



THE CITY OF
CALGARY
CITY AUDITOR'S OFFICE

2nd QUARTER 2015 REPORT
April 1, 2015 – June 30, 2015

July 16, 2015

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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 48M2012 (as amended).

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 2015, and represents audit activity during the period of April 1, 2015 to June 30, 2015. 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 broad objective of the City Auditor’s Office is to provide independent and objective value-added assurance, advisory and investigative services. As it applies to our internal audit activities we assist Council in its oversight of City Administration, accountability for stewardship over public funds and achievement of value for money in City operations (Bylaw 30M2004, as amended). We track our success in achieving our objective on a quarterly basis through the following key performance indicators of efficiency, effectiveness, quality delivery, and staff proficiency:

#	Performance Indicator	Target	Quarterly Result	Comments
1	<i>Efficiency:</i> Progress against approved plan	Quarterly: 85% on schedule ¹		72%. Audits on our approved audit plan are scheduled and tracked to ensure we meet our annual objective of 100% delivery of draft audit reports by year-end. One audit initiated later in Q2 than expected. Reporting phase extended into Q3 for two audits to fully assess risks in fieldwork. Due to contingency planned in Q4 this current delay will not impact year-end deliverables.
2	<i>Effectiveness:</i> Audit recommendations agreed to	95%		100%. All 9 audit recommendations raised in Q2 reports issued were fully agreed to by Administration.
3	<i>Effectiveness:</i> Timely follow up of audit recommendations	100%		100%. Administration reminded of all action plans due in Q2 within 5 business days of Q2 start.
4	<i>Quality delivery:</i> Results of client survey	75%		93%. Based on two survey responses received in Q2 (Sewer Capacity Management Processes, Roads Business Unit Vehicle and Equipment Management).

¹ Annually the target is to complete draft audit reports for all planned audits by the year end.

#	Performance Indicator	Target	Quarterly Result	Comments
5	Staff proficiency: Professional training	80%		90% of training planned for Q2 completed.
6	Staff proficiency: Staff retention	3 year average		3.92 yrs. During 2 nd quarter, one auditor resigned from The City of Calgary.

 On or above target;  1 - 20% below target;  Greater than 20% below target

3. Quarterly Completion of Audit Plan

Bylaw 30M2004, as amended, *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 2015 Annual Audit Plan was approved by Audit Committee on November 6, 2014. Appendix 1 provides a detailed listing on current progress against plan as of June 30, 2015.

3.1. Audits

The following reports were presented in Audit Committee meetings during second quarter 2015.

3.1.1. Roads Business Unit Vehicle and Equipment Management Audit

The Roads Business Unit Vehicle and Equipment Management Audit was conducted as part of the approved City Auditor's 2014 Annual Audit Plan. The objective of this audit was to provide assurance on the systems and processes in place to manage timely maintenance and cost of vehicles utilized in the Roads Business Unit (Roads). The scope of our review included Roads and Fleet Services (Fleet) activities since Roads leases most of its vehicles and equipment from Fleet. Under the terms of the 2012-2014 Service Level Agreement (SLA), Fleet provides the service and repair work.

We determined that to be effective the SLA should be strengthened and made nine recommendations. The timing of the audit was particularly important since the SLA expired during our fieldwork, which presented an opportunity for our recommendations to be incorporated in the new SLA. Fleet and Roads agreed to all of our recommendations and committed to action plans with implementation dates no later than December 30, 2016.

4. Ongoing Recommendation Follow-up

As established in 2014, we work collaboratively with Administration to provide a continuous follow-up process which is tracked and reported on a quarterly basis. During this quarter, we followed up on 24 recommendations that were due on or before May 31, 2015. The results of our activities are highlighted in the following charts.

Chart 1: Status of Recommendation Follow-up (24 in total)

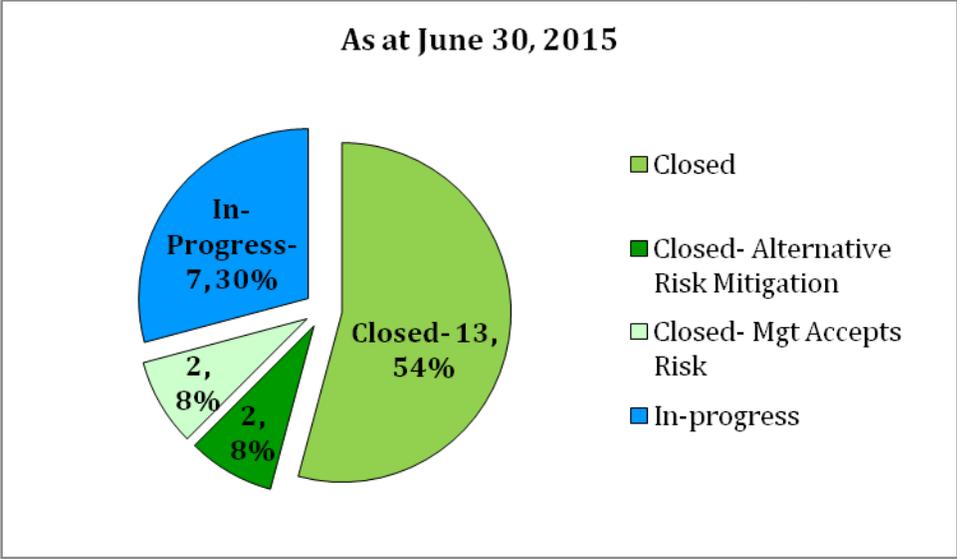
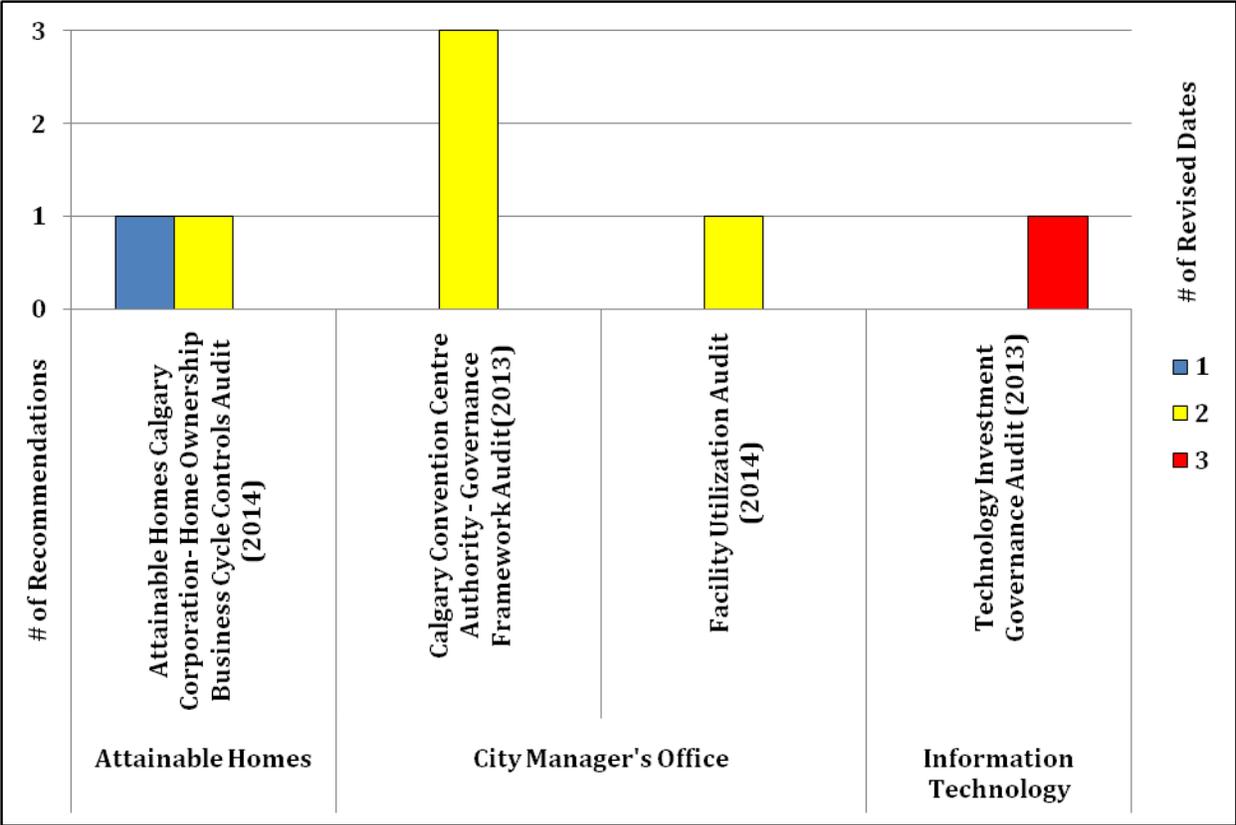


Chart 2: Status of In-Progress Activity (7 in total)



The majority of follow-up activities in the second quarter resulted in the closure of recommendations based on action plan implementation, although two were closed based on Management acceptance of risk exposure. There are seven in-progress actions that are now being tracked to revised implementation dates.

Additional commentary has been provided below to highlighting the one in-progress recommendations being tracked now to a third revised date, as well as, two audits where action plans were implemented well in advance of the targeted completion date.

4.1. In-Progress

Technology Investment Governance Audit (2013)

The objective of the Technology Investment Governance Audit was to assess the adequacy of technology investment governance structures, technology investment decisions and performance measurement. Action plan implementation on one recommendation related to defining and monitoring corporate technology outcomes and reporting on the performance of technology investments. In January, 2015 the Administrative Leadership Team (ALT) approved a new technology governance model.

This new model, being implemented within the 2015-2018 business cycle, includes a process for portfolios of technology investment to provide regular reporting on projects and benefits realization. A framework for tracking portfolios of technology investment and benefits is being developed by March 31, 2016 and IT is confident this will address the requirement and intent of this audit.

The original action plan from Management was based on the assumption that the project costing module was to be implemented. This decision has been put on hold and will be revisited as part of the Finance and Supply Chain Management (FSCM) upgrade project planned for this business cycle.

4.2. Early Implementation

Sewer Capacity Management Processes Audits (2015)

Water Resources (WR) addressed two recommendations in the Sewer Capacity Management Processes Audit (2015) in advance of the expected action plan implementation dates. WR Management team endorsed a level of service that is consistent with their strategy and risk appetite to mitigate the risks of the city being inefficient (too much capacity) or ineffective (inadequate capacity) regarding sewer capacity. Further, WR created documented procedures for the review of Sanitary Servicing Studies to ensure that only developments with sufficient capacity are approved through a consistent review and approval process.

WR also closed the remaining two action plans in Q2 by formalizing the Sanitary Long Range Plan (SLRP) updating methodologies and revising the Water Infrastructure and Investment Plan business case guide. These action plans will provide consistent guidance regarding SLRP update process and processing & approval of the business cases for projects beyond 10 years.

Virtual Desktop Information Technology (2015)

IT addressed three recommendations from the Virtual Desktop Information Technology Audit (2015) ahead of their scheduled implementation dates. Two of these actions plans contribute to reducing risks associated with the business failing to realize the benefits from the new technology, by ensuring ownership costs are understood and documenting the results of proof of concept trials. The other action implemented a process for documenting configuration and design decisions contributing to reducing risks associated with system availability.

4.3. Third Quarter Planned Follow-up

A total of 70 audit recommendations are being tracked as at June 30, 2015. Of these, 29 have not been included in a previous follow-up cycle and are pending and 41 have been included in a previous cycle and are in-progress. At this time there are a total of 31 recommendations with implementation dates between May 15, 2015 and July 31, 2015 scheduled for follow-up in the next quarter.

5. Whistle-Blower Office

The Whistle-Blower Office operates within the City Auditor's Office to support the mandate of The City of Calgary's Whistle-Blower Policy and Program. The Whistle-Blower Program (WBP) has operated since 2007 to ensure consistent, systematic, corporate-wide processes are in place for the prevention, detection, reporting and investigation of any suspected act of waste and/or wrongdoing.

Annually the main activities of the Whistle-Blower Office are reported to Council through the Audit Committee; however, there are a number of improvement initiatives which have started in 2015. Progress on these key initiatives will be included as part of the quarterly reporting to Audit Committee to support overall awareness of the Whistle-Blower Office activity.

#	Initiative	Status	Planned Completion Date
1	Development of WBP decision making process for communication to key internal stakeholders.	In progress	3 rd Quarter
2	Development of an investigation reference package to be utilized by Administration where their assistance is required.	In progress	3 rd Quarter
3	Revision of internal communication letters to highlight action and expectations specific to the initiation of an investigation and referrals to management.	Completed – June, 2015	3 rd Quarter
4	Enhancement to WBP website to include requirements in raising a whistle-blower report, and additional clarity on actions taken by the WBP.	Not started	4 th Quarter
5	Revisions to the WBP procedures manual.	Not started	4 th Quarter
6	Development and delivery of trending reports for Administration and Council.	Not started	4 th Quarter

6. Budget Management

The City Auditor's Office strives to provide the highest level of independent and objective value add assurance, advisory and investigative services within budgetary expectations. Budget, actual and forecast comments for the City Auditor's Office as of June 30, 2015 are provided below:

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

	2015 Annual Budget	2 nd Quarter Budget 2015/06/30	Actual 2015/06/30	Variance	Comments
Salary	\$2,256	\$1,115	\$1,050	\$65	Current salary variances may be required to fund costs for contract auditors/ data analytic services in Q3/Q4.
Contracts	\$50	\$36	\$36	\$0	
Training	\$36	\$18	\$21	-\$3	
Other	\$118	\$71	\$80	-\$9	
Total	\$2,460	\$1,240	\$1,187	\$53	

7. Professional Staffing and Initiatives

7.1. Professional Training

The foundation of the City Auditor's Office (CAO) is the professional skills and knowledge of the staff. To run effective audits, advisory projects and investigations a range of complimentary designations enhances the team's effectiveness. The value of the team is in the mix of designations, knowledge and experience held to provide effective advice and guidance. The CAO is committed to supporting the ongoing professional development of its staff members. The CAO follows the corporate Administration Policy on Learning and Development (HR-036). Annually we develop individually customized professional development plans for each of staff based on key competency expectations.

From June 15-17th, 2015, the City Auditor and Whistle-Blower Program Manager attended the Association of Certified Fraud Examiners (ACFE) Global Fraud Conference in Baltimore along with more than 3000 CFE associated professionals. The ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. The conference allowed us to meet with practitioners, specialists and other anti-fraud professionals to benchmark our practices in effective fraud prevention.

On June 26th, 2015, the City Auditor hosted a meeting with the Alberta Auditor General, and the Edmonton City Auditor to share best practices and audit approaches.

7.2. Quality Assessment Improvement Program

In conformance with IIA *Standards*, the City Auditor's Office has a Quality Assurance and Improvement Program (QAIP). The intent of this program is to monitor conformance to IIA *Standards*, and to identify opportunities for continuous improvement to processes. The components of the QAIP are external and internal assessments. .

External assessments must be conducted at least once every five years. The Office's last quality assessment review was conducted in 2013. The CAO plans to start preparatory work for the next review in 2017.

Internal assessments are conducted through ongoing and periodic reviews. Ongoing reviews consist of regular, documented review of audit work papers by appropriate staff; standardized documentation and audit procedures to ensure compliance with applicable planning; fieldwork and reporting standards; and feedback from client survey on completed audits. Ongoing reviews are imbedded in the daily audit work conducted by the CAO.

Periodic reviews are conducted throughout the year and are summarized quarterly. During second quarter:

- Results of two independent audit file reviews (confirmed that the audits performed generally conform - the highest possible rating) to IIA Standards were shared with the Office and opportunities for ongoing improvement were identified and implemented.
- Performance metrics were collated and reported
- Team member ethics and independence sign-offs were validated
- Annual Audit plan process was validated.

No instances of non-conformance with IIA *Standards* were identified in the above activity. A review of audit procedures is planned during fourth quarter.

APPENDIX 1
2015 Annual Audit Plan – Status as of June 30, 2015

2015 Annual Audit Plan				
#	Title	Description	Report Target	Status
2014 In-Progress				
1	Corporate Ethics Program Assessment	Complete 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.	Q1	Reporting
2	Roads Business Unit Vehicle Asset Control (AC2015-0450)	Complete an audit of systems and processes in place to manage timely maintenance and cost of vehicles utilized in the Roads Business Unit.	Q1	Complete-Reported May
3	Sewer Capacity Management Processes (AC2015-0146)	Complete an audit of The City's processes to manage sewer capacity risk.	Q1	Complete-Reported March
4	Virtual Desktop Information Technology (AC2015-0205)	Complete 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.	Q1	Complete-Reported February
5	Expense Review (Council Directed – NM2014-37) (PFC2015-0077)	Complete a review of both current policies regarding use of alcohol during work hours and expensing of alcohol for all city employees, and in that analysis consider other leading best practices.	Q1	Complete-Reported January
Audit Committee/City Council Directed				
6	Whistle-Blower Investigations	Policy CC026, <i>Whistle-Blower Policy</i> directs the City Auditor to ensure reports received through the City's Whistle-Blower program are investigated, tracked and appropriately resolved. Summary of activities is reported in first quarter of the following year.	Q1	Ongoing

2015 Annual Audit Plan				
#	Title	Description	Report Target	Status
7	2016 Annual Audit Plan	City Auditor's Office Charter requires the City Auditor to prepare an Annual Risk Based Audit Plan for approval by Audit Committee.	Q4	Planning
Risk Assessed Priority				
8	Recommendation Follow-up	Ongoing follow-up on the status of management's action plans to address City Auditor recommendations. Results reported as part of City Auditors Quarterly Status Report.	Quarterly	Ongoing
9	Transportation Planning	An audit examining effective prioritization of projects, which may include efficient utilization of consultant and external analysis.	Q3	Reporting
10	Freedom of Information and Privacy (FOIP) Workflow Process	An audit evaluating the cost efficiency and process effectiveness of the FOIP response workflow.	Q3	Planning
11	Calgary Housing Company	An audit on effective asset management processes, and utilization of housing units.	Q3	Reporting
12	Exempt Employee Time Reporting	An audit using data analytics to assess effectiveness of computer and manual tools to support accurate exception time reporting for exempt employees.	Q3	Fieldwork
13	Contract Procurement Process	A horizontal audit to evaluate factors impacting timeliness of the contract procurement process.	Q3	Reporting
14	Rocky Ridge Recreation Centre	A project management audit of the capital construction project to build the Rocky Ridge recreation centre.	Q4	Planning
15	New Calgary Central Library	An ongoing project management audit on the capital construction of the new Calgary Central Library.	Q2/Q4	Fieldwork
16	Emerging Issues - City Auditor discretion	Audit resources to be assigned at the City Auditor's discretion. The City Auditor will update the Audit Committee on audit resources being allocated to emerging issues, as well as the outcome of those activities upon completion.	TBD	Not Started

2015 Annual Audit Plan		
City Auditor Office Initiatives		
17	Audit Committee Orientation	The City Auditor supported an Audit Committee Orientation session for all members of Council in January 2015.
18	Quality Assessment Improvement Program	Opportunities for improvement identified through the file reviews completed in Q1 were discussed and implemented by the Office during Q2. In Q2, annual reviews were carried out of: <ul style="list-style-type: none"> - Team member ethics and independence sign offs - Annual Audit Planning process.
19	Audit Software Tools	A system version upgrade to ACL (data analytics software) has been completed with support from The City's IT Business Unit. Final testing of a system version upgrade to TeamMate (audit software) is underway, with implementation expected in Q3.
20	Training and Development Guidance	Staff annual training plans have been developed as part of individual 2015 objectives. Development of an Office competency based training program and support tools is planned for Q4.