

CITY OF HAMILTON

CITY MANAGER'S OFFICE
Audit Services Division

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| TO: Chair and Members Audit, Finance and Administration Committee | WARD(S) AFFECTED: CITY WIDE |
| COMMITTEE DATE: January 17, 2013 | |
| SUBJECT/REPORT NO: 2013 Internal Audit Work Plan (AUD13001) (City Wide) | |
| SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office | PREPARED BY: Ann Pekaruk 905-546-2424 x4469 |
| SIGNATURE: | |

RECOMMENDATION

That Appendix "A" attached to Report AUD13001, respecting the 2013 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. For 2013, the work plan is based on a risk assessment carried out on key services identified in the Service Delivery Review. In addition, inquiries, prior Council direction, consultation with 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 and related criteria were considered to prioritize the various projects.

The 2013 Internal Audit Work Plan is a combination of annual recurring projects and new audits and other initiatives. It also includes two formal follow up type processes to ensure recommendations contained in previously issued audit reports have been implemented. The Work Plan is attached as Appendix "A" to this Report AUD13001.

Appendix “B” of Report AUD13001 provides a listing of other areas of high or moderately high risk or specific initiatives which are being deferred due to limitations in available staff hours.

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 2013 budget request.

Staffing: None.

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 2013.

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. Audit Services 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. In addition, an annual follow up process updates the status of all recommendations made since 2005 and provides management and Council with a snapshot of the progress of implementation.

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 focus scarce resources on major areas of concern and risk and balanced coverage across the types of services delivered. The work plan provides a basis for the involvement of clients and stakeholders in the audit planning process and serves as a standard against which to measure the performance of Audit Services.

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 services in 2012. 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 increased Audit's ability to allocate resources more effectively. During the process, 89 separate services within the City's operations were assessed. The results of this risk assessment were used to develop the 2013 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 unit is evaluated. The selected factors were compared with those being used in other cities and practices recommended by the Institute of Internal Auditors. As a result of this process, the following factors and corresponding attributes were used in the risk evaluation process of each of the 89 identified services in the City:

- The complexity of the operations of each service, taking into consideration the extent of automation, the nature of transactions and their processing, the volume or dollar value of the activity and the innovation/entrepreneurial state;
- The susceptibility to error, manipulation or fraud noting revenues, expenditures, segregation of duties, openness to scrutiny and staffing levels;
- A review of the assets profile related to the service and how easily these assets can be converted to cash. Criteria such as asset nature, composition and net book value were considered;
- Community trust and confidence in the service including reputation and fallout of political exposure and adverse publicity;
- The degree of change (in systems, process or procedure) and experience (staff turnover);
- An estimate of potential loss/cost due to error, fraud, fines, litigation or claims and the ability to accommodate it within the current budget; and
- The extent that the functions performed for the service are subject to legislation, regulations, by - laws and policies.

In developing the risk assessment model, the above risk factors were weighted to reflect their relative importance. The seven factors were given a ranking from very high to very low for each service.

Information about each service was collected, documented and reviewed with management 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, 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 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.

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 AUD13001

Appendix "B" to Report AUD13001

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APPENDIX "A"
CITY OF HAMILTON
PROPOSED 2013 INTERNAL AUDIT WORK PLAN PROJECTS

1. ANNUAL RESPONSIBILITIES

| Audit Project | Project Description |
|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Police Cash Accounts, Revenue Process 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 verification of the implementation status of audit recommendations from approximately 11 audit reports issued in the prior 12-18 months. |
| Procurement Card Usage | Several changes in processes and oversight have been made in this area over the last few years based on Audit Services annual reviews. Council has requested annual reviews until such time as the processes have all been tested for compliance and adequate control. |
| Annual Follow Up Process | 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 (and how they measure against a proposed 95% overall corporate completion rate) was developed and the results are reported annually to the Committee. |

2. NEW PROJECTS

| Audit Projects | Project Description |
|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Information Services – Review of Asset Management (Hardware) | Considerable dollars are spent in the provision of technology resources for the City. In 2012, a contract for desktop and mobile computers and servers was awarded. A review of the roll out of the hardware as well as the administrative and management process is being considered after the audit of this subject was delayed from 2012. 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. |
| Continuous Monitoring | A program to be known as Continuous Controls Monitoring will be investigated and developed. Specific data will be extracted from the financial system on an ongoing basis in order to identify and further investigate transactions that are unusual. A corporate-wide process will be selected as the first pilot project for the development of continuous control reports. |

2. NEW PROJECTS (Continued)

| Audit Projects | Project Description |
|---------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ethics | Ethics are at the heart of the control environment. The audit will review the most recent code of ethics/conduct, stakeholder understanding through communication within the City and the code's alignment with corporate values. Handling of complaints under the code and the reporting of issues dealt with under the code will be investigated. |
| Construction Contracts Review | The review will focus on selected construction contracts and the adequacy of controls in tendering, awarding and managing of two selected contracts under Roads. 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. Monitoring of deficiencies identified in the warranty period will also be included. |
| Inactive Landfill Sites – Controls and Liabilities | The City of Hamilton is responsible for the post closure maintenance of 12 inactive landfill sites. The perpetual care of any closed site can include various activities from simple monitoring to construction of containment structures. A liability of \$33.4 million for the closure of the current operational site and post closure care of the closed sites has been reported in the 2011 financial statements. In addition a reserve of \$666,000 has been established to finance future costs for closed landfill sites. |
| Overtime – Transit - Fire | Based on the January to August, 2012 overtime expenses, 2012 annual overtime expenses will likely fall in the range of \$9.7 million. Two areas which contribute greatly to this cost have been selected for review. Justification for the extent of overtime, its approval and related controls will be included in the audit. |
| Building Permit Fees | <p>The Building Code Act authorizes Council to set and collect building permit fees in order to recover costs for the administration of the building permit process.</p> <p>This review will assess compliance with legislative requirements and City policies and procedures for charging, collecting and reporting on building permit fees.</p> |
| Review of Inventory Controls at Water/WasteWater Storage Facilities | Water/WasteWater holds approximately \$1 million of parts and materials related to operations. This audit will include an evaluation of the adequacy of controls in managing this inventory. |
| Animal Services | The audit will review administrative practices with particular emphasis on the process relating to animal licences as well as control over collection of annual revenues of approximately \$1.4 million. |

2. NEW PROJECTS (Continued)

| Audit Projects | Project Description |
|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Public Health – Cold Chain/BIOS Program | The Cold Chain/BIOS program receives vaccine from the Ontario Government Pharmacy and manages and distributes it to area physicians and institutions. Annually, Public Health receives over \$11 million worth of vaccine. The audit will review the various processes involved with the receipt, storage, management and distribution of the vaccines. |
| Traffic Operations | The Traffic Operations section of Public Works maintains and operates approximately 550 traffic signals and is also responsible for maintaining approximately 250,000 traffic signs on an annual basis. The section manufactures 10,000 traffic signs annually in the City's in-house sign fabrication facility. The audit will involve an assessment of the management and administrative processes over these operations as well as inventory controls over parts and materials. |
| Homes for the Aged – Fees | The City operates two Homes for the Aged – Macassa and Wentworth Lodges, providing care and living accommodations to elderly and disabled adults. The Ministry of Health and Long Term Care provides standards for operation and fee schedules. The audit will concentrate on the determination of accommodation fees and their collection. In addition, a review of the administration of the residents' trust funds will be assessed. |
| Investments | The Investment Section of Corporate Services is responsible for investing the assets of the City's Reserve Funds, inline with the investment framework provided by the Statement of Investment Policies and Procedures (SIP&P). The audit will review the investment processes and procedures for initiating, tracking, maintaining and accounting for the investments of the funds. |
| EMS – Controlled Substances | For the provision of emergency health care, EMS maintains a stock of controlled medical substances in emergency vehicles and in stock inventory. In addition to comply with the Controlled Drug and Substances Act, processes and procedures for controls and administration over controlled substances inventory will be assessed. |
| Community Services – Employment Services | The City's Community Services provides employment supports under the Ontario Works program. The facilitation or provision of services including training and skills development, case management, the employment centre and job development to eligible individuals in accordance with the Ontario Works Act and Directives will be reviewed. |

2. NEW PROJECTS (Continued)

| Audit Projects | Project Description |
|------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Community Services – Food Services and Revenue | Food and beverages are provided at various City locations – golf courses, arenas and recreation facilities. Expenditures related to the preparation and delivery of the food services will be reviewed as well as the controls and administration related to the collection of related revenues. |
| Network Security and Access | The City’s network allows large amounts of information to be easily transmitted and permits the sharing of data amongst departments. An environment of this nature is not without risk. Information must be secured against inappropriate use or destruction. The accuracy and integrity of records must be ensured. The audit will assess the administration and security practices which govern the City’s network environments. |

APPENDIX "B"
CITY OF HAMILTON – AUDIT SERVICES
PROPOSED PROJECTS FOR SUBSEQUENT YEARS

A formalized risk assessment was conducted in 2012. Projects for the 2013 Internal Audit work plan were prioritized mainly based on this risk assessment. However, there are many subject areas which should be addressed but due to the limitations in available staff hours could not be accommodated in the 2013 work plan. These projects will be re-evaluated annually to ensure continued relevance and priority and will be considered in subsequent years. Should 2013 scheduling or resources allow, the projects noted below would be considered for possible completion in the current year.

- Information Technology Disaster Recovery and Business Continuity Planning
- Accounts Payable
- Accounts Receivable
- Payroll Processes
- Absenteeism
- Asset Management
- Technology Business Incubator
- Corporate Radio System
- Significant Capital Projects (i.e. Pan Am Stadium)
- Building Inspections
- Public Health Individual Programs – Compliance with Regulations and Policies, Internal and Financial Controls and Program Results (Not Previously Audited)
- Water Supply and Distribution
- Social Assistance Payments (OW, Support Services)
- Accessible Transit Services
- EMS Scheduling
- Wastewater Collection and Treatment
- Licensing
- By – law Enforcement
- Accessibility for Ontarians with Disabilities Act (AODA) Compliance
- Child Care Subsidies
- Recreation Services