



memorandum

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COMMUNICATION

FAA- May 1/17

ITEM - 9

DATE: April 28, 2017
TO: Honourable Mayor Bevilacqua and Members of Council
FROM: Kevin Shapiro, Director of Internal Audit
RE: **REPORT #5, ITEM 9, OF THE MAY 1, 2017 FINANCE, ADMINISTRATION AND AUDIT COMMITTEE**

Recommendation

The Director of Internal Audit recommends:

1. That the attached update to the 2015 – 2018 Internal Audit Risk Based Work Plan be received.

Purpose

To provide an update on the status of the 2015 – 2018 Internal Audit Risk Based Work Plan.

Background

The 2015 – 2018 Internal Audit Risk Based Work Plan was developed using a risk assessment process that combined financial, reputational, compliance and operational criteria.

The attached report provides a high level summary of all the work plan engagements that were scheduled for this Term of Council and their current status.

Conclusion

Internal Audit has a professional responsibility to develop an audit work plan that focuses on the key risks in the City. The work plan should be dynamic and flexible. Changes to the work plan may be required occasionally to reflect emerging risks and changes in strategic objectives.

Based on existing resources, Internal Audit will be able to execute the remaining engagements on the Council approved 2015-2018 Internal Audit Risk Based Work Plan.

Attachment

1. 2015 – 2018 Internal Audit Risk Based Work Plan – Current Status and Engagement Schedule

Report prepared by:

Kevin Shapiro CIA CFE CRMA
Director, Internal Audit

Respectfully submitted,

Kevin Shapiro CIA CFE CRMA
Director, Internal Audit



INTERNAL AUDIT

2015-2018 Internal Audit Risk Based Work Plan - Current Status and Engagement Schedule

April 2017

INTERNAL AUDIT REPORT

2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

CURRENT STATUS AND ENGAGEMENT SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
Recreation and Culture Revenue Audit	<p>Rationale: Recreation and Culture represents the City's third highest expenditure (approximately \$20M). Recreational and Culture programs are largely fee supported, contributing approximately \$18M in revenue. These services have high citizen focus.</p> <p>Risk: If services are not delivered up to public expectation there could be increased public dissatisfaction. In addition, there is some financial risk as there are significant revenues.</p>	Complete	Presented to FA&A on March 9, 2015
Road Operations Audit	<p>Rationale: The City has a responsibility to maintain safe roads and sidewalks. This has a high citizen focus and could have a potential reputational risk. Maintenance standards are set by City Council but must, at least, meet legislated standards set by the province.</p> <p>Risk: The absence of an effective maintenance program can result in serious injury. Not maintaining complete or accurate records could result in the inability of the City to demonstrate compliance resulting in fines, penalties or potential litigation.</p>	Complete	Presented to FA&A on September 8, 2015
Hiring Practices Audit	<p>Rationale: This project was added to the work plan as a direct result of the number of anonymous reports received related to hiring irregularities during the first year of the system's operation.</p> <p>Risk: The absence of an effective recruitment process can result in not hiring the best available talent, damage staff morale and cause reputational damage to the City.</p>	Complete	Presented to FA&A on September 8, 2015

INTERNAL AUDIT REPORT

2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
Information Technology General Controls Review	<p>Rationale: Information and the technology supporting information are vital for the City to operate effectively. Critical applications such as the JDE system reside on servers within City facilities and are required to be protected from unauthorized access or loss.</p> <p>Risk: The absence of effective physical and logical access controls could result in data loss, privacy issues and manipulation of data. This could result in fines and penalties related to compliance legislation and reputational damage to the City.</p>	Complete	Presented to FA&A on December 8, 2015
Corporate Overtime Audit	<p>Rationale: Hourly paid employees are entitled to overtime as per legislation and negotiated labour agreements. Tracking and paying overtime is supported by timekeeping systems to help ensure the right amount is paid based on entitlement.</p> <p>Risk: If time keeping systems are not effective there is the risk that incorrect overtime payments can be made resulting in financial loss and non-compliance with agreements.</p>	Complete	Presented to FA&A on February 1, 2016
General Internal Audit Follow-up Program	<p>Rationale: As part of the Internal Audit reporting process, Internal Audit and clients agree on action plans to address issues identified in the report. Follow-up is done to determine if the action plans have been implemented.</p> <p>Risk: If action plans are not followed up there is the risk they may not be implemented. Risk and control exposures could still be outstanding and have a negative impact on the City. There is also the risk that initial action plans may not have been suitable. Internal audit can work with clients to develop more suitable plans if warranted.</p>	Ongoing	<p>Ongoing activity with annual report to FA&A.</p> <p>Last presented: October 31, 2016 FA&A</p> <p>Next Scheduled Report: September 20, 2017 FA&A</p>

INTERNAL AUDIT REPORT

2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
Driver Certification Process [DCP] [MTO Compliance]	<p>Rationale: Prior to 2014, participating organizations, including municipalities, were subject to periodic limited-scope compliance inspections conducted by the Ministry. As of January 2, 2014 all participating organizations are required to arrange for an independent, comprehensive audit using an audit program and reporting form prepared by the Ministry. Internal Audit received approval from the MTO to do the audit and, going forward, will perform all DCP related audit work.</p> <p>Risk: The risk of not performing the audit is non-compliance with Driver Certification Program requirements and the City's agreement with the MTO. This in turn may result in the removal of the City from the Program and additional costs and time for driver training and testing by the MTO before drivers' licenses can be renewed and/or upgraded.</p>	<p>Complete</p>	<p>VFRS Audits presented March 9 and June 15 2015 FA&A</p> <p>VFRS and Fleet Services DCP Audits presented on September 6, 2016 FA&A</p> <p>***There may be a requirement to perform a Specified Procedures Audit for Fleet Services in 2018***</p>
Anonymous Reporting System Administration	<p>Rationale: The City adopted an Anonymous Reporting System in 2014. The purpose of the system is to allow for staff and management to have an alternative method to raise concerns or issues that may negatively impact the City.</p> <p>Risk: The risk of not properly administering the Anonymous Reporting System is that staff may not be forthcoming in communicating bad news or wrongdoing. This could lead to missed opportunities to identify risk areas and to improve processes and controls which could lead to increased operational and reputational risk.</p>	<p>Ongoing</p>	<p>Ongoing activity with annual report to FA&A.</p> <p>Last presented: May 30, 2016 FA&A</p> <p>Next Scheduled Report: As part of Internal Audit Annual Report, May 1, 2017 FA&A</p>

INTERNAL AUDIT REPORT

2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
Service Excellence Strategy [Consulting]	<p>Rationale: On September 30, 2015 City Council approved the Service Excellence Strategy Map that identifies Council's priorities for 2014-2018 and the strategic initiatives the City will undertake to build capacity, focus and deliver on these priorities. The Map was developed to align our priorities, people, processes and technology so that we can deliver our commitments for this term of Council.</p> <p>Risk: The risk of not administering the strategy efficiently and effectively may negatively impact the projects, anticipated benefits, investment and timelines for improving citizen engagement, operational performance and employee engagement. This could lead to missed opportunities to improve processes and controls which could lead to increased operational and reputational risk.</p>	Ongoing	Ongoing Management may wish to report how Internal Audit has been consulted within their reports.
VBEC	<p>Rationale: The City established the Vaughan Business Enterprise Centre (VBEC) in 2001, through a partnership agreement with the Ministry of Research and Innovation (MRI). VBEC's core responsibility is to support local entrepreneurs and small businesses. This is accomplished through the provision of advice and education for entrepreneurs in the early stages of business start-up and growth through one-on-one consultations, business plan development and review, business registrations, business events, and the delivery of business seminars/workshops.</p> <p>Risk: VBEC's services, programs and events should be tied to the needs of the business community. The absence of effective administration, stewardship and metrics to track initiatives can result in lost economic opportunities and reputational damage to the City.</p>	Complete	Presented to CW (CS) on December 5, 2016

INTERNAL AUDIT REPORT

2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
Event Management	<p>Rationale: The City sponsors events that help promote various charities and related City wide initiatives. Good administration and stewardship of related funds is vital in maintaining event integrity.</p> <p>Risk: Events supported by Council have high media and citizen visibility. The absence of effective administration and stewardship controls can result in financial loss and negative public perception.</p>	Complete	Scheduled to be presented on June 6, 2017 FA&A
Construction Audit of Fire Station #7-4	<p>Rationale: Individual Capital Projects can represent a significant investment for the City. Large projects are managed from a variety of aspects including financial, timeliness and meeting deliverables. Audits of individual projects can provide assurance that risks are properly managed.</p> <p>Risk: If projects are not properly managed the greatest risk is they do not meet their deliverables either by not being on time or on budget. Projects that are late or over budget can lead to financial loss, quality reduction and erosion of public trust.</p>	Phase 1 In Progress	The Construction Audit of Fire Station #7-4 will encompass the complete lifecycle of the project. It is anticipated that audit reports will be issued after the completion of the Planning and Design, and Bid and Procurement Phases, Construction Phase and the Close Out Phase. The timing of these reports is dependent on the actual construction project timing.

INTERNAL AUDIT REPORT

2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
Social Media	<p>Rationale: Social media is defined as using Internet based applications to send and/or collaborate on information. Public sector transparency and accountability is supported by electronic social media, the use of which has grown significantly in the City of Vaughan.</p> <p>Risk: Anyone with an Internet based device can, with near anonymity and without accountability, participate in public or private information or disinformation. The absence of effective social media communication protocol combined with the potential misuse of social media can result in data privacy issues, reputational damage to the City and erosion of trust.</p>	Complete	Presented to FA&A on March 6, 2017
Legal Services	<p>Rationale: The Office of the City Solicitor provides a range of legal services that supports the City's corporate objectives through strategic legal advice and real estate services. As the City continues to grow and work expands, it is important to ensure that the services provided continue to meet the City's objectives.</p> <p>Risk: Legal processes positively contribute to the City's business objectives. However, if not managed properly, there may be increased risk of liabilities, increased costs/expenses and damage to the City's reputation.</p>	2017	TBD
P-Card Compliance Review	<p>Rationale: P-Cards allow for the purchase of low value goods in a timely and cost effective manner. When properly issued and used, they support the purchase of low value goods more efficiently with the capability of improving control and accountability.</p> <p>Risk: If P-Cards are not used properly or in compliance with policy, the City could face some degree of financial loss, as well as public exposure or reputational risk leading to citizen and vendor dissatisfaction.</p>	In Progress	TBD

INTERNAL AUDIT REPORT

2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
Financial Planning & Budgeting Process	<p>Rationale: Having an effective financial planning and budgeting process in place is necessary in order to achieve organizational goals in the shortest time possible with a minimum of resources and funding. Creating a Financial Master Plan to ensure sustainable fiscal policies and management of assets is a part of the Service Excellence Strategy.</p> <p>Risk: An ineffective financial planning & budgeting process may pose several significant short and long term risks to the City and may impact decision making as it relates to service levels, priorities and funding allocations.</p>	Deferred to next Term of Council	Project was replaced with the Emergency, Single and Sole Source Procurement Audit. This audit is scheduled to be presented at either the June 6, 2017 or September 20, 2017 FA&A
Forestry Operations	<p>Rationale: Re-establishing the urban tree canopy is a Service Excellence Term of Council Priority. Maintaining city trees is a significant part of promoting community health and environmental sustainability.</p> <p>Risk: If trees are not properly maintained, this could lead to citizen dissatisfaction and damage reputation. In addition, there is a financial risk if the delivery of services by contractors and other service providers is not properly managed.</p>	2017	TBD

INTERNAL AUDIT REPORT

2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
Governance and Accountability - Follow-Up Survey	<p>Rationale: Governance and Accountability are key foundation components vital in building a City that shares the trust of both citizens and staff. One of the more important roles of Internal Audit is to evaluate the effectiveness of the City's Governance and Accountability framework. One tool being used is a survey. This survey has been done in 2013 and 2015 and will be redone in 2017 to track any changes and further develop trending information.</p> <p>Risk: The absence of good governance and accountability can affect the credibility and reputation of the City.</p>	<p>Completed in 2015</p> <p>[Next Scheduled Date – 2017]</p>	<p>2017 Project will commence in late Q3. It is expected that the results will be presented in Q1 2018.</p>
Facility Maintenance Services	<p>Rationale: The City's buildings and facilities have a high operating budget and high public exposure. The operation and maintenance of these assets are vital in supporting the City's vision of demonstrating service delivery excellence and community safety. Significant organizational changes were made in 2014 and an audit will determine if previously identified issues have been resolved.</p> <p>Risk: If buildings and facilities are not adequately maintained citizen dissatisfaction would increase. In addition, there could be health and safety issues resulting in possible legal exposure.</p>	<p>2017</p>	<p>TBD</p>
Corporate Security	<p>Rationale: Facility Maintenance Services maintains and manages the security of all City of Vaughan owned buildings and is responsible for developing, implementing and maintaining a security strategy throughout the organization as it relates to the Criminal Code of Canada, Trespass to Property Act and the Public Works Protection Act.</p> <p>Risk: Not having an effective corporate security strategy can result in increased risk to public safety, damage to City property and increased liability and reputational risk.</p>	<p>2018</p>	<p>TBD</p>

INTERNAL AUDIT REPORT

2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
Consulting and Professional Services	<p>Rationale: As the City continues to grow and work expands, additional resources are needed to provide services. Consulting and professional services are used to either backfill for extra work or perform work where additional skills are needed. Consulting and professional services represent a significant expenditure to the City.</p> <p>Risk: Not having effective controls over the use and administration of consulting and professional services can result in work not meeting expectations, increased costs and reputational damage to the City.</p>	2018	TBD
Fire Department Administration	<p>Rationale: Fire and Rescue Services represents over 25% of the City's total staff and is the largest annual expenditure at \$41M. In addition, these services have high citizen focus and public visibility.</p> <p>Risk: If administrative services do not properly support fire operations there is the risk of non-compliance with legislation and possible unnecessary spending.</p>	2018	TBD
Water/Wastewater	<p>Rationale: Water supply for all municipalities is closely regulated by the Province of Ontario which provides assurance to citizens that drinking water is safe. An audit done in 2012 concluded that the City of Vaughan has processes in place that meet and, in some cases, exceed the Ontario regulations. The audit did, however, identify issues related to service contract acquisition and administration.</p> <p>Risk: Ineffective administration controls could result in overpayments or the inability to monitor contract performance. A follow-up audit was originally scheduled to determine if processes have been improved. However, due to changes in management and time elapsed, the project will change from a Follow-up Audit to a brand new audit of Water and Wastewater Operations.</p>	2018	TBD

INTERNAL AUDIT REPORT

2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
Ethics/Code of Conduct Review [Consulting]	Rationale: Good corporate ethics and a Code of Conduct are a foundation of good governance and accountability in the City. Review of the Code helps provide assurance that the Code remains relevant and effective for the City. Risk: An out-of-date Code of Conduct may not reflect the current values of the City or may not be clear on expected employee behavior. This could result in employee actions unbecoming of those expected possibly leading to negative employee morale, perceived unfairness and/or public embarrassment.	2018	TBD
Fraud Risk Assessment and Education [Consulting / Policy Support]	Rationale: From a global perspective, fraud is a rapidly emerging risk having significant impact on a lot of organizations both public and private. Better practice suggests organizations do Fraud Risk Assessments, Policy Reviews and Organizational Education. Risk: Absence of a Policy, education or a proper assessment could result in any aspect of fraud not being properly mitigated.	2018 [Some Advisory Work Completed in 2015]	TBD