

Presentation to Council January 22, 2020

City of Vancouver Internal Audit Division



October 23, 2019 Council directive

THAT the City's Internal Audit (IA) Division make a presentation to Council before the end of January 2020 with:

1. an **overview of the findings and recommendations** of the City's Internal Audit (IA) Division over the past six years, with specific reference to performance / operational, financial and compliance audits of various programs and business processes, and related recommendations to City departments, including those specific to the effectiveness of internal controls and efficiency of business processes; and FURTHER THAT their presentation to Council include information regarding the
2. City's **current governance model** for audit functions,
3. the **role and work plan** of the Internal Audit Division,
4. as well as any **potential impacts to staffing or function** of IA Division concurrent with an Independent Auditor General Office.

Internal Audit Reporting Structure

- Administratively to the Deputy City Manager
- Functionally to the Audit Committee:
 - City Manager, Deputy City Manager, Director of Finance and Director of Legal Services
- Role of Audit Committee:
 - Approves the annual and 3-year audit plan
 - Reviews internal audit activities and results
 - Holds the Chief of Internal Audit accountable for successful completion of the audit plan

Internal Audit Charter

- IA Mandate: Evaluate the **effectiveness and efficiency of City processes**
- **Independence and Objectivity**
 - No operational responsibilities over activities
 - Free of influence from organization in determining scope
 - Ability to audit the operations of any member of the Audit Committee
- **Unrestricted access** to information required to perform audit

Internal Audit Reports

- Available publicly on the City's website since 2014
- Audit Committee receives audit reports only when released

Internal Audit Role & Workplan

City of Vancouver's Internal Audit team

- Annual operating budget of \$ 890K
- Team of five FTE's
- Professional certifications in auditing and accounting
 - CPA (CA, CMA), MBA, CIA, CISA

Municipal Internal Audit teams across Canada

	Vancouver	Edmonton	Calgary	Toronto Auditor General	Toronto Internal Audit	Ottawa
# of audits	12	12	12	12	(not disclosed)	8
# of staff (FTE's)	5	16	16	32	11	9
Operating budget	\$890K	\$2.64M	\$3.07M	\$6.6M	\$1.69M	\$1.97M

(Data obtained from each municipality's public website)

Annual Workplan

- 12 audits conducted
- January and July 6-month follow-up of audit recommendations
- 2-3 reviews requested by departments
- 4-6 City fraud and misconduct hotline investigations referred by HR

The Audit Process

Risk Assessment



Audit Plan



Risk Based Audit



Audit Report



6 Month Follow-Up

Internal Audit Role & Workplan

To promote accountability, transparency and governance in municipal government in BC:

- Internal Audit hosts the “Accountability and Efficiency in Local Government Workshop”
- Attended by the BC AGLG and 12 local government organizations
- Held annually since 2010
- Focuses on common risks and emerging trends
- Examples of past topics discussed include Ethics, IT Security, Fraud



AUDITOR GENERAL FOR
LOCAL GOVERNMENT



- **Performance Audits (also known as Value for Money / Operational):** Evaluates operational processes to provide assurance that objectives are met and whether improvements can be made based on:
 - **Effectiveness** - ensure that **objectives are met** and results achieved
 - **Efficiency** - make the **best use** of available resources
 - **Economy** - requires minimal amount of resources to achieve the **best value for money**

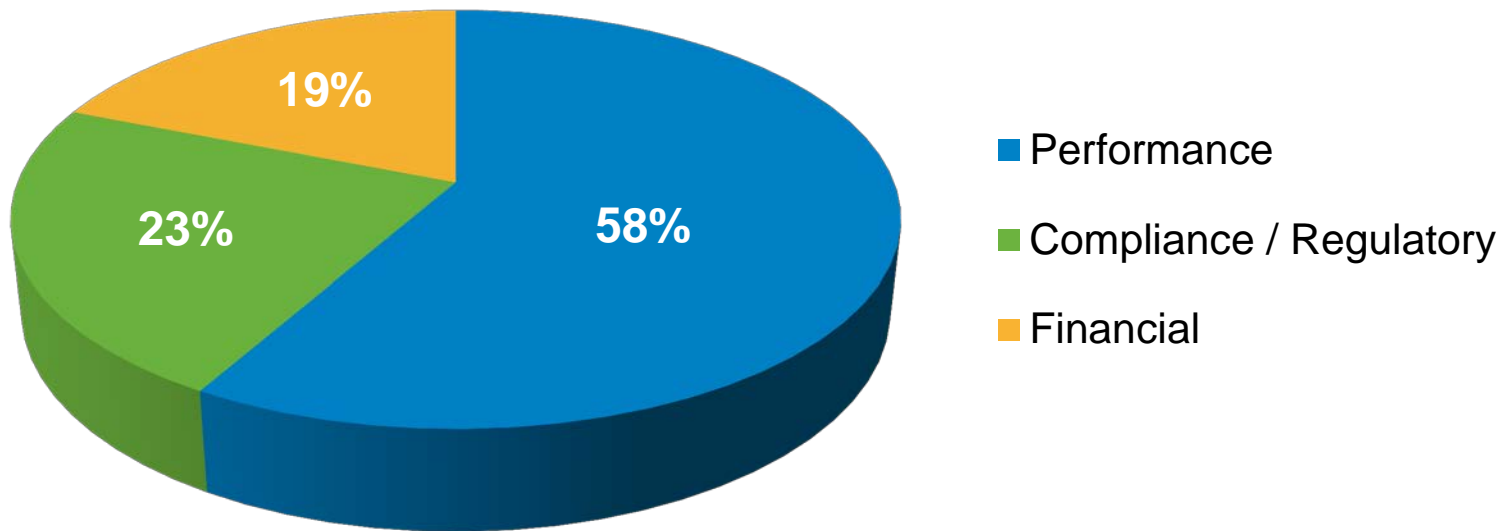
- **Compliance / Regulatory Audits:** Ensures adherence to established regulatory requirements and policies

- **Financial Audits:** Assesses accuracy, completeness, and timeliness of financial reporting

2014 - 2019 Audit Activity

91 audits, 18 Reviews, 459 Recommendations

2014 - 2019 Breakdown by Audit Type



For details of the 91 audits, please refer to Exhibit A: 2014-2019 Audit Activity

2014 - 2019 Audit Activity

Examples of audits performed across the City

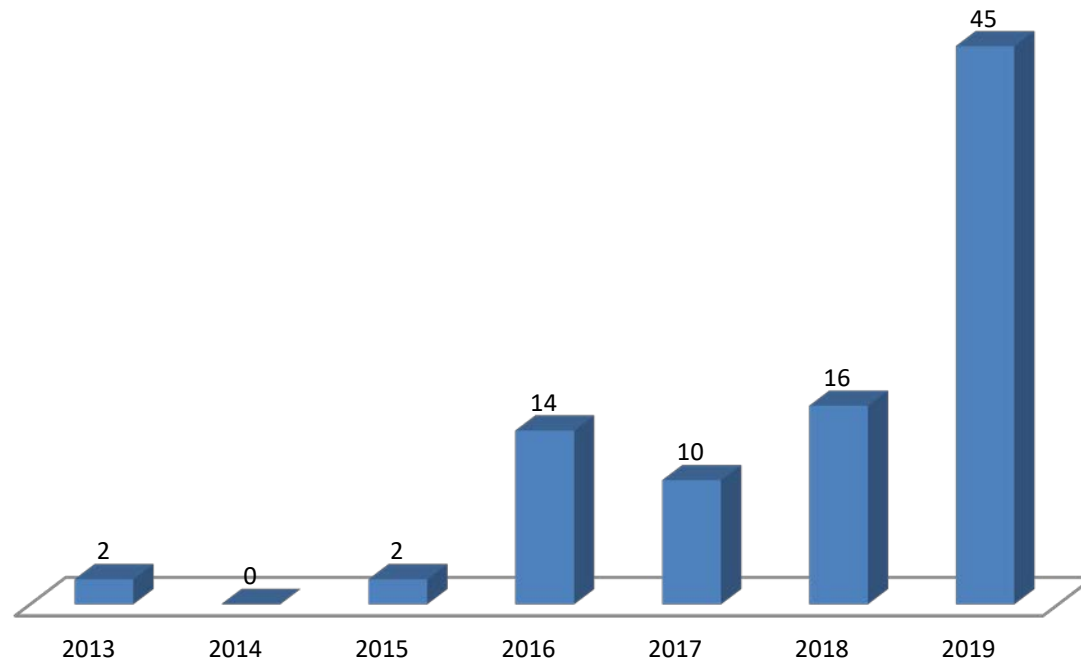


Audit Recommendations

In the past 6 years, Internal Audit issued 91 audits and 18 reviews

459 recommendations
(370) implemented by Management
89 outstanding estimated to be completed by 2021

Outstanding Audit Recommendations by Year



2014 - 19 Findings & Recommendations

Of the 459 recommendations:

33%

Financial Accountability & Revenue Recovery
(149 recommendations)

17%

Improving integrity of City programs
(80 recommendations)

13%

Effectiveness and Efficiency
(61 recommendations)

13%

Protection of City assets
(61 recommendations)

10%

Internal Training and Coordination
(44 recommendations)

5%

Employee Safety
(21 recommendations)

4%

Business Resiliency
(17 recommendations)

3%

Regulatory Compliance
(15 recommendations)

2%

Increasing Transparency
(11 recommendations)

1/3 of recommendations were applicable City-wide

Key initiatives recommended by Internal Audit:

1. Employee Conflict of Interest Training and Declaration (2018)
2. Fraud and Misconduct Reporting System (2016)
3. Capital Project Management Framework (2013)
4. Enterprise Risk Management (2011)

Examples of identified savings / cost recoveries (2017-19):

- Sewer Discharge Discount Review
 - \$2.8M of sewer discounts granted between 2006-2016 without verification

- Parks Restaurant Leases Audit
 - \$75K license fees to be invoiced to lessee

2020-2022 Audit Plan



2020 Audits

1. VPL 2019 YE Financial Audit
2. VPD 2019 YE Financial Audit
3. PCI Compliance
4. Safety Compliance Audit
5. Surprise Audit of Cash Handling and Management Oversight
6. [Cyber Security Audit](#)
7. [Animal Services Operational Review](#)
8. [Employee Extended Health Care Benefits Audit](#)
9. [Fleet Services](#)
10. [Coordination of City-wide Emergency Management Plan / Business Continuity](#)
11. [Grants Program](#)
12. [Property & Building Inspection Processes](#)

2021 Audits

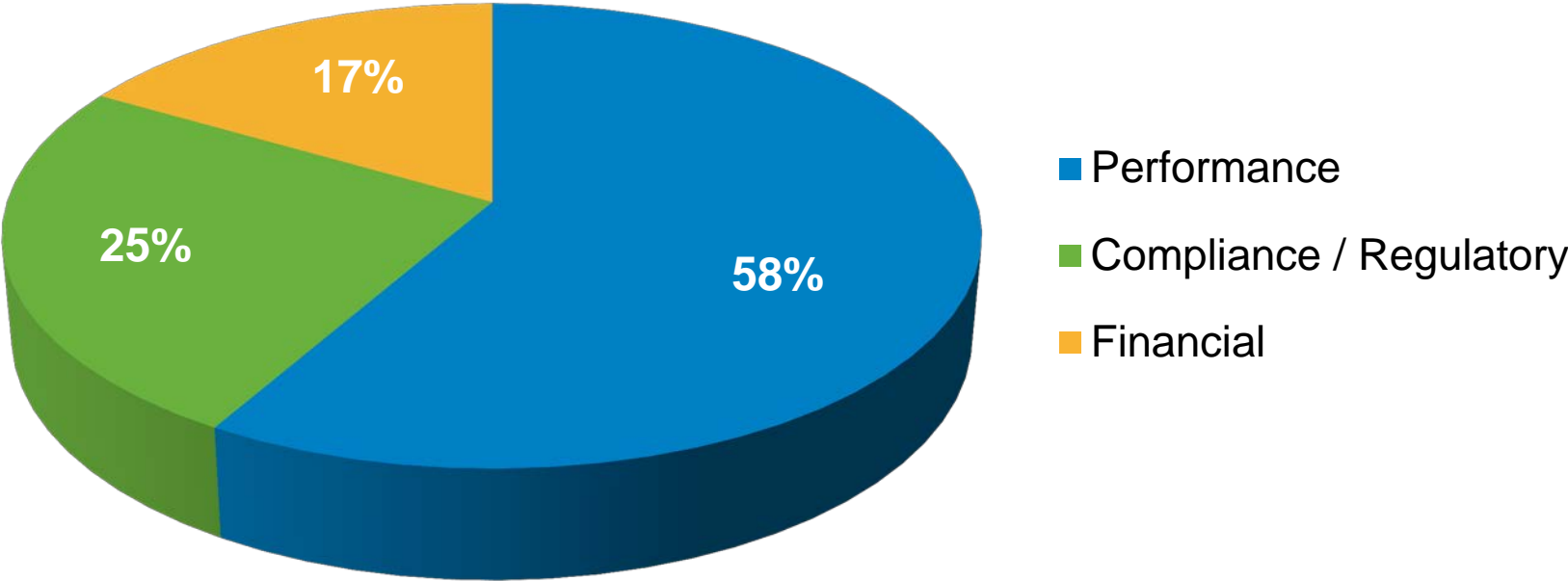
1. VPL 2020 YE Financial Audit
2. VPD 2020 YE Financial Audit
3. Major Fund Audit - Capital Fund
4. Surprise Audit of Cash Handling and Management Oversight
5. [IT Disaster Recovery and Resilience](#)
6. [Cloud Computing Audit](#)
7. [Employee Expenses Audit](#)
8. [Corporate Governance](#)
9. [Fire Safety Program Audit](#)
10. [Britannia Community Center](#)
11. [Use of External Consultants](#)
12. [Homelessness Support Services](#)

2022 Audits

1. VPL 2021 YE Financial Audit
2. VPD 2021 YE Financial Audit
3. Major Fund Audit – Waterworks Utility
4. Surprise Audit of Cash Handling and Management Oversight
5. [Shadow IT Audit](#)
6. [SAP Segregation of Duties](#)
7. [Time Reporting](#)
8. [Review of Emergency Purchases Process](#)
9. [Planning Application Review and Approval Process Audit](#)
10. [Major Capital Project](#)
11. [Social Operations Audit](#)
12. [Gender Equity Audit](#)

Performance Audits (58%)

3-year Breakdown by Audit Type



Employee Expenses Audit (2019)

Background:

- Audit requested by Management
- \$1.7M annual expenditure, including travel and training

Audit Objective:

1. Assess whether the City's 2018 employee expenses **comply with established policies and procedures**
2. Evaluate the **effectiveness and efficiency of employee expense processes**

Recommendations:

- Implement a formalized process for review of employee expenses. Questionable expenses will be identified and followed up on a timely basis
- Improve the monitoring process for employee P-Card purchases and expense reimbursements
- Increase staff awareness of travel claim requirements such as obtaining the right level of approval with supporting documentation, and consolidating the approval for travel involving larger groups of staff

Results:

- Expenses were generally valid, reasonable, and compliant with only minor exceptions noted
- Improved staff awareness of appropriate expenses and policy guidelines
- Strengthened controls to ensure expenses are appropriate and comply with policy

Non-Market Housing Operations (2018)

Background:

- City operates 816 non-market housing units in 11 buildings, most located in downtown Vancouver
- Majority of the units are rented below market rate
- Buildings varied in age and condition

Audit Objective:

To assess whether:

- 1. Business processes are effective and efficient** to ensure that program objectives are met
- 2. Health and safety standards**, and other relevant legislation are **in compliance**
- 3. Facilities are adequately maintained** and associated risks are mitigated

Recommendations:

- Complete a strategic review defining the division's mandate, key objectives and associated metrics
- Improve the tenancy management processes, including tenant selection and income verification
- Formalize an operating level agreement with Facilities Management

Results:

- Strengthened approach to facilities management of aging infrastructure
- Enhanced health and safety of residents and City staff located in the NMH buildings
- Improved tenancy management so that housing units reached the right target demographic / income level

Outreach Services Audit (2018)

Background:

- Outreach Services department provides homeless and under-housed residents with shelter, food, and other resources
- Approximately 4,000 clients served annually
- \$1.5M budget jointly funded by BC Housing and City of Vancouver
- Audit requested by Management

Audit Objective:

Assess operational processes supporting the Outreach program for **adherence to City policies** and to ensure **effectiveness and efficiency in delivering program objectives.**

Recommendations:

- Improve the rent supplement payment process to ensure housing is secured efficiently and in compliance with City policies
- Enhance the reconciliation and review process for rent supplements
- Ensure Outreach purchases are procured in accordance with the City's existing Supply Chain management policies

Results:

- Streamlined rent supplement payment process
- Improved staff awareness of City financial and procurement policies
- Strengthened the process for performance metrics reporting

Parks Restaurant Leases Audit (2018)

Background:

- Park Board manages 10 leases to restaurant operators and two café licenses
- Lessees pay rent based on share of revenue – approx. \$4M paid annually to Park Board

Audit Objective:

Assess whether the lease management processes were **adequate and effective**, and that payments made to the Park Board were **accurate** as per the restaurant lease agreements.

Recommendations:

- Establish a lease tracking system to improve the effectiveness and efficiency of restaurant lease management
- Clarify roles and responsibilities between Park Board Commercial Operations team and Accounting department
- Issue a corrective invoice of \$75,000 for one lessee restaurant

Results:

- Improved lease management and coordination among departments involved
- Recovery of \$75,000 for license fees not invoiced

City of Toronto is only major Canadian municipality with both Internal Audit and Auditor General functions

Toronto Internal Audit's mandate:

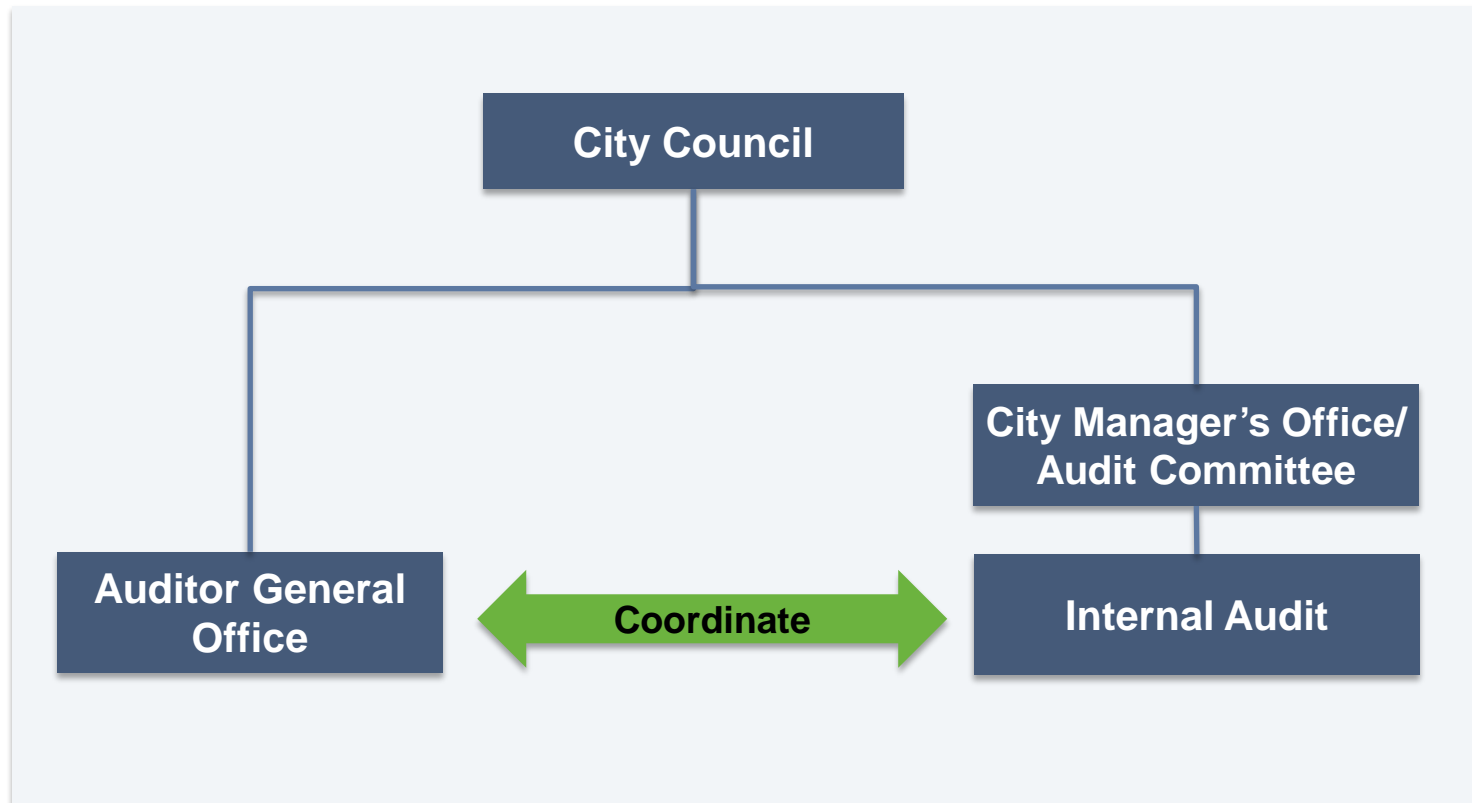
- **Assist senior management** in meeting their responsibilities for maintaining proper internal controls, identifying and evaluating significant exposures to risks and helping to strengthen risk management
- A resource to all City divisions and agencies, boards and commissions that request the division's services

Toronto Auditor General's mandate:

- **Assisting City Council** in holding itself and City administrators accountable for the quality of stewardship over public funds and for achievement of value for money in City operations
- Independent of management and has the authority to conduct financial, operational, compliance, information systems, forensic and other special reviews

(Obtained from toronto.ca)

Dual function model



Questions?

Tony Hui, Chief of Internal Audit

Tony.Hui@vancouver.ca

604-871-6393