



THE CITY OF  
**CALGARY**  
CITY AUDITOR'S OFFICE

**2ND QUARTER 2014 REPORT**  
**April 1, 2014 – June 30, 2014**

**July 17, 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 second quarterly report for 2014, and represents audit activity during the period of April 1, 2014 to June 30, 2014. The report includes a summary of current performance, specific details on audit and advisory 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 following 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		Q1 audit took longer to execute and Q2 audits were delayed. Potential cancellation of unallocated audit.
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 92%.
4	Transparency: Professional Training	80%		83% of staff are on track with original training plans.
5	Staff Retention	2.8 yrs		On target to improve over time. Impacted by new hire at the Auditor position.

 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 March 31, 2014.

#### 3.1. Audits

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

##### 3.1.1. **Attainable Homes Calgary Corporation- Home Ownership Business Cycle Controls Audit (March 31, 2014)**

The audit examined controls over the home ownership business cycle to provide assurance that existing controls were appropriately designed and operating effectively to support the shared equity model. Processes, practices and controls identified in the audit generally supported compliance with Attainable Homes Calgary Corporation (AHCC) policies, AHCC's mandate, and AHCC's shared equity model.

Four recommendations were raised to improve eligibility confirmation process and to further build an effective framework of controls to support future activity.

##### 3.1.2. **Integrated Risk Management Audit (April 4, 2014)**

The objectives of the audit were to independently validate the maturity self-assessment of Integrated Risk Management (IRM) conducted by the City Manager's Office (CMO) and assess how effectively IRM meets the needs of the organization. IRM practices generally met the principles of the IRM Policy. In 2012, the CMO self-assessed the level of maturity of IRM as 'low-enhanced'. Our results supported this self-assessment, which is a combination of maturing and basic risk management practices.

Four recommendations identified opportunities to improve IRM by enhancing communication on The City's principal risks, reporting risk treatment information, improving identification, assessment, and consolidation of significant risks, and increasing commitment and support for IRM.

#### 3.2. Advisory Activities

The following projects were reported to Administration during second quarter 2014. A formal report was not issued to Audit Committee regarding these activities.

### 3.2.1. Flood Response, Recovery and Early Resilience - Lessons Learned

Reflecting on our ongoing monitoring, a second management letter was issued to CEMA on June 5, 2014 commenting on the draft Conference Board of Canada report dated April 22, 2014. The management letter focused on the completeness of reporting and the prioritization of actions. Advisory recommendations were provided for consideration and future implementation as this activity continues.

Our next management letter will be issued after the review of the work plan and the implementation of priority actions.

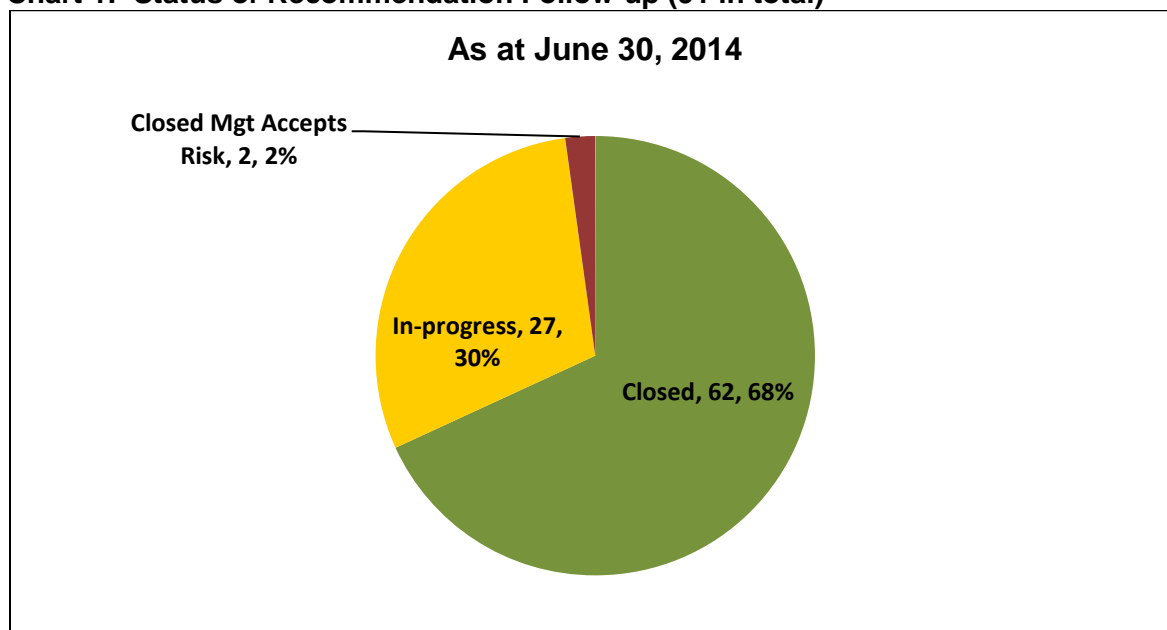
### 3.2.2. Corporate Credit Card Continuous Monitoring Project

We issued a management letter to Finance and Supply on June 5, 2014. It provided management with analysis of 2013 credit card spend by employee, supplier, business unit and larger transactions. We also examined trends during the year and compared this against 2012 activity. We plan to run these reports again next year to continue evaluating spend trends.

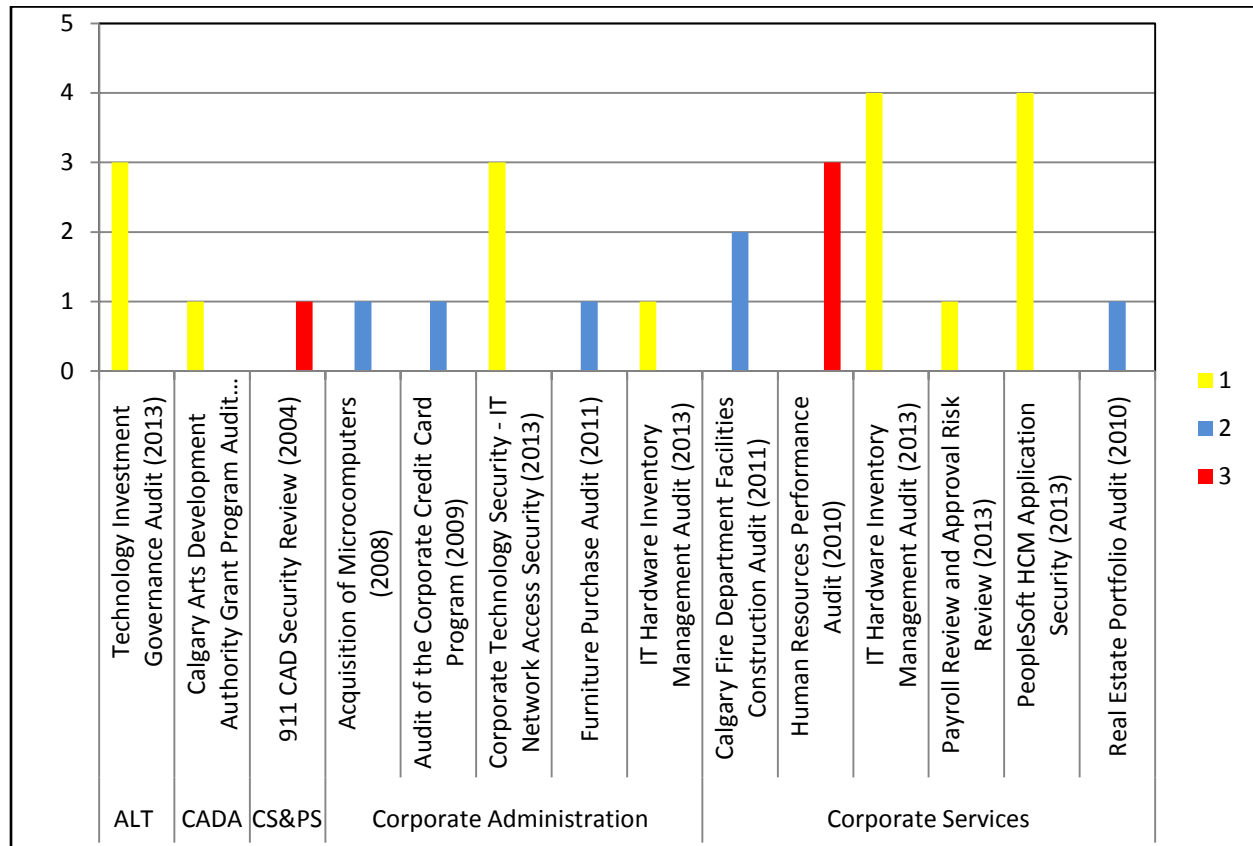
## 4. Ongoing Recommendation Follow-up

We worked collaboratively with Administration to enhance our follow-up process to support an ongoing approach rather than a formal semi-annual approach. This new approach of continuous follow-up started in May, 2014 focusing on 91 recommendations/actions due on or before March 31, 2014. We believe this process has increased awareness and timely response and implementation of effective risk mitigation controls. Two recommendations were not implemented as management accepted the risk which was assessed as low. The results of our activities under the new process are included in the following charts:

**Chart 1: Status of Recommendation Follow-up (91 in total)**



**Chart 2: Status of In-Progress Activity (27 in total)**



#### 4.1. Delayed implementation Areas

The following discussion highlights areas where either the implementation commitment date has been revised more than twice and/or represents areas of higher risk due to ongoing delays in implementation.

As this is the first reporting of progress under a revised methodology, the City Auditor's Office has chosen to discuss all recommendations with an in-progress status tracking against a third revised commitment date.

The City Auditor's Office will continue to track progress to support management's commitment to address inherent risk exposures.

##### **911 CAD Security Review (2004)**

Recommendation #14 recommended that intrusion detection software should be installed on servers and the network to monitor unauthorized access attempts.

Since the audit recommendation was raised in 2004, Public Safety Communications (PSC) hired an external company in 2013 to conduct a vulnerability assessment of PSC's network, servers, and workstations, and to verify the validity of the original recommendation in the current environment. The external consultant report confirmed the need for PSC to implement intrusion detection software (IDS) along with additional recommendations. To date, PSC has received a report from Information Technology, which assessed the scope and impact of implementing the recommendations resulting from the vulnerability assessment. PSC is evaluating the effort, costs and funding with plans to implement IDS shortly after the scheduled upgrade of the CAD software by September 30, 2015. As an interim measure to mitigate the risk exposure, PSC stated their intent to apply other recommendations contained in the external vulnerability assessment to harden the security of the current CAD system. The City Auditor's Office will evaluate the impact of this mitigation strategy as part of the ongoing recommendation follow-up.

#### **Human Resources Performance Audit (2011)**

Recommendation #10 directed Human Resources to establish a process to measure diversity in the workforce in order to assess the success of diversity initiatives.

Progress on this recommendation is continuing with a goal of using the 2015 Corporate Employee Survey to measure diversity. This project plan will be aligned with Action Plan 2015-2018. Management has provided a revised date of September 30, 2015 and estimates that the action plan is 50% complete.

Recommendations #13 and #14 directed Human Resources to review and update the Rehirement Policy and specify compensation allowed under the policy.

HR has revised the Employment Policy, which will be submitted to the Administrative Leadership Team (ALT) for approval in September, 2014. Section 11 of the Draft Employment Policy relates to the employment of City Retirees and outlines compensation allowed. Management has provided a revised date of September 31, 2014 and estimates that the action plan is 90% complete.

Moving forward the City Auditor's Office is tracking a total of 63 recommendations. Of these, 10 have action plan dates on or before June 30, 2014, 47 have action plan dates in the third (19), and fourth (28) quarters, and six have action plan dates in 2015.

#### **4.2. Calgary Police Services (CPS) Follow-up**

We followed up on and closed the three remaining recommendations from the Police Information Check Unit Process Review audit report issued December 19, 2012.

## 5. Budget Management

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

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

	2014 Annual Budget	2 <sup>nd</sup> Quarter Budget 2014/06/30	Actual 2014/06/30	Variance	Comments
<b>Salary</b>	\$2,045	\$1,060	\$840	\$220	Positive variance anticipated due to staff LOA.
<b>Contracts</b>	\$43	\$23	\$23	\$0	Anticipate negative variance resulting from employment of contract auditors.
<b>Training</b>	\$36	\$18	\$36	-\$18	
<b>Other</b>	\$112	\$63	\$69	-\$6	
<b>Total</b>	<b>\$2,236</b>	<b>\$1,164</b>	<b>\$968</b>	<b>\$196</b>	Any shortfalls will be funded by salary variance during 2014.

## 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 May 2014, we recognized Evelyn Otte, Acting Deputy City Auditor, who received her certification in ITIL Intermediate Service Strategy.

In June 2014, we recognized Bob Ahtesham, Senior Auditor, who received his Certified Internal Auditor designation as a result of successfully completing his studies and exams. We also were pleased that in June 2014, Pamela Armstrong, Administrative Assistant, was successful in her nomination as Director-Secretary on the National Board of the Association of Administrative Assistants.



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 Certified Fraud Examiner designation (CFE), namely:

Jackie Di Salvo, Manager Whistle Blower  
Katharine Palmer, City Auditor

The CFE is a certification issued by Association of Certified Fraud Examiners (ACFE). The CFE is globally recognized representing proven expertise in fraud prevention and detection. To earn the CFE credential, an individual must pass a test that focuses on the four major disciplines that comprise the fraud examination body of knowledge: Fraud Prevention and Deterrence; Fraudulent Financial Transactions; Fraud Investigation; and Legal Elements of Fraud.

Ms. Di Salvo, recently attended the ACFE Conference in San Antonio and returned with new insights on: data analytics which assist in analyzing vast amounts of data to prevent and detect fraud; business ethics which promote an ethical work culture and auditing for fraud; and insight on why traditional audits fail to find fraud.

## **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 Catherine Pao, previously on a one year contract, was hired as a full-time Auditor. We also hired Alain Bleau and Rod Cunningham in one year term Whistle-Blower Program Investigator positions.

Our current average years of service, as at end of June, stands at 2.8 years.

## APPENDIX 1

### 2014 Annual Audit Plan – Status as of June 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	Reporting
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 <sup>st</sup> Memo issued 2014/02/28 2 <sup>nd</sup> 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	Fieldwork
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	Not Started
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	Not Started
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	RFP issued

#	Title	Description	Plan	Status
9	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
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 2014/06/30
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"> <li>- Assess that the time and labour data is transferred across the interface accurately and completely.</li> <li>- 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.</li> </ul>	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
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

#	Title	Description	Plan	Status
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	Planning
<b>Office Initiatives</b>				
19	Quality Assessment Improvement Program (QAIP) – Periodic Assessment	QAIP procedures are now in place and our first quarterly in-house assessment is currently underway.		
20	Staff Training and Development	Staff annual training plans developed and approved as part of individual objectives.		
21	Secondment Program	Not started.		
22	Corporate Liaison	Under development.		
23	Audit Work Paper Tools	The CAO has engaged in a service order agreement with TeamMate to provide support services in optimizing utilization of the existing software.		
24	Audit Committee Orientation/Awareness	Orientation manual will be re-assessed and updated in mid Q3.		
25	Windows 7 Upgrade	All staff members have been upgraded.		
26	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.		