

AUDIT AND OPERATIONAL REVIEW COMMITTEE – NOVEMBER 16, 2009

INTERNAL AUDIT REPORT OF CORPORATE COMMUNICATIONS

Recommendation

The City Auditor recommends to the Audit and Operational Review Committee:

That the Internal Audit Report of Corporate Communications be received.

Economic Impact

The recommendations suggested by the auditor and the implementation of corrective actions in the audit report, will improve the effectiveness of risk management, control and governance processes of the department. Some impact will be economic and will be measurable in dollar terms, while others will provide intangible benefits which may not be measurable. Other benefits will be an improvement in the efficiency and effectiveness in the operations of the department. Internal Audit adds value to all areas of City activity which are audited.

Communications Plan

The report will be available to the public through the City of Vaughan's website.

Purpose

To present to the Audit and Operational Review Committee, the Internal Audit Report of Corporate Communications.

Background - Analysis and Options

The audit was part of the 3 year risk-based Internal Audit Work Plan which was approved by the Audit and Operational Review Committee.

Other than what is included as observations in the Internal Audit Report, the department is operating effectively.

The Internal Audit Report is provided as an attachment. The report has an Executive Summary and includes, for all deficient items, (1) the observations of the auditor, (2) the implications, (3) the auditor's recommendations, (4) the director's response for corrective actions and (5) the auditor's response to the corrective actions.

Relationship to Vaughan Vision 2020

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

Not applicable

Conclusion

1. The Internal Audit Report includes the audit findings, recommendations and corrective actions.
2. The City Manager and Director of the department/operation audited have responded favourably to all observations and recommendations in the Internal Audit Report.
3. When all corrective actions are implemented, (1) internal controls will be improved, (2) the quality of performance in carrying out assigned responsibilities will be enhanced, (3) the department/operation will operate more effectively and efficiently and (4) the Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.

Attachments

Internal Audit Report of Corporate Communications.

Report prepared by:

Michael Tupchong, CA, CIA, CPA, CFE
City Auditor

Respectfully submitted,

Michael Tupchong, CA, CIA, CPA, CFE
City Auditor

November 12, 2009

Clayton Harris
City Manager
City Of Vaughan
2141 Major Mackenzie Drive
Vaughan, Ontario
Canada L6A 1T1

Dear Clayton Harris,

Re: Internal Audit of Corporate Communications

I have completed the internal audit of Corporate Communications. This audit was included in the three year audit work plan.

A follow-up letter will be sent to the auditee, 30 days from the issue date of this Internal Audit Report, requesting the status of Corrective Actions as noted in this report. Subsequent follow-up letters may be sent until all Corrective Actions have been satisfactorily implemented.

I would like to thank Director Madeline Zito and Manager Ted Hallas for accommodating me and providing me with unrestricted access to all staff and information during the audit.

I have exercised independence, objectivity and due professional care in accordance with the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

The Internal Audit Department is committed to adding value, providing continuous improvement recommendations and professional service to the whole organization with integrity and credibility.

Sincerely,

Michael Tupchong CA, CIA, CPA, CFE
City Auditor

cc: M. Zito T.Hallas

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DEFINITION, OBJECTIVE AND SCOPE

1. **Definition:** Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
2. The **objective** of Internal Auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, Internal Auditing furnishes them with analyses, recommendations, counsel, and information concerning the activities reviewed. The internal audit objective includes promoting effective control at reasonable cost. In the end, Internal Audit is focussed on continuous improvement of the organization.
3. The **scope** of Internal Auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of control and the quality of performance in carrying out assigned responsibilities. The Internal Auditors have authority to review any phase of City activity. The scope of this audit may include one or more of the following:-
 - Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
 - Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations, which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
 - Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
 - Appraising the economy and efficiency with which resources are employed.
 - Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
 - Reviewing the identification of risk exposures and use of effective strategies to control them.
 - Reviewing specific operations at the request of the Audit Committee or City Manager, as appropriate.

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FOLLOW-UP ON CORRECTIVE ACTIONS

1. It is extremely important that all Corrective Actions as stated in this Internal Audit Report are implemented as soon as possible.
2. The Internal Audit Department will perform regular follow-ups, the first being 30 days after the issue date of the Internal Audit Report, followed by subsequent 30 days until all Corrective Actions have been satisfactorily implemented. Follow-up audits may be done to verify the reported implementation.
3. The Corrective Actions will ensure that the deficiencies as raised by the Auditor will be addressed. After all Corrective Actions have been implemented, there will be improvement in the effectiveness of risk management, control, and governance processes. The department will operate more efficiently and effectively. Members of the organization will also have discharged their responsibilities.
4. At the discretion of the Commissioner/Director, this report may be distributed to the appropriate staff members under their jurisdiction. Deficient items which could be common across the organization should be globally addressed. Further consideration should be given to revise/update current policies and procedures, as deemed necessary.

INTENDED PURPOSE OF REPORT

This report is presented purely to add value and to improve the operation in terms of the scope of the audit for effectiveness, efficiency and continuous improvement. Areas reviewed were considered to be operating effectively, except where specifically noted as observations for which the auditor has made recommendations for improvement. The report is not intended to criticize/discredit any individual, or the management of the operation. The recommendations are suggestions of the auditor to achieve the objective of the audit.

Auditor(s): Michael Tupchong.....**Signature:**.....

Approved:

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Executive Summary

1. In the majority of cases, the department makes out the Field Purchase Order/Purchase Order after the Invoice is received or after the Contract has been signed.
2. Additional measurements could be done for Media and Sponsorship.
3. An expense was charged to the wrong account because there was budgeted funds in the account.
4. The employee and the employee's supervisor do not review and sign the monthly cellular phone invoice to indicate that the charges are correct and has been approved for payment.
5. A number of Invoices are not signed (and dated) by the appropriate receiver, to verify that the services/goods were received, that the charges are correct and have been approved for payment.
6. The department does not have its own legally approved contract forms protecting the interests of the City, for third parties to sign. As a result, the City may be at risk for certain liability issues.
7. For Auction Sales at fundraising events, control over cash received and brought back to the office for deposit, can be improved. Changes are made to the opening bid amount without any signature by the authorized staff member.
8. A self-employed worker/contractor is paid overtime or allowed to accumulate overtime.
9. Controls over staff overtime need improvement.

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Field Purchase Orders/Purchase Orders

Observations

1. Field Purchase Orders (FPO) are made out for purchases under \$3,000. Purchase Orders (PO) are required for purchases more than \$3,000. It was observed that in the majority of cases, the department makes out the Field Purchase Order/Purchase Order after the Invoice is received or after the Contract has been signed. The Invoice date is usually dated after the service/work is rendered by the vendor. Therefore in a number of instances, the FPO/PO was dated after the date the service/work was received.

2. The proper process for the FPO/PO is to obtain the cost of the service/work to be done, and if the price is acceptable, to have it authorized, and then to issue the FPO/PO to the vendor to show the department's commitment to have the work/service done at the agreed cost. The vendor then performs the work/service after the FPO/PO has been issued and received by them. The auditor is aware that in actual practice, the FPO/PO number is given over the phone or e-mail in many instances, for reasons of expediency, and this is accepted by the vendor to proceed with the order even though the physical copy of the FPO/PO may not have been received..

Implications

By completing the FPO/PO after the work/service has been done, when the Invoice has been received or after the contract has been signed, is merely a paper compliance exercise, and the proper timely process of the FPO/PO is not adhered to.

Without an agreed price before a work/service is ordered, the department may not be receiving the most competitive price.

Recommendations

It is recommended that:-

The Field Purchase Order/Purchase Order should be completed, dated and authorized BEFORE/AT THE SAME TIME the service/work is ordered. This will ensure that the process is followed as intended. No FPO/PO should be made out, authorized and dated after the service/work is done or after the contract has been signed.

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Corrective Action(s) (Director Madeline Zito Response)

The recommendation will be followed and Purchase Orders will be filled out.

Auditor's Response to Corrective Action(s)

Recommendations will be followed and this will rectify the issues raised.

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Additional Performance Measures

Observations

1. Two of the department's performance measures include (1) Number of Media Contacts/Inquiries (2) Number of Media Clippings of Published New Stories on Vaughan per Total hours. It is observed that these two measurements would increase due to the growth of the media. The measurements do not indicate whether any increase is due to (1) the growth of the media or because there is (2) an actual increase in Contacts/Inquiries per Media or (3) an actual increase in the number of Media Clippings per Media.
2. Two other measures which are also maintained are : (1) Sponsorship for Corporate Events (2) Sponsorship for Mayor's Charity Events. It was learnt that an additional staff member was added to influence the sponsorship program. Therefore any increase in sponsorship dollars could be attributable to the additional resource person obtaining additional sponsors.

Implications:

1. The performance measurement relating to media, could be attributable to media growth. Although Corporate Communications has issued more news releases, there are two new newspapers in Vaughan therefore, at this time it is difficult to determine if the increase in published articles is due to a the number of news releases issued or new newspapers.
2. The resulting increase in the Sponsorship measurements could be due to the efforts of the additional resource person or actual increase in sponsorship or both.
3. Additional measurements could be done for Media and Sponsorship.

Recommendations:

In order to improve the department's performance measures, it is recommended that:-

For Media:

The variable factor of growth should be taken into account by calculating the measurement based on an average media unit. E.g., the following measurements could also be included:-

- Average Number of Media Contacts/Inquiries per Media/Newspaper.
- Average Number of Media Clippings of Published New Stories on Vaughan per Media/Newspaper

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For Sponsorship:

As the increase in Sponsorship results could be due to the efforts of the additional resource person, other measurement of sponsorship could include : (1) Average sponsorship revenue per contributor (2) Number of sponsors per Mayor's Charity Events

Corrective Actions: (Director Madeline Zito Response)

The additional measurements will be done.

Auditor's Response to Corrective Action:

The corrective actions will improve on performance measurements.

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Food Charged To Professional Fees Account:

Observations:

It was observed that food expenses totalling \$1,610 for Media Luncheon with the Mayor, was charged to "Professional Fees" account in the General Ledger instead of Media Relations. The auditor was informed that the account was used because there were budgeted funds available in the account. The event was held on February 28, 2007. the Field Purchase Order (FPO) was authorized and signed on May 28, 2007 (three months after the event). The Invoice was not signed and dated to indicate that the Invoice charges were correct and the authorization to pay.

Implications:

An expense was charged to the wrong account because there was budgeted funds in the account. Charges to incorrect accounts will provide incorrect spending information for that account.

Recommendations:

1. It is recommended that charges for Media luncheon should be charged to the Media Relations' account, and not to any account because there is budget money in it.
2. The correct General Ledger account should be used, irrespective whether there are budget funds available or not. This will then give correct actual balances for that account and provide actual spending information for that expense. As long as the total department budget is not exceeded, it is acceptable for some line items to exceed the budget providing there are adequate explanations.

Corrective Actions (Director Madeline Zito Response)

The Media Luncheon is a function of Media Relations and should go under "events" account.

Auditor's Response to Corrective Actions:

The corrective action will address the incorrect posting from now on.

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Cell Phone Invoices Need Signatures

Observations

It was observed that the administrative co-ordinator approves (signs) monthly cellular line invoices from Bell and Rogers, for department employees, including the director, who have cell phones. The employee and the employee's supervisor do not review and sign the monthly cellular phone invoice to indicate that the charges are correct and has been approved for payment.

Implications

1. Employees are not reviewing their personal monthly cellular charges for accuracy.
2. Employees' supervisors are not reviewing and authorizing (by way of signature), employees' charges.
3. The administrative co-ordinator signs monthly invoices of employees, without total knowledge of the accuracy of the charges.

Recommendations

It is recommended that :

Cell phone charges are a specific expense of the employee, similar to travel expenses. The invoice showing the calls made and related charges should be reviewed and signed by the employee to verify its accuracy, and should be reviewed and signed by the employee's supervisor indicating approval.

Corrective Actions (Director Madeline Zito Response)

Cell phone bills will be initialled by each employee and signed off by their immediate supervisor prior to the Administrative Coordinator reconciling them and sending them to Accounting for payment.

Auditor's Response to Corrective Actions:

The corrective action will address the issues raised.

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Many Invoices Not Signed For Receipt of Goods/Services

Observations:

It was observed that a number of Invoices are not signed (and dated) by the appropriate receiver, to verify that the services/goods were received, that the charges are correct and have been approved for payment.

Implications:

Signing and dating each invoice provides assurance that the services/goods were received, that the charges on the invoice are correct and has been approved for payment.

Recommendations:

It is recommended that

All invoices from vendors should be signed (and dated) by the receiver to indicate that the services/goods were received, that the charges on the Invoice are correct and that the invoices have been approved for payment. This is good internal control practice.

Corrective Actions (Director Madeline Zito Response)

It is the practice of Corporate Communications to do this. This will be discussed with staff to ensure this is done.

Auditor's Response to Corrective Actions:

The signing and dating of invoices will provide assurance that the services/goods were received and that the charges on the invoices are correct

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City's Own Contract Forms Required

Observations

The department signs a number of contracts with businesses/corporations to “rent/hire” the services of famous athletes, entertainers etc., for certain City events (e.g. Winterfest, Canada Day, Concerts in the Park, etc). The businesses/corporations which represent the athletes and entertainers, present their own contract forms for the department to sign. This safeguards their interests. The department has no contract forms of its own, for third parties to sign, to protect the City's interests.

Currently, contracts with liability issues are now sent to the Legal department for review.

Implications

The department does not have it's own legally approved contract forms protecting the interests of the City, for third parties to sign. As a result, the City may be at risk for certain liability issues.

Recommendations

It is recommended that the department should work with the City's Legal department, to develop standard contract forms, which safeguards and covers the City's interests, to be signed by third parties, so that the City is protected from potential liability.

Corrective Actions (Director Madeline Zito Response)

Corporate Communications is working with the legal department to develop standard city contracts to be signed by third parties i.e., talent, athletes, amusement ride providers, etc.

Auditor's Response to Corrective Actions:

Standard City contracts will reduce potential liability for the City.

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Food Purchases Need Approval Signature

Observations

1. The department periodically purchases from the cafeteria for an event, and receives an Invoice every time. The administrative co-ordinator enters the account code for the Finance department to charge the Invoice amounts to.
2. The Invoices are not signed and dated by the administrative co-ordinator to indicate that the charges are correct and that the goods were received.

Implications

Controls over approving invoices need improvement.

Recommendations

All Invoices forwarded to the Accounting department for processing and payment, should be signed and dated, to indicate that the Invoices were reviewed, the goods were received, the charges are correct and have been approved for payment.

Corrective Actions (Director Madeline Zito Response)

The corporate communications department will ensure that this is the practice followed with all invoices.

Auditor's Response to Corrective Actions:

Controls over invoice approvals will be improved.

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Auction Sales-Charity Golf Classic

Observations

1. It was observed that when the highest bidder pays by credit card, s(he) receives the credit card receipt as proof of payment. When the payment is in cash, no receipt is given.
2. The total cash collected, is taken back to the office and one 4-part City of Vaughan receipt is made out for the total cash to be deposited. The cash and 4-part receipt is taken to the central cashier for deposit.
3. In 5 instances, when the department staff noted that there was no initial commitment on the opening bid, a staff member would lower the initial bid amount by scratching out the initial bid and writing down the new bid. There was no signature alongside the change made authorizing the change.

Implications

Control over cash received and brought back to the office for deposit, can be improved

Control over changes made to the opening bid amount, can be improved.

Recommendations

It is recommended that:

1. Pre-numbered receipt books with a fixed copy and customer copy should be purchased and used for cash receipts only.
2. Pre-numbered receipts should be issued to payers for cash received from the silent auction. The total cash brought back to the office should equal the total of the fixed portion of pre-numbered receipts issued. The City of Vaughan 4-part receipt should still be made out for the total cash to be deposited, and should agree with the total of the fixed portion of pre-numbered receipts .
3. All changes to the opening bid amounts, should be signed by the authorized department employee. This will provide some control that the changes were not made by a public member but by an authorized departmental official.

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Corrective Actions (Director Madeline Zito Response)

The recommendations will be communicated to staff to adhere to.

Auditor's Response to Corrective Actions:

The corrective actions will improve controls over cash received and changes made to bid prices.

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Self-Employed Worker and Overtime

Observations

1. A self-employed worker presents her bi-weekly invoice of \$2,500 for 70 hours of work to the department. She is usually in the office each day for her 7 hour day. She does not bill for any overtime at this time. Any overtime she does, she keeps track. The department does not see the overtime while it is being recorded and accumulated. The self-employed worker takes time off in lieu of overtime. Before the summer, the self-employed worker presents the total accumulative overtime to the department and takes the time off during the summer while being paid. The auditor asked the self-employed worker for her accumulative overtime year-to-date, by date it was performed. For 2007, the overtime was 51hours and 10 min (incurred in April, May, June and July 2007). She took 7 days off in 2007 in lieu of this overtime.
2. A previous self-employed worker also billed the department bi-weekly, a flat fee for 70 hours of work. On one invoice, the worker billed the department \$500 for "Winterfest Overtime". There was no information of the total number of overtime hours charged, or the dates they were incurred. Based on the pay rate of \$2200 for 70 hours, the auditor calculated that the \$500 overtime charge represented 15.91 hours or 15 hours 54.6 minutes. This number appears odd and may have been rounded off. It should have been questioned by the department.

Implications

It is not customary practice to pay a self-employed worker for overtime. A self-employed worker is paid an agreed amount to do a specific task, irrespective of the time to do the task. The agreed price is the City's burden but the task (the method, and how long it is done) is the contractor's.

Recommendations

1. The self-employed worker is a "contractor" and not an employee of the City. Therefore there should not be any overtime owed or paid by the department. If the "contractor" is allowed to accumulate overtime and be allowed to take time off in lieu, then she is given the same privilege as other employees who are allowed to do this. There would be consequences (Income Tax, CPP, EI, interest and penalties) to the City if the self-employed worker ("contractor") is defined by the Canada Revenue Agency as an employee but paid as a "contractor".

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Corrective Actions (Director Madeline Zito Response)

We agree that that a "contractor" should not be paid for overtime or allowed time off in lieu of overtime. We will address this issue with the "contractor".

Auditor's Response to Corrective Actions:

The corrective actions will address the issue of the "contractor" being treated as such and not as an employee, in line with the Canada Revenue Agency guidelines.

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Staff Overtime

Observations

1. According to the Manager of Corporate Communications, the department's non-union staff frequently works in excess of the standard 35 hours per week, particularly before a major event or program launch (e.g., Canada Day, Mayor's Gala, Winterfest). This overtime work is referred to as "lieu time," as staff will take equal time off in lieu of extra time worked. (The two part-time union staff are subject to the collective agreement and are not included in this discussion.)
2. There is no standard record keeping of the "lieu time" accumulated by date – each staff member keeps track of his/her own "lieu time" worked. When a staff member wishes to take equal time off, the staff member presents the "lieu time" hours to the Manager who approves the time off in lieu if the current workload permits. Staff is encouraged to use their lieu time within two weeks of working extra time, but this is not always possible if the department is busy with major projects. As a result, there is a tendency to "bank" lieu time.
3. Some staff at grade 6 and up, are paid accordingly, and are allowed to take in excess of the standard 35-hour lieu time annual provision.
4. The following "lieu time" hours were worked by the following staff for 2007 :-

Full-time Non-Union Staff

	<u>Hours</u>	<u>Grade</u>
Employee 1	39 hours	6
Employee 2	115 (3.3 weeks)	7
Employee 3	30	6
Employee 4	157 (4.5 weeks)	5
Employee 5	71 (2 weeks)	5
----- Total -----	412 hours (11.8 weeks)	

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Part-time Union Staff

Employee 6	93.5 (2.7 weeks)	5
Employee 7	64.0	5

Total	157.5 (4.5 weeks)	

GRAND TOTAL	569.5 HOURS (16.3 WEEKS)	

Implications:

1. There is a need for a standardized procedure for recording staff "lieu time."
2. Excessive lieu time may indicate insufficient staff resources to complete assigned duties.
3. At certain times of the year, time taken off for "lieu time" may create difficulties for the department in providing the established service levels. This would occur if staff uses their accumulated lieu time during a "slow demand period," resulting in insufficient staff in the office.
4. Staff are taking time off in excess of the standard 35-hour lieu time annual provision.

Recommendations:

1. There should be a standard "Overtime Form" developed. The form should be used by all department staff to record the "lieu time" worked, approved and time taken off. The form could include the following information:

"Lieu Time" Worked:

- Overtime hours worked
- Date worked
- Reason
- Cumulative hours worked
- Approval Signature and date

"Lieu Time" Taken Off:

- Time taken off(hours)
- Date Taken Off

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- Cumulative hours taken
 - Approval Signature and date
2. The "lieu time" worked and time taken off should be approved (supervisor signature and date) for each month.
 3. Full-time staff who are at grade 6 and above who work more than 35 hours of overtime are only entitled to 35 hours of lieu time. This is as per the City's Human Resources policy which is applicable to all non-union fulltime employees (grade 6 and above).

Corrective Actions (Director Madeline Zito Response)

1. A new overtime form has now been developed to more accurately track staff time to better monitor and control the overtime worked and lieu time hours taken.
2. Staff will be informed of the City's 35-hour lieu time annual provision which will be adhered to.

Auditor's Response to Corrective Actions:

The corrective actions will adhere to the City's 35 hour lieu time annual provision and will improve the control over staff overtime.

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CONCLUSION

1. Based on the scope of audit work mentioned in the beginning of the audit report, areas reviewed were considered to be operating effectively, except for the noted observations for which the auditor made recommendations for improvement.
2. The City Manager and Director of the department/operation audited have responded favourably to all observations and recommendations in the Internal Audit Report.
3. When all corrective actions are implemented, (1) internal controls will be improved, (2) the quality of performance in carrying out assigned responsibilities will be enhanced, (3) the department/operation will operate more effectively and efficiently and (4) the Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.