B” to Report AUD19007 - Proposed Projects for Subsequent Years

**CITY OF HAMILTON
OFFICE OF THE CITY AUDITOR WORK PLAN 2019 to 2022**

PROJECTS IN PROGRESS

The following projects are in progress and should be completed by the end of 2019:

- Road Operations and Construction Programs (Value for Money Audit)
- Child Care Risk Assessment
- Child Care Management - Operator Compliance Assessments (Consulting)
- Storm Water Management (Value for Money Audit, will be completed in 2020)
- LRT – Initial Risk Assessment Consulting
- Grifftmire Arena – Lessons Learned Consulting Project
- Hamilton Future Fund (Compliance and Value for Money Audit)

PROPOSED PROJECTS FOR 2019 to 2022

- Red Hill Valley Parkway: Judicial Investigation Participation (Other)
- Financial Sustainability (Research Report)
- Housing Services: Homeless and Shelter Programs (Value for Money Audit)
- Housing Services (Value for Money Audit or Risk Assessment)
- Diversity, Equity and Inclusion (Consulting or Audit)
- Code Red (Value for Money Audit)
- Grants and Transfer Payments (Compliance and Value for Money Audit)
- Hamilton Waterfront Trust (Value for Money Audit)
- Transit Route Management (Value for Money Audit)
- Budget Process and Variance Management (Audit or Consulting, to be determined after initial research)
- Cybersecurity (Audit or Risk Assessment, to be determined after initial research)
- IT Disaster Recovery/Business Continuity Planning (Compliance Audit)
- Growth Planning: Coordination Across City of Hamilton Departments (Consulting)
- Use of City Vehicles Audit (Value for Money Audit)

ONGOING PROJECTS THROUGHOUT 2019 to 2022

- Light Rail Transit (LRT) (Risk Assessment/Consulting)
- Enterprise Risk Management (Risk Assessment/Consulting)
- Transit: DARTS (Audit, type to be determined)
- Performance Excellence Advice and Education (Consulting)
- Continuous Auditing - Various Topics (Compliance Auditing)
- Follow Up of Recommendations from Previous Audit Reports (Audit)
- Spot Cash Counts (Audit and Fraud Prevention)
- Organization-Wide Fraud Prevention and Detection Program: Intake, Investigation and Reporting (Fraud and Waste Hotline management)

WORK PLAN DETAILS

Background

The risk-based Office of the City Auditor Work Plan for the current Council Term (2019-2022) was developed using a risk assessment process that combined information from many sources, including:

- Risk assessment of City Services using a standard set of attributes (complexity of operations, susceptibility to error, manipulation or fraud, asset profile, community trust/confidence, degree of change, financial, non-compliance).
- Input from the Corporate Leadership Team (Directors, GM's and City Manager)
- Input/insights from Council
- Current and emerging risks in the Local Government Sector
- High profile issues in other Municipalities
- Themes from previous projects

Types of Work Performed

The Office of the City Auditor performs the following types of work:

Audits (Value for Money and Compliance)

Audits are designed to add value and improve an organization's operations. Audits help an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve risk management, control, governance processes and examine the efficiency, effectiveness and economy of operations to add value and improve the City of Hamilton's service delivery.

Consulting and Risk Assessment

- Conducting risk assessments and related workshops/facilitated exercises to proactively identify risks and risk mitigations so that risks can be managed appropriately;
- Performing research;
- Providing education/training sessions on audit related topics such as risk management, fraud awareness, internal controls, continuous improvement or performance measurement;
- Providing professional advice on relevant issues; and
- Performing Lessons Learned/Opportunities Assessments on project/program implementations that have experienced difficulties or challenges.

In addition to these planned activities the OCA is responsible for providing oversight of all special investigations conducted by the City to ensure quality and independence. Special investigations are not planned activities but are responsive to need. They are undertaken by the OCA pursuant to authorities given under the Whistleblower By-law (19-181) and the City of Hamilton's Fraud Policy and Protocol. These include reviews or investigations of matters of alleged or suspected wrongdoing, per the Whistleblower By-law or fraud, waste or other similar activities reported by employees or residents through the Fraud and Waste Hotline or other mechanisms.

Also, the OCA performs follow-up audits that are conducted within 12-36 months of the initial audit and an annual report of the completion status of management action plans. These activities require that a portion of resource time be set aside as well.

PROPOSED PROJECTS FOR 2019-2022**Red Hill Valley Parkway: Judicial Investigation Participation (Other)**

Support of the judicial investigation for Red Hill Valley Parkway as requested by the Commissioner.

Timeline: 2019-2020 (or until completed)

Financial Sustainability (Research Report)

One of the biggest challenges facing Canadian municipalities is long-term financial sustainability. This is a research-focused consulting project that would research best practices across North American municipalities assess current practices at the City of Hamilton. Recommendations will be made to enhance the City of Hamilton's long-term financial sustainability.

Timeline: 2020

Housing Services: Homeless and Shelter Programs (Value for Money Audit)

Audit of contracts for the provision of emergency shelter services and homelessness programs to determine if value for money is being achieved, with a focus on the achievement of outcomes (effectiveness).

Timeline: 2020

Housing Services (Value for Money Audit or Risk Assessment)

An audit or risk assessment in the area of Housing Services, with the specific topic and type of project to be determined after initial research is completed.

Timeline: 2022

Diversity, Equity and Inclusion (Consulting or Audit, TBD)

A project that includes a research component that benchmarks for best practices in other leaders in this work in the MASH (municipalities, academic, school and hospital) sector. Compare the City's strategy to these benchmarks and assess progress made and effectiveness of efforts.

Timeline: 2021

Code Red (Value for Money Audit)

It has been 10 years since Code Red first identified challenges in various neighbourhoods across the city. This audit will assess the volume of spending the city has invested in addressing Code Red Concerns and ask questions such as: what has been the impact of this investment – are we getting value and good outcomes and consider the risks and opportunities of this investment.

Timeline: 2022

Grants and Transfer Payments (Compliance and Value for Money Audit)

An audit that will critically consider all the City's various grant and transfer payment programs. Once initial planning work is completed, the project scope will be narrowed to focus on the highest risk payment streams at the City.

Timeline: 2021

Hamilton Waterfront Trust (Value for Money Audit)

An audit to determine if there are ways to improve the value for money achieved from the City's investment and spending at the Hamilton Waterfront Trust, with a focus on future performance improvements that can be achieved.

Timeline: 2020

Transit Route Management (Value for Money Audit)

An audit to critically assess if transit route management is optimized from a value for money perspective.

Timeline: 2022

Budget Process and Variance Management

(Audit or Consulting, to be determined after initial research)

Common complaints are that the budget process is difficult to understand and evaluate, it is hard to link actuals to budget. This is an audit to evaluate the efficiency and effectiveness of the budget process. Service based budgeting will also be considered in the audit. Recommendations will be made improve engagement and understanding of the budget process.

Timeline: 2021

Cybersecurity (Audit or Risk Assessment, TBD)

Cybersecurity attacks are becoming more and more common. This is a project that will include penetration testing to determine where the City's key vulnerabilities are located.

Note: Additional funding may be required to engage the required external experts.

Timeline: TBD

IT Disaster Recovery/Business Continuity Planning (Compliance Audit)

IT is critical to the City's operations in all service areas. Includes a review of the organization's disaster recovery plan, evaluates the risks covered, and assess if the plan includes appropriate measures to enable recovery from threats or incidents.

Timeline: TBD

Growth Planning: Coordination Across City of Hamilton Departments (Consulting)

Growth Planning is complex and involves expertise across the organization. This audit will include reviewing related processes and assessing if the City organizes itself in a manner that enables the achievement of value for money spent in Growth Planning.

Timeline: 2022

Use of City Vehicles Audit (Value for Money Audit)

An audit of the processes related to the usage of City vehicles. There have been significant advances in technology in recent years for GPS technology and fleet administration. The effectiveness of oversight, management processes and the use of technology will be examined.

Timeline: TBD

ONGOING PROJECTS THROUGHOUT 2019-2022**Follow Up of Outstanding Recommendations from Previous Audit Reports**

Type: Audit (Follow Up)

This work relates to the verification of the status of the implementation of audit recommendations from audit reports issued. The *International Standards for the Professional Practice of Internal Auditing* requires the follow up of recommendations made.

This work includes both follow up of individual audit reports and recommendations from various reports that have not yet been resolved by Management.

Timeline: Throughout 2019-2022.

Spot Cash Counts

Type: Audit & Fraud Prevention

A type of "pop-up" audit. Cash counts will occur at a select number of locations across all operations to ensure compliance with the City's Corporate Cash Handling Policy, safeguard assets and act as a deterrent. Five to ten locations will be selected for this project per year. An overall report about the state of cash handling in the organization will be provided.

Timeline: Throughout 2019-2022, reported on annually.

Organization-Wide Fraud Prevention and Detection Program:

Intake, Investigation and Reporting (Fraud Prevention & Detection)

Development and implementation of a comprehensive fraud prevention and detection program. Includes developing and providing education/training to the organization, investigation support, case documentation and management and maintaining a roster of fraud/forensic accounting specialists. Management of the Fraud and Waste Hotline that was launched in July 2019.

Timeline: 2019-2022

LRT (Risk Assessment/Consulting)

Working with the LRT Office, periodic risk assessments will be conducted throughout the lifespan of the LRT to assist the project to ensure that risks and opportunities are identified, and that management has action plans in place to manage, mitigate or avoid risks and realize benefits from opportunities.

Timeline: 2019-2022

Enterprise Risk Management (Risk Assessment/Consulting)

Raising awareness in the organization about the importance of enterprise risk management throughout the organization by providing educational sessions to support the development of a corporate risk profile and related corporate policy by management by enabling management to complete risk self-assessments and to develop corresponding action plans.

Timeline: 2021 (Support the development of a corporate risk profile and action plans by management.)

Note: *Requires significant time commitment from the Senior Leadership Team.*

Transit: DARTS (Audit)

Council provided direction in 2017 to conduct an annual audit of DARTS. Specified procedures audits will be performed.

This audit may be co-sourced and would need to be funded by the Transit Division. Dependent on funding being received from Transit. This item is pending the completion of a Master Operating Agreement between the City and DARTS.

Topics may include: Complaints, dispatch, ridership accuracy compared to demand, DARTS budgeting, benchmarking against other jurisdictions, vehicle maintenance, service model evaluation.

Timeline: 2019-2022

Performance Excellence Advice and Education (Consulting/Lessons Learned)

Continuous Improvement, Performance Measurement, Citizen Feedback

Advice and support to ongoing corporate performance excellence initiatives. Work may include giving educational presentations to staff/management meetings about the importance of internal controls, business procedures and a consistent work product.

Other activities may include support to assist with data analysis using audit analytics software and assisting departments with performing control self-assessments to identify areas for improvement. Also provide commentary on lessons learned for how to apply this approach to other areas in the organization.

Timeline: 2019-2022

Continuous Auditing - Various Topics (Audit)

Topics may include procurement cards, accounts payable, corporate cell phones. Continuous auditing is ongoing monitoring that leverages technology to flag potential anomalies and/or high-risk items.

Note: *Investment in software licenses for monitoring technology may be required in the future.*

DEFERRED PROJECTS

The following audits were included in the 2016-2018 Work Plan. Due to a high proportion of staff vacancies (7 vacancies at various points during 2016-2019) in the Office of the City Auditor, these projects will be carried over for completion in 2019-2022.

Development and Growth - Incentive Programs (Value for Money Audit)

To be combined into a broader Grants/Transfer Payments audit noted on page 5.

Procurement By-law Analysis (Consulting)

A data-driven project with the purpose of taking the Procurement By-law and designing procedures for how to effectively analyze procurement data using audit analytics software to effectively identify risks, irregularities and non-compliance with the procurement by-law. The goal will be to develop reports that can easily be run on a regular basis based on criteria developed during the project so that Procurement is able to follow up in a timely manner with the various Divisions.

Timeline: 2020

Quality Assessment Review (QAR) (Other)

To comply with Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing, it is required that internal audit shops have independent quality assessments every five years. The most recent assessment occurred in 2012. This item is dependent on receiving adequate budget to have a QAR performed.

Timeline: 2021

Audit Universe Update and Risk Assessment (Risk Assessment)

A full-scale update of the audit universe and a related risk assessment is typically performed every five years with an update performed during the other years. The most recent full-scale audit universe update and risk assessment occurred in 2012.

Timeline: 2022

DELETED PROJECTS

The following projects were included in the 2016-2018 Work Plan. Due to changing circumstances, risks and corporate priorities, some of these projects have been moved to the "B"-List (Appendix "B" to Report AUD19004) and will be considered for completion in future years and some have been removed from consideration due to the volume of other higher priority items, proposed changes in municipal service offerings. Management is still responsible to ensure the provision of these services in an appropriate manner.

AODA (Accessibility Standards for Customer Service Compliance, Human Resources Integrated Accessibility Standards (IAS) for Employment Compliance, Built Environment Compliance)
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Emergency Management - Compliance with Legislated Requirements
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Environmental Services

Hamilton Police Service

Hamilton Public Library

Human Resources - Performance Accountability & Development System

Public Health Services - Chronic Disease and Injury Prevention Division

Real Estate - Expropriations

Security and Safety at City Facilities
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Staffing and Available Hours

This plan reflects the current Council-approved funding. Additional staff may be required if the risk profile changes significantly or if there is an increased demand for audit services, including significant volume for the recently launched Fraud and Waste Hotline. Value for money audits and risk assessments take longer to complete than traditional compliance audits, so fewer projects are included on this work plan compared to previous plans.

The portfolio of work executed includes work plan projects, special requests received during the year, advice and education to audit clients on internal controls, new corporate initiatives, emerging issues audit research, maintaining the Office of the City Auditor's work methodology and audit planning.

Experience has shown that throughout the year unanticipated requests for audit resources arise from Council and management. The work plan sets a portion of time aside to meet such requests. Time is also set aside to conduct fraud/waste/whistleblower assessments and investigations, as the same pool of staff that carries out the projects in the work plan carry out such work.

Timelines

Timelines to complete projects are estimates only. Risk Assessments and consulting projects require significant participation from management to identify risks, agree on issues and provide management action plans. For any project, if management does not provide information in a timely manner, it is challenging to achieve the planned timelines.

Annual Update

Since this is a longer-term audit plan, an update of this plan may be provided to the Audit, Finance and Administration Committee at least once per calendar year.

APPENDIX "B"
CITY OF HAMILTON – OFFICE OF THE CITY AUDITOR
PROPOSED PROJECTS FOR SUBSEQUENT YEARS

Projects for the 2019 to 2022 Office of the City Auditor Work Plan are listed on "Appendix A". However, there are many service areas which should be addressed but, due to the limitations in available staff hours, could not be accommodated in the 2019 to 2022 work plan. These projects will be re-evaluated annually to ensure continued relevance and priority and will be considered in subsequent years. Should 2019 to 2022 scheduling or resources allow, the projects noted below would be considered for possible completion in the current term of Council. Any projects previously included on a "B" List but not included on this list are no longer considered priority areas for work.

- Absenteeism and Attendance Management (Fire, EMS, Police)
- Asset Management
- By-law Enforcement
- Capital Project Management
- Capital Works Projects - Quality Management
- City-wide Vehicle Fleet Management
- Development Approvals
- Development Charges
- Employee Benefits
- EMS/Fire Resource Management
- Forestry - Street Tree Program
- Growth Management - Quality management of new development infrastructure
- Housing - Rent Supplement Programs
- IT Asset Management
- IT Risk Assessment
- IT Service Desk
- Organic Waste Management and Recycling
- Procurement
- Real Estate Management, including land sales
- Security and Safety at City Facilities
- Sick leave/disability payments and case management

- Social Services (OW, Support Services, Discretionary Benefits) - Intake and Payment Processes
- Waste Management
- Wastewater Management