



REGIONAL MUNICIPALITY OF WATERLOO AUDIT COMMITTEE AGENDA

Monday, February 14, 2011
3:30 p.m.
Room 218
150 Frederick Street, Kitchener, Ontario

1. **DECLARATIONS OF PECUNIARY INTEREST UNDER THE MUNICIPAL CONFLICT OF INTEREST ACT**
2. **DELEGATIONS**
3. **PRESENTATION**
 - a) Evan McDade, Deloitte re: 2010 Audit Plan
4. **REPORTS – Chief Administrative Officer**
 - a) [CA-11-002](#) 2010 Internal Audit Report 1
5. **INFORMATION/CORRESPONDENCE**
6. **OTHER BUSINESS**
 - a) [Council Enquiries and Requests for Information Tracking Sheet](#) 7
7. **NEXT MEETING – to be announced**
8. **ADJOURN**



REGION OF WATERLOO

**OFFICE OF THE CHIEF ADMINISTRATOR
Internal Audit**

TO: Chair Tom Galloway and Members of the Audit Committee

DATE: February 14, 2011 **FILE** **CODE:** A35-01

SUBJECT: **2010 INTERNAL AUDIT REPORT**

RECOMMENDATION:

For information.

SUMMARY:

Nil.

REPORT:

Background:

A system of internal controls assists management staff in meeting their responsibilities for the efficient and effective operation of an organization. A well managed control function is dependent upon many factors including organizational processes established to ensure that program objectives are met, clearly defined management responsibilities, external audits of financial information and systems, and internal audits of programs, systems, and processes. In order to ensure an effective control function these components must work in a constructive and mutually supportive manner.

Internal Audit is one key element in a system of internal controls that are part of the Region's management practices. Internal Audit provides an independent, objective assurance and consulting activity that, together with management practices and external audits, ensures that programs and services are delivered efficiently, effectively, and in compliance with internal policies and external regulations.

In 2010, Internal Audit's activities included administrative and organizational tasks, compliance audits, control consultations, and program reviews. Activities in each of these categories are briefly described below. In addition to the summary of work activities for 2010 a preliminary work plan for 2011 is contained in this report.

Administrative and Organizational:

In June 2010, the Manager, Internal Audit (Joyce Matthison) retired from the Region of Waterloo. Joyce was the Region of Waterloo's Internal Auditor from 2005-2010, responsible for leading the Internal Audit function. In addition, she was instrumental in establishing the program review framework and methodology as well as leading all of the program reviews. The Manager, Internal Audit role was advertised both internal and external to the Region of Waterloo and received significant applicant response. The successful candidate (David Young) was hired and started in September of 2010.

The Internal Audit Resource Group (IARG) provides input and feedback on Internal Audit

initiatives and the efficacy of the Internal Audit program. IARG supports Internal Audit in ensuring that an effective control function exists at the Region. The Internal Auditor, the Commissioner of Human Resources, the Director of Financial Services & Development Finance, and the Regional Solicitor are permanent members of the group. Representation from all other Departments is supplied by Directors from Social Services, Public Health, Corporate Resources, Planning, Housing, & Community Services, and Transportation & Environmental Services. The Internal Audit Resource Group met twice in 2010. IARG reviewed the results of the petty cash and purchase card audits and provided input into the recommendations for the selection of program review areas and the Internal Audit work plan for 2010. The Manager, Internal Audit provided IARG with an overview of Enterprise Risk Management (ERM) along with the benefits associated with implementing this type of framework. IARG provided input and feedback on the ERM framework initiative.

Compliance Audits:

Three compliance audits were conducted in 2010. As in previous years, both petty cash and purchase card procedures and accounts were tested and evaluated for compliance with Policy. In addition, a compliance review of the Ontario Bus Replacement Program (OBRP) was performed in 2010.

The petty cash audit resulted in suggestions for improvement with regard to operational best practices and procedures. Compliance was good, however, we did find that a few of the petty cash funds were operating primarily as floats and/or using petty cash for purposes that it was not intended to serve.

Finance has taken steps to ensure that any petty cash funds operating as floats will have the amount of the petty cash fund adjusted and recorded accordingly in the general ledger. Internal documentation of the custodians responsible for any new floats will also be updated. Finance has indicated the business practices documented in the 2010 Petty Cash Report will be discussed with the departments in question and a separate process established to facilitate their needs.

Compliance with the purchase card policy was also good and appropriate control procedures are in place to mitigate risk. The review of purchase card activity resulted in recommendations to improve the effectiveness of the Region's program policies, review procedures and administrative duties. Specifically, continuation of the previously recommended in-house training program (Finance 101) is noted again. The program provides a broad scope of training on various Finance related activities, including P-card best practices and policy review. In addition, we have recommended updates to specific areas of the policy, where there appears to be gaps in understanding, and notification of these changes are to be forwarded to appropriate members of senior management for their dissemination. The recommendations are currently under review by the Finance department.

The OBRP review showed that the Region has appropriate documentation and standards in place to meet the performance criteria as outlined in the provincial OBRP program. No issues were noted.

Going forward into 2011, we anticipate doing the purchase card and petty cash reviews once again. However, the OBRP review will not be part of the 2011 plan, as the province has cancelled the program. The petty cash and purchase card reviews will be subject to a more strategic focus in 2011, reflecting perceived areas of higher risk. That is, we will be looking at a sample of transactions from an exception point of view, using common filters to flag transactions outside of the norm. This approach ensures that our resources are being utilized appropriately.

and that the reviews provide as much value-add as possible.

Control Consultation and Investigations:

Internal Audit's role, in addition to that of compliance, can include consulting engagements. Consulting engagements allow internal auditors to play more of an advisory role than traditional compliance engagements, whose primary purpose is to provide an opinion on whether or not organizations goals are being accomplished using an agreed upon set of standards. This is also referred to as an "assurance engagement". Consulting engagements are advisory roles and can also include, counsel, facilitation and training. The caveat for doing these types of engagements is to ensure that the Internal Audit function remains independent of management functions. That is, while advice and recommendations of possible appropriate actions are given by Internal Audit, implementation is performed by management.

Beginning in 2009 and into 2010, Internal Audit completed a consulting engagement with Children's Services to assist in the development of a review program to validate claims made by the 3rd party child care operators, with whom the Region contracts. The review programs were completed in 2010 and have been forwarded to Children's Services for use in their accountability reviews going forward. Concurrent with this, Internal Audit and the external accounting firm, KPMG, performed an investigation to evaluate internal controls and compliance with the Region's wage subsidy guidelines. The investigation was successful in highlighting areas of risk and the need for strengthened oversight mechanisms.

Program Reviews:

Program reviews provide an objective evaluation of the efficiency and effectiveness of the program under review and an assessment as to the identification and management of risk. In this case, risk means the things that could potentially prevent the program from achieving program goals.

A program review attempts to answer the following questions:

1. Are appropriate results being achieved? Is this an effective program?
2. Are we achieving results in an efficient manner? Are we getting good value for the money invested?
3. Are the associated risks managed effectively? Is there a process in place to identify risks and are there control systems and processes in place to assist us in mitigating risks in an efficient manner?

In 2010, program reviews were completed in two areas – Information Technology Services (ITS) and External Communications. As well, the Facilities - Maintenance and Operations Program Review started in 2010 and is nearing completion. Reports outlining the results of the Information Technology Services Program Review and External Communications Program Review, together with high level plans for implementing the recommendations were provided to Audit Committee in June 2010. Reporting on the Facilities Maintenance & Operations Program review should be ready in spring of 2011.

Brief summaries of the 2010-2011 program reviews are provided below. The findings of the ITS review are described in more detail in Report CA-10-004/CR-IT-10-001. The findings of the External Communications Program Review are described in more detail in Report CA-10-005. Both reports were presented to Audit Committee in June 2010. The Facilities - Maintenance and Operations Program Review is currently in the analysis and report-development stage. The report, barring unforeseen issues, should be ready to present to Audit Committee in spring of 2011.

1. External Communications

The results of the review indicated that, Corporate Communications and the staff involved in external communications prepare and execute external communications using sound communications principles, processes, and practices.

The Region is well-positioned to build on its communications successes and improve its effectiveness by providing more strategic and proactive external communications rather than tactical and reactive messages. Corporate Communications is developing an annual Regional Communications Strategy and Plan. This plan will proactively identify, analyze and define Regional communications needs, issues and priorities and allocate resources accordingly.

The results of the review indicated that the current decentralized model needs to better clarify and formalize the roles of both Corporate Communications and the divisional communicators in order to maintain and improve external communications. A policy framework will be prepared, which will clearly and formally spell out Corporate Communication's mandate, key organization role(s) and important responsibilities within the organization's structure and culture.

Staffing levels within Corporate Communications are relatively low relative to other upper tier municipalities even when accounting for the variation in structures ranging from highly centralized to highly decentralized models. Incrementally, (over 2010 and 2011), Corporate Communications proposes to add two additional Corporate Communications staff resources via a minor reorganization of the CAO's Office and through the budget process. This will allow for Corporate Communications to meet existing and anticipated strategic communications demands.

2. Information Technology Services (ITS)

The results of the review indicated that the need to maximize the use of technology and support effective decision making is crucial to program delivery. The ITS (Information Technology Services) Division is seen as a responsive service provider of technology solutions within the parameters of its current funding and resources. The ITS Division is a competent provider of technical support services. While this model has served the Region well in the past, the recommendations pointed to the need for a fundamental change in how the Region manages technology to capitalize on opportunities and insure responsive and value-driven ITS services into the future. The major recommendations of the review are included below:

- Implement a corporately accepted technology governance framework empowered to set project investment priorities and funding strategies, identify opportunities to leverage existing investments in technology, avoid buying into duplicate solutions, and facilitate a balanced investment strategy through which all Regional departments will benefit. An ITS project team has been established to develop this new IT business model.
- Clarify the ITS Division mandate, policies and procedures.
- Adopt a new organization structure more appropriately suited to lead the organization in future technology initiatives and the sustainability of existing solutions.
- Work with Human Resources to implement a leadership capacity building program that will identify management and staff whose roles and skills are critical to the Division.
- Establish a forum and processes to educate directors and managers in the principles and responsibilities of all stakeholders related to technology implementation. A corporate technology education program will be developed once the new IT Business Model is completed so that the program will properly reflect the changes being made.

- Adopt a three year strategic technology planning framework to guide acquisitions, enhancement, priorities, and architectural decisions in conjunction with the Region's program managers.

If comprehensively implemented, the changes would result in: more proactive ITS leadership; more effective management of technology resources organization-wide; services more directly responsive to business needs; longer range technology planning; systems and solutions that are strategically aligned, integrated and leveraged to maximize benefit and minimize duplication and cost.

3. Facilities – Maintenance and Operations (FMO)

The Facilities - Maintenance and Operations Program Review focuses on delivery of FMO services including structures and administrative processes required to provide an effective and efficient maintenance and operations program for all Regional facilities. As a part of the program review, the ownership model and mandate is being reviewed. Early indicators suggest that changes to the service model and asset management strategy are required. Also, there needs to be better use of technology within FMO. As noted these are preliminary findings. A complete discussion of the review with recommendations will be presented in the spring of 2011.

Proposed Activities for 2011:

Activities outlined in the plan for 2011 will include most or all of the following:

- Completion of and reporting on the Facilities – Maintenance and Operations Program Review
- Program review of Region of Waterloo International Airport
- Program review of Rent Supplement Program
- Audit of purchase card use
- Audit of petty cash
- Consult and monitor results of Children's Services, "accountability reviews"
 - Advise Children's Services regarding the two on-site reviews to be performed
 - Monitor the outcomes of the reviews
- Development and testing of internal control education project
Prepare educational material for presentation with IARG – 5 main control issues to consider when developing and implementing processes and procedures
- Cash controls project:
Identification and documentation of current procedures together with identification of control weaknesses
- Develop an Enterprise Risk Management Plan

In addition to these items ad hoc consultation and review assignments will be accommodated as the need arises and as circumstances change.

CORPORATE STRATEGIC PLAN:

Focus Area 6: Ensure all Regional programs and services are responsive, efficient, effective and accountable to the public.

FINANCIAL IMPLICATIONS: Nil.

OTHER DEPARTMENT CONSULTATIONS/CONCURRENCE: Nil.

ATTACHMENTS: Nil

PREPARED BY: *David A. Young*, Internal Auditor

APPROVED BY: *Michael L. Murray*, Chief Administrative Officer

COUNCIL ENQUIRIES AND REQUESTS FOR INFORMATION

AUDIT COMMITTEE

Meeting date	Requestor	Request	Assigned Department	Anticipated Response Date
23-Oct-08	Committee	Overview of internal controls to detect fraud and error	- - -	Spring/Summer 2011