

THE CITY OF
CALGARY
CITY AUDITOR'S OFFICE

3rd QUARTER 2014 REPORT
July 1, 2014 – September 30, 2014

October 9, 2014

Katharine Palmer
City Auditor

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1. Introduction

The City Auditor is accountable to City Council and subject to the oversight of the Audit Committee in accordance with Bylaw 44M2006, *Procedure Bylaw*.

Over each calendar year, the City Auditor will issue three quarterly status reports to the Audit Committee along with a comprehensive annual report. This is the third quarterly report for 2014, and represents audit activity during the period of July 1, 2014 to September 30, 2014. The report includes a summary of current performance, specific details on audit activities, follow-up on audit recommendations, operating costs, and staffing updates.

2. Summary of Current Performance

The main objective of the City Auditor's Office is to provide independent and objective value-added assurance, advisory and investigative services. We are tracking our success in achieving this objective as illustrated in the dashboard below based on the following key performance indicators of efficiency, effectiveness, quality delivery, transparency and staff proficiency:

#	Performance Indicator	Target	Quarterly Result	Comments
1	Efficiency: Progress against approved plan	80% on schedule		42% of the estimated work effort on the 2014 audit and advisory activities (11 in total) remain to be completed in Q4. With 2 audits not started there is a risk that fieldwork will not be completed by year-end. The remaining 9 audits will be supported by our current workforce of 8 auditors and use of external contractors.
2	Effectiveness: Client agreement to audit recommendations	95%		100% agreement on reports issued to date
3	Quality Delivery: Results of audit survey	75%		Current standing at 87%.
4	Transparency: Professional Training	80%		100% of staff are on track with original training plan.
5	Staff Retention	2.8 yrs		Current average is 3.1 yrs.

 On or above target;  10-20% below target;  Greater than 20% below target

3. Quarterly Completion of Audit Plan

Bylaw 30M2004, *City Auditor Bylaw*, established the City Auditor position and the City Auditor's Office Charter. The City Auditor's Office Charter requires the City Auditor to submit an annual risk-based audit plan for approval by the Audit Committee.

The 2014 Annual Audit Plan was approved by Audit Committee on December 16, 2013.

Appendix 1 provides a detailed listing on current progress against plan as of September 30, 2014.

3.1. Audits

The following reports were presented in Audit Committee meetings during third quarter 2014.

3.1.1. Flood Recovery Expenditure Audit

The objective of the audit was to provide assurance on the effectiveness of key controls that support accountability and transparency of flood recovery expenditures resulting from the 2013 flood event. Our focus was on infrastructure recovery projects. Firstly, we concluded that generally processes were in place to ensure accountability of flood recovery expenditures. Secondly, we concluded that reports on flood recovery capital projects should include a greater level of granularity on individual projects so Council has a greater understanding of the projects and the impact on the City.

We raised three recommendations to address transparency in reporting to Council along with recommendations to improve processes that support accountability of flood recovery expenditures. We also raised a recommendation to enhance accountability for capital project budgets and expenditures for future disaster events.

4. Ongoing Recommendation Follow-up

We continued to work collaboratively with Administration to enhance our follow-up process to support an ongoing approach rather than a formal semi-annual approach. We followed up on 14 recommendations this quarter that were due on or before July 31, 2014. The results of our activities under the new process are included in the proceeding charts.

The majority of recommendations outstanding (6 of 9) that have necessitated revised and extended dates for implementation of action dates related to IT based audits. Delays on completing IT action plans resulted from the priority to complete the Windows 7 Operating System update across the organization. IT Management has expressed their commitment to fully address these recommendations by October 31, 2014 or earlier.

We are now tracking a total of 65 recommendations as at September 30, 2014. Of these, 31 have not been included in a previous follow-up cycle and are pending and 34 have been included in a previous cycle and are in-progress. We will be following up on 24 recommendations with implementation dates between September 30 and October 31, 2014 in the next quarter.

Chart 1: Status of Recommendation Follow-up (14 in total)

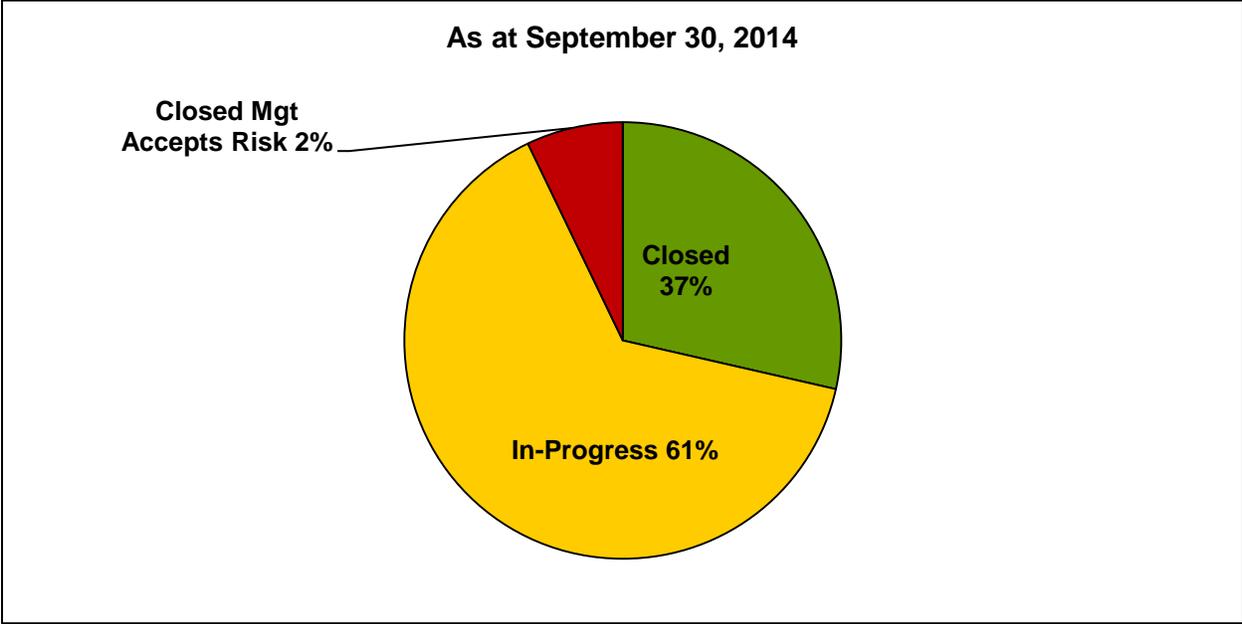
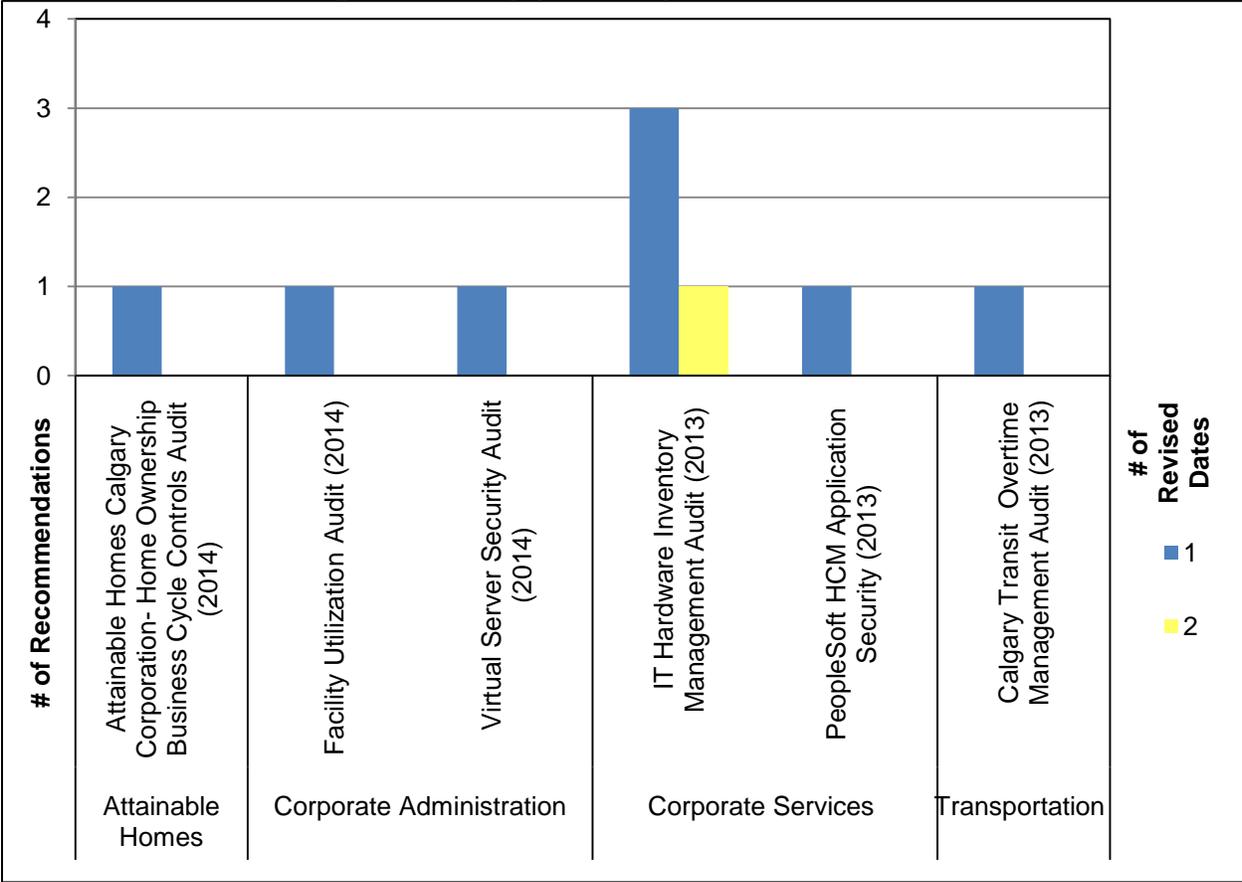


Chart 2: Status of In-Progress Activity (9 in total)



4.1. Action Plans Not Implemented

As this is the second reporting of progress under a revised methodology, the City Auditor's Office has chosen to discuss recommendations with a status of "Closed - Management Accepts Risk". This status is assigned where management has not implemented the action plan committed to in the audit report and accepts the associated risk exposure.

4.1.1. Development Permit Process Audit (2011)

Recommendation 7b) is one of 3 sub-recommendations raised related to improving Land Use Bylaw enforcement. Specifically, 7b) relates to tracking Certificate of Compliance refusals and implementing a process to ensure a Development Permit is obtained. Management reassessed the recommendation and determined that the number of refusals is low and the cost to implement the control would exceed the risk exposure now identified. The City Auditor's Office agrees with management's assessment of low risk exposure based on historical refusal levels.

5. Budget Management

Budget, actual and forecast comments for the City Auditor's Office as of September 30, 2014 are provided below:

City Auditor's Office Operating Costs (\$'000's)

	2014 Annual Budget	3 rd Quarter Budget 2014/09/30	Actual 2014/09/30	Variance	Comments
Salary	\$2,045	\$1,590	\$1,323	\$267	Positive variance anticipated due to staff LOA.
Contracts	\$43	\$23	\$52	-\$29	Negative variance resulting from employment of contract auditors.
Training	\$36	\$27	\$43	-\$16	
Other	\$112	\$88	\$116	-\$28	
Total	\$2,236	\$1,728	\$1,534	\$194	

6. Staff Proficiency

6.1. Professional Training

Annually we develop individually customized professional development plans for each of our auditors based on key competency expectations. We invest training dollars to ensure our professional staff remain current on risk mitigation best practices and maintain their designation requirements.

In July 2014, we recognized Ross Visscher, Senior Auditor, who successfully passed his Certification in Risk and Information Systems Control (CRISC) exam from ISACA. Ross's exam score was in the top 5% of those tested. The CRISC certification is designed for professionals whose job it is to identify and manage risks through appropriate Information Systems controls,

covering the entire lifecycle, from design to implementation to ongoing maintenance. It measures two primary areas: risk and information system controls.

In August 2014, we recognized Paige Padron, Senior Auditor, who received her Certified Internal Auditor designation as a result of successfully completing her studies and exams.

Our team of auditors have a diverse base of expertise that they apply to their audits. One of the designations held by two members of our team is the Certification in Control Self-Assessment (CCSA), namely:

Katharine Palmer, City Auditor
Andre Cohen, Senior Auditor

The CCSA certification recognizes expertise in risk and control methodology, and proficiency in leading and facilitating group identification and discussion on risk and control self-assessments. Individuals must pass an exam; obtain one year of control-related business experience and at least seven hours of acceptable facilitation experience or at least 14 hours of acceptable facilitation training. Approaches from this training are utilized as part of our risk based audit approach.

6.2. Staff Retention

Our ability to work effectively and efficiently on our audit activity is enhanced by creating an environment which supports retention of staff for an average period of close to three years. In the last few years there has been a significant turnover of staff and our objective is to create more stability and opportunities for leadership within our department. During this quarter we promoted Paige Padron to Senior Auditor.

Our current average years of service, as at end of September, stands at 3.1 years¹.

¹ The current average years of service does not include two limited term positions.

APPENDIX 1
2014 Annual Audit Plan – Status as of September 30, 2014

#	Title	Description	Plan	Status
1	Flood Recovery Expenditures	An audit of the systems and processes in place by The City to maintain accountability and transparency of flood funding recovery expenditures.	Q1-Q2	Complete 2014/09/11
2	Flood Response, Recovery and Early Resilience - Lessons Learned	An advisory project examining the collection, assessment and implementation of lessons learned as initiated by Calgary Emergency Management Agency (CEMA). CEMA in turn has retained the Conference Board of Canada to conduct an independent assessment of its emergency management and response efforts as they relate to best practice.	Q1-Q4	Ongoing 1 st Memo issued 2014/02/28 2 nd Memo issued 2014/06/04
3	Corporate Credit Cards - Continuous Monitoring	First step toward a continuous monitoring system. Build continuous monitoring reports to assess Credit Card expenditure compliance.	Q1-Q3	Complete- 2014/06/05
4	Procurement Response under State of Emergency	An audit of the procurement and expediting processes that occurred during the 2013 State of Emergency and the processes supporting subsequent payment of these contracts.	Q2-Q3	Reporting
5	Virtual Desktop Information Technology	An audit of The City's virtual desktop Information Technology. This audit will further examine City's initiatives to utilize virtual technology to support the achievement of Tomorrow's Workplace initiative.	Q3-Q4	Not Started
6	Sewer Capacity Management Processes	An audit of The City's processes to manage sewer capacity risk.	Q3-Q4	Fieldwork
7	Roads Business Unit Vehicle Asset Control	An audit of systems and processes in place to manage timely maintenance and cost of vehicles utilized in the Roads Business Unit.	Q2-Q4	Planning
8	Corporate Ethics Program Assessment	An assessment of The City's Corporate Ethics Program as part of effective governance. Bylaw 48M2012 requires the Audit Committee to monitor the adequacy and effectiveness of corporate policies including code of conduct and conflict of interest.	Q3-Q4	Fieldwork

#	Title	Description	Plan	Status
9	Advisory - Controls Advice	The CAO responded to a request to provide high level controls advice for the Flood Recovery permit fee grant program. This program was a unique initiative between the City of Calgary and Red Cross. Providing controls advice assists the CAO to work more collaboratively with the Business and helps The City to be more effective	Q2-Q4	Complete
10	Unallocated Audit	To support flexibility to respond and address emerging risk areas. The audit will be identified during the year at the City Auditor's discretion. The City Auditor will update the Audit Committee on nature of the activity, as well as the outcome of those activities upon completion.	Q3-Q4	Not Started
11	Recommendation Follow-up	Follow-up on the status of management's action plans to address City Auditor recommendations. Bylaw 48M2012 requires the City Auditor to prepare a report on the Administration action on the recommendations contained in previous audit reports.	Q1-Q4	Q1 complete 2012/07/17 Q2 complete 2014/09/30
12	Integrated Risk Management	Independently validate the maturity self-assessment that was conducted by the City Manager's Office in November 2012 on The City's IRM program.	Q1	Complete- 2014/04/17
13	Payroll Review and Approval Process- Part 2	Specific to Water and Parks time and labour data: <ul style="list-style-type: none"> - Assess that the time and labour data is transferred across the interface accurately and completely. - Assess that the time and labour data is monitored by both the Business Units and Pay Services to ensure the data transferred accurately and completely across the interface. 	Q1	Complete – 2014/01/23
14	Attainable Homes Calgary	Review controls over the home ownership business cycle to provide assurance that controls are in place, are effective and support the shared equity model.	Q1	Complete- 2014/04/17

#	Title	Description	Plan	Status
15	Virtual Server Security	Assess The City's processes and procedures for server virtualization are adequate and effective. Assess the security over the virtualized server environment are adequate and effective.	Q1	Complete – 2014/02/20
16	Facility Utilization	Assess whether a defined governance structure enables the efficient utilization of facilities.	Q1	Complete – 2014/02/20
17	Whistle-Blower Investigations	Bylaw 48M2012 requires the Audit Committee to oversee, through the City Auditor's Office, the operation of a Council Policy CC026, <i>Whistle-Blower Policy</i> . This policy directs the City Auditor to ensure reports received through the City's Whistle-Blower program are investigated, tracked and appropriately resolved.	Q1-Q4	Ongoing
18	2015 Annual Audit Plan	Bylaw 48M2012 requires the City Auditor to prepare an Annual Audit Plan for approval by Audit Committee.	Q2-Q4	Ongoing
Office Initiatives				
19	Quality Assessment Improvement Program (QAIP) – Periodic Assessment	Ongoing. Results of the first quarterly assessment will be communicated in the annual report.		
20	Staff Training and Development	Ongoing.		
21	Secondment Program	Postponed. The City Auditor's Office will assess opportunities in 2015.		
22	Corporate Liaison/Marketing	Ongoing. An internal marketing brochure has been drafted to provide greater clarity on our audit process.		
23	Audit Work Paper Tools	Ongoing. The City Auditor's Office continued to enhance TeamMate utilization and plans to implement more efficient processes and reporting in 2015.		
24	Audit Committee Orientation/Awareness	Ongoing. There is a joint initiative with Audit Committee's Executive Assistant to release an updated orientation manual in January of 2015.		
25	Windows 7 Upgrade	Complete.		