



Media Release: Friday, November 20, 2015, 4:30 p.m.

Regional Municipality of Waterloo

Audit Committee

Agenda

Wednesday, November 25, 2015

5:30 p.m.

Room 218

150 Frederick Street, Kitchener, Ontario

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- 1. Declarations of Pecuniary Interest under the “Municipal Conflict of Interest Act”**
 - 2. Reports**
 - 2.1 CAO-IAU-15-08, Update Regarding Internal Audit and Corporate Performance (For Information) 2**
 - 2.2 COR-FSD-15-21, 2015 Year-End Audit Plan (For Information) 8**
 - 3. Presentations**

Elaine Read, Deloitte LLP Re: Region of Waterloo 2015 Audit Service Plan (Attachment distributed separately)
 - 4. Information/Correspondence**
 - 5. Other Business**
 - 6. Next Meeting – April 25, 2016**
 - 7. Adjourn**



Report: CAO-IAU-15-08

Region of Waterloo

Office of the Chief Administrator

Internal Audit

To: Chair Sean Strickland and Members of the Audit Committee

Date: November 25, 2015 **File Code:** A35-01

Subject: **Update Regarding Internal Audit and Corporate Performance**

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 policies and 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. Currently, the Internal Audit group consists of two staff, the Manager, Internal Audit and the Internal Audit Specialist.

In 2015, Internal Audit's activities included compliance reviews, control consultations, and other internal reviews. Activities in these three categories are briefly described below. In 2016, the internal audit group will be integrated into a newly created "corporate performance" group. The corporate performance function and associated 2016 work plan are described later in this report.

Compliance Reviews:

Purchase Card Review

One compliance review was conducted in 2015, which was the Purchase Card Review. This review assesses compliance against the Regional policy and related guidelines. Internal Audit is currently in the late stages of the review. The final memo will be brought forward to the Corporate Leadership Team for information purposes in December 2015.

This Internal Audit review found that compliance with the Region's Purchase Card policy and guidelines was excellent. No significant issues were noted within the scope of compliance. In the course of evaluating compliance with the Purchase Card policy, an opportunity to close a potential internal control gap in the Region's employee expense and purchase card payment review procedures was identified.

Internal audit has made some recommendations to enhance the review of employee per diem expense claims and P-card statements to ensure that there is no potential for duplicate claims for meal expenses to be reimbursed through both P-card and expense claims.

Control Consultations:

Two control consultations were performed in 2015:

- Overtime Review.
- Cash Handling Review in Licensing & Enforcement Services.

Overtime Review

Internal Audit is currently in the process of conducting an internal control review of the

Region's overtime pay management practices within the following six (6) divisions:

- Transit.
- Transportation.
- Waste Management.
- Water Services.
- Emergency Medical Services.
- Seniors' Services.

These divisions were chosen based on payroll data obtained between the 2010-2014 fiscal years. The divisions selected represent the six highest annual dollar totals for overtime.

The main objective of the review is to assess whether or not the divisions are properly managing the use of overtime through a formal monitoring process and using relevant objective data to address the root causes of such overtime. Internal audit will conduct interviews with relevant staff from each of the divisions to assess management's ability to meet the above objective.

The Overtime Review will be completed in December. A summary report of the results of the review along with recommendations will be provided to the Corporate Leadership Team in January 2016.

Cash Handling Review in Licensing & Enforcement Services

Internal Audit participated in a review with Senior Management in Licensing and Enforcement Services and Finance to discuss current cash handling processes in this area and how to improve these processes. This area has approximately \$220,000 flowing through each year in the form of cash payments for various regional licenses.

Based on this review, it was agreed that additional control procedures were warranted, given the amounts involved, and some straightforward and practical control measures were suggested, these were:

- Issue a separate cash drawer for each staff that handles cash during the day.
- Establish a secure area for daily deposits and cash pick-ups.
- Establish end-of-day count procedures to reconcile cash receipts to electronic records via new POS (point of sale) terminals.
- Finance to develop Region-wide cash handling policy (based on best practices in other municipalities).

Other Engagements:

Internal Audit was engaged to assist with two other large reviews in 2015: 1) Lean Methodology Pilot and 2) Region of Waterloo Service Review.

Lean Methodology Pilot

In 2014, Internal Audit was engaged in a pilot project to review three distinct processes using 'Lean Methodology'. One objective of this pilot project was to determine the usefulness and applicability of "Lean" for broader use across the organization. Two of these processes (Home Child Care and GRT Work Scheduling) had significant process changes as a result of the Pilot and many of the recommendations were implemented in Q1 of 2015.

In Q2, 2015 a debrief with pilot participants as well as other staff experienced with using Lean in their program areas was conducted and the consensus was that Lean can and should be adopted as a corporate analytical tool. All participants indicated that operational processes have been much improved and that further Lean initiatives will be ongoing.

The next steps for the Region will be to determine how best to implement a Lean Program at the Region. This will be one of tasks of the new Corporate performance group described later in this report.

Region of Waterloo Service Review

In late 2014, Regional Council initiated a comprehensive "Service Review" of the Region's programs and services. The overall purpose of the service review was to ensure the Region's services provide the best value to the community. The Region engaged consulting firm KPMG to conduct the Service Review, and the Region's Manager of Internal Audit was the Region's project manager throughout the project.

KPMG completed their final report and presented their recommendations to the Region's Administration and Finance Committee on September 15, 2015 (Report CAO-IAU-15-06). As outlined in that report, KPMG identified a number of "opportunities for improvement", many of which were either underway or which required additional investigation by Regional staff. In addition, five areas were identified by KPMG and Council for more detailed analysis and KPMG made a number of recommendations regarding each of those areas. At the Regional Council meeting on October 21, 2015, Council made decisions regarding KPMG's Recommendations.

As a matter of next steps, KPMG identified a number of “opportunities for improvement”, ranging from minor process changes to more significant changes in program and service delivery. The Region had already been implementing some of these opportunities independently of the Service Review (e.g. expanding e-service, updating our taxi regulations, developing a smart card payment system for transit). Other opportunities will require further investigation to determine if they are feasible, and if they will actually result in more efficient, effective service (e.g. more collaboration with the area municipalities on service delivery, moving to a 3 year budget cycle, expanding the use of e-payment technology).

Internal Audit will be directly involved in following-up on several of these opportunities, and will also track and report on the progress of all of the follow-up items identified in Appendices 1 and 2 of the September 15, 2015 staff report.

Creation of Corporate Performance Group

The creation of a small Corporate Performance and Innovation Team was included as part of the organizational review and restructuring completed in 2014. Implementation of this part of the reorganization was deferred pending completion of the Service Review and the Lean pilot project described earlier in this report. Now that these projects are completed, the implementation of the Corporate Performance group is planned for January 1, 2016.

This group will integrate the Region’s current internal audit, program review and performance measurement functions. It will also take on responsibility for identifying and promoting opportunities to improve the efficiency and effectiveness of Regional programs, and for encouraging and facilitating innovation within the organization. This enhanced centralized focus on performance and innovation recognizes the need and opportunity to focus on performance and promote innovation to help the Region prepare for and respond to financial and service delivery challenges in the years ahead.

The group will be part of the Human Resources and Citizen Service (HRC) department, and the new Manager of Corporate Performance will report to the Commissioner of HRC. Initially the staff in this group will include the new manager and the 2 existing Internal Audit positions. The manager and Internal Audit staff will also maintain a direct reporting line to the CAO on any internal audit related matters – to ensure the continued impartiality of the internal audit function. Including this group within the HRC department will facilitate the integration of their work on corporate performance with the ongoing service improvement work led by the citizen service group in HRC.

Initial activities for the corporate performance group in 2016 will include the following:

- Develop and implement a Lean program which can be used by all Regional programs.
- Monitor the status of the Service Review follow-up items and report periodically to Council on the status of all of these items.
- Work with various program areas to assist with the necessary follow-up on Service Review items (e.g. review accounts receivable processes; review employee lifecycle processes; cost-benefit analysis of some services at Sunnyside Home).
- Evaluate current performance measurement programs (e.g. OMBI), and determine how to better link performance measurement and performance improvement initiatives.
- Evaluate how to link current service improvement activities with other corporate performance initiatives.
- Internal audits and reviews including purchase card review, accounts payable payment controls review, and information technology access controls review.

Corporate Strategic Plan:

The 2015 activities and proposed 2016 actions described in this report are consistent with Focus Area 5.4: Ensure Regional programs and services are efficient, effective and provide value for money, and specifically action 5.4.2 “Create an office of corporate performance to enhance the organization’s focus on performance measurement and performance improvement.”

Financial Implications:

Nil

Other Department Consultations/Concurrence:

Nil

Attachments:

Nil

Prepared By: **David A. Young**, Manager, Internal Audit

Approved By: **Michael L. Murray**, Chief Administrative Officer



Report: COR-FSD-15-21

Region of Waterloo

Corporate Services

Financial Services & Development Financing

To: Chair Sean Strickland and Members of the Audit Committee

Date: November 25, 2015 **File Code:** F26-01

Subject: 2015 Year-End Audit Plan

Recommendation:

For Information

Summary:

Nil

Report:

In January 2012, the Region awarded a five year contract for audit services to Deloitte LLP (Deloitte). The 2015 fiscal year (ending December 31, 2015) marks the final year of the contract term. Elaine Read, the Audit Partner who oversaw the 2014 Audit, will be conducting the 2015 Audit. This year Deloitte will be performing 18 audits for the Region of Waterloo. The complete list is attached as Appendix A to this report. Appendix B to this report lists the audits that were completed for year-end 2014 including the approvals obtained, the organization that requested the audit as well as any outstanding issues.

The Region's year-end process requires the dedication and diligence of a large number of Regional employees from various departments to ensure that financial transactions are complete, correct and processed on a timely basis. The Financial Services and Development Financing Division of the Corporate Services Department co-ordinates the year-end process and sets the required deadlines to ensure the timely completion of the financial statements. The 2015 Audited Financial Statements are scheduled to be presented to Audit Committee on April 26, 2016.

Key dates for the 2015 year-end process are as follows:

November 25, 2015	Audit Committee – Representatives from Deloitte will present an overview of the proposed 2015 financial statement audit work plan
Nov 30 – Dec 4, 2015	Preliminary Audit work by Deloitte
March 4, 2016	2015 General Ledger Closed
March 21 – April 15, 2016	Annual Audit by Deloitte
April 26, 2016	Presentation of 2015 Financial Statements to Audit Committee
May 3, 2016	Administration & Finance Committee Approval of Financial Statements
May 11, 2016	Regional Council Approval of Financial Statements

Corporate Strategic Plan:

To ensure Regional programs and services are efficient and effective and provide value for money.

Financial Implications:

The total cost of all audit work relating to the 2015 fiscal year is estimated at \$152,000. This amount is included in the Region's annual operating and capital budgets, as required.

Other Department Consultations/Concurrence: Nil

Attachments:

Appendix A – List of 2015 Regional Audits

Prepared By: Peter Holling, Manager, Accounting & Supply Services

Approved By: Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer

Appendix A – List of 2015 Regional Audits

Description	Prepared for	Financial Year –end
Regional Municipality of Waterloo (consolidated)	Audit Committee & Regional Council	Dec 31, 2015
Regional Municipality of Waterloo Trust Fund (Sunnyside Home)	Audit Committee & Regional Council	Dec 31, 2015
Regional Municipality of Waterloo Sinking Fund	Audit Committee & Regional Council	Dec 31, 2015
Waterloo Region Heritage Foundation	Heritage Foundation Board	Dec 31, 2015
Region of Waterloo Arts Fund	Arts Fund Board	Dec 31, 2015
Sunnyside Home Annual Reconciliation Report – year end settlement	Ministry of Health & LTC	Dec 31, 2015
Sunnyside Community Support Service – year end settlement	Ministry/LHIN	Mar 31, 2016
Sunnyside Affordable Housing – financial & program compliance	Ministry of Municipal Affairs & Housing	Dec 31, 2015
Region of Waterloo Community Housing Inc.	ROWCHI Board	Dec 31, 2015
Public Health Cost Shared Programs year end settlement	Ministry of Health & LTC	Dec 31, 2015
Provincial Offences Court Administration and Prosecution Program Ministry Submission	Ministry of the Attorney General	Dec 31, 2015
Healthy Babies Healthy Children Program year end settlement	Ministry of Health & LTC	Dec 31, 2015
Youth Employment Fund	Ministry of Training / Colleges & Universities	Sep 30, 2015
Homelessness Partnering Initiative – compliance with federal funding agreement	Employment & Social Development Canada	Mar 31, 2016

Description	Prepared for	Financial Year –end
Employment Ontario Youth Employment - year end settlement	Ministry of Training / Colleges & Universities	Mar 31, 2016
Children's Services Financial Statements –year end settlement	Ministry of Education	Dec 31, 2015
Transfer Payment Annual Reconciliation – Ministry of Community and Social Services /Ministry of Children & Youth Services- year end settlement	Ministry of Community & Social Services	Dec 31, 2015
Rapid Transit – Financial and compliance audits required by the Federal Contribution Agreement and Provincial Transfer Payment Agreement	Province & Federal Government	Mar 31, 2016