

Auditor General's Office

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## 2011 Annual Report

Brian Bigger, C.G.A

Auditor General, City of Greater Sudbury

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## EXECUTIVE SUMMARY

According to the Municipal Act 2001, and Municipal bylaw 2009-239 Council appointed an Auditor General who:

“reports to council and is responsible for assisting the council in holding itself and its administrators accountable for the quality of stewardship over public funds and for achievement of value for money in municipal operations”

In fulfilling this mandate, the Auditor General may identify cost savings or opportunities for cost savings. These cost savings may be one time or ongoing.

### Conclusion

The role of the Auditor General is not specifically to identify cost savings. While certain reports have resulted in tangible cost savings, the more important benefits provided relate to the avoidance of future costs, as well as the protection of City assets and ensuring the proper use of public funds. It is important to appreciate also that reports which have no financial benefit nevertheless have significant other long-term benefits to the City.

## 1. Annual Work Plan

On an annual basis, the Auditor General submits an audit work plan for the upcoming year to City Council for information.

The 2011 Audit Work Plan was presented to Council in the Wednesday, March 9, 2011 meeting of the Audit Committee. The work plan provides an overview of how resources allocated to the Auditor General's Office will be used in 2011.

The allocation of audit resources to audit projects, for the most part, is based on the results of a comprehensive City-wide risk assessment exercise, prepared in detail by the Auditor General's Office every six years and then updated annually. The purpose of the risk assessment is to ensure that all areas of the City are evaluated from an audit risk perspective by using uniform criteria in order to prioritize potential audit projects.

The Auditor General's most recent detailed risk assessment was completed in 2009 for City Departments. Although the Auditor General's authority extends to all Boards, Agencies and Corporations that Council is accountable for, the long term (six year) audit plan has been developed to focus on City managed departments, programs and activities. The Auditor General's annual work plan is intended to follow the risk ranked selection of program performance audits, and has been designed with enough flexibility to respond to more topical and current audit concerns related to internal processes and controls through cross functional audits. The Auditor General's Office began conducting audits in February 2010.

When selecting audit projects, the Auditor General attempts to balance audit work that will identify opportunities for cost reductions, increased revenues, enhanced efficiency and effectiveness of municipal services, and improvements in major control systems.

Finally, the extent of audit projects included in our work plan is also a function of available staff resources.

## 2. Performing Audit Responsibilities In An Independent Manner

Over the last year, the Auditor General has put a significant amount of effort into communicating and establishing the basic requirements needed for a sustainable audit function. Many of these fundamentals are provided in The Municipal Act (2001), and were reaffirmed by the Council in Municipal bylaw 2009-239.

According to the law, (Municipal Act 2001, 223.19), the Auditor General is required to perform his or her

responsibilities in an independent manner. This does not mean that the Auditor General's Office is a separate agency of the City. Instead, the Auditor General reports to Council, and is employed by the City to assist Council in holding themselves and it's administrators accountable to taxpayers.

While performing these duties, the municipality has a duty to give the Auditor General such information regarding their powers, duties, activities, organization, financial transactions and methods of business as the Auditor General believes to be necessary to perform his or her duties.

The municipality also has a duty to provide the Auditor General free access to all books, accounts, financial records, electronic data processing records, reports, files and all other papers, things or property belonging to or used by the municipality, the local board, the municipally-controlled corporation or the grant recipient, as the case may be, that the Auditor General believes to be necessary to perform his or her duties.

The Municipal Act also clearly states that a disclosure to the Auditor General by the City Solicitor does not constitute a waiver of solicitor-client privilege, litigation privilege or settlement privilege.

The Auditor General believes that Council and City Management are well informed of the authority of the Office in conducting audits.

### 3. Audit Recommendations

It has been said that "The value of an idea lies in the using of it." <sup>1</sup>

Over the last year ending June 30, 2011, the Auditor General's Office has made 119 audit recommendations to management. Table 1 provides a summary by audit.

Report Title	Recommendations Made
Roads: Miscellaneous Winter Maintenance	32
Transit Cash Handling	44
Transit Shift Trading	8
Accounts Payable	19
Conventional Transit Services	16
Total	119

Table 1

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<sup>1</sup> THOMAS A. EDISON

Careful consideration is given to ensuring that recommendations are relevant, practical and cost-effective. Consequently, there should be few instances where management is in disagreement with the recommendations.

Recommendations resulting from reviews, investigations and audits conducted by the Auditor General's Office have benefitted the City of Greater Sudbury in a variety of ways.

Audits have identified ways to:

- increase City revenues or identify opportunities for new revenues or cost reductions
- better manage or utilize City resources, including the management of public funds, personnel, and inventory
- eliminate inefficiencies in internal and administrative procedures, use of resources, allocation of personnel and purchasing policies.

Audits also assist management to:

- safeguard assets
- improve internal controls over cash and disbursements
- detect unauthorized acquisitions,
- ensure compliance with laws, regulations, policies, procedures or generally accepted industry standards
- achieve desired program results, or determine if desired results have been achieved.

#### **4. Follow-Up on Implementation of Audit Recommendations**

The responsibility of the Auditor General's Office in regard to audit recommendations is to present accurate and convincing information that clearly support the recommendations made. It is management's responsibility to implement recommendations. Further, City Council is responsible for ensuring that agreed upon recommended changes and improvements occur. The Auditor General assists Council in exercising this responsibility through an annual recommendation follow-up process.

Benefits of auditing only come from the implementation of audit recommendations. The Auditor General's Office conducts a systematic follow-up of recommendations made. Continued efforts to implement outstanding recommendations will provide additional benefit to the City through cost savings, additional revenue and enhanced service delivery.

The follow-up of recommendations is an annual process incorporated in our work plan. On an annual basis, the Auditor General forwards a listing of outstanding audit recommendations to management. Management responds with information detailing the action taken on recommendations implemented. The Auditor General verifies, to the extent he feels necessary, information provided by management and communicates results of the review to the Audit Committee.

## 5. Cumulative Estimated Savings

ESTIMATED SAVINGS \$000's		
Year of Savings	2010	
2010	\$	402,800
2011	\$	383,200
2012	\$	383,200
2013	\$	383,200
2014	\$	383,200
2015		
Total	\$	1,935,600

Table 2

Table 2 (above), provides a summary by year of the estimated cumulative savings generated as a result of the audit work completed and reported from June 2010 through to June 2011 projected forward over a five-year period. These figures are estimates based on a range of assumptions by the Auditor General.

## 6. Overview Of Significant Reports Issued In 2010

The following highlighted reports and benefits identified are reflective of audit reports issued by the Auditor General's Office between June 2010 and June 2011.

### Roads: Miscellaneous Winter Maintenance

This audit was requested by Audit Committee and Council with a 2/3 majority vote. It was conducted as a program audit review and was limited in scope, as it focused on internal processes and controls related to pothole repairs.

Our recommendations related to the need to:

- improve the flexibility and productivity of the City's workforce,
- reduce crew sizes to further improve productivity,
- reduce the reliance on Contractors,
- tighten up contractor invoice approvals, and
- develop a road fouling bylaw to offset increase long term road maintenance costs.

## Transit Cash Handling

This audit was selected to demonstrate the benefits of random cash audits anticipated in the six year audit plan. It served as a follow up on recommendations made in a KPMG operational consulting report, and focused on internal processes and controls over cash handling within the Transit Cash Office.

Our recommendations related to the need to:

- improve the segregation of duties, and
- the management of bus ticket and pass inventory.

## Transit Shift Trading

This audit resulted from our initial observations and findings while conducting our risk assessment of Conventional Transit Services.

It was conducted as limited scope payroll and timesheets controls audit, with the intention of ensuring compliance with laws, regulations, policies, procedures and payroll controls.

Our recommendations related to the need to:

- discontinue the practice of selling shifts for cash, and
- to improve timesheet and payroll controls to ensure the accuracy of City records.

## Accounts Payable

This audit resulted from our initial observations and findings while developing our six year audit plan.

It was conducted as cross-functional audit, with the intention of providing assurance to management and Council that adequate controls and safeguards were in place for Corporate processing of payments.



Our recommendations related to the need to:

- improve controls and segregation of duties for activities related to Vendor Master files,
- to establish supervisory review of voided transactions,
- to increase the use of electronic funds transfers, and
- also proved assurances and support for the recovery of duplicate payments of invoices.

## Conventional Transit Services

This audit was initiated as a full program performance audit, in accordance with our six year audit plan. It was conducted with the intention of assisting Council in holding themselves and the Administrators accountable for the quality of stewardship over public funds, and the achievement of value for money in operations.

Our recommendations related to the need to:

- improve the quality of performance information provided to the Council in support of program direction, program options and budget deliberations,
- improve the quality of information provided to new members of Council in support of their role in evaluating elements of value for money for the U-Pass program,
- improve Transit fleet work order processes to evaluate value for money in fleet maintenance and repair,
- improve Transit's use of AVL system data intended to evaluate elements of value for money for bus operations,
- improve Transit's use of Fare Box system data to support ridership analysis and route planning, and
- improve Transit's ability to summarize and evaluate customer inquiries and complaints in support of continuous improvement in satisfaction and value for money.