Tuesday, June 16, 2020

3:00 p.m. – Regular Meeting with Electronic Participation

Closed Session (See Item 13) – Following Regular Business
(Under Section 239 of the Municipal Act, SO, 2001)

Council Chambers – 4th Floor – City Hall

Council Members:
Regional Councillor M. Medeiros – Wards 3 and 4 (Chair)
Regional Councillor R. Santos – Wards 1 and 5 (Vice Chair)
Regional Councillor M. Palleschi – Wards 2 and 6
Regional Councillor G. Dhillon – Wards 9 and 10
City Councillor J. Bowman – Wards 3 and 4
City Councillor D. Whillans – Wards 2 and 6
City Councillor H. Singh – Wards 9 and 10

Citizen Members:
Iqbal Ali
Rishi Jain
Abid Zaman

For inquiries about this agenda, or to make arrangements for accessibility accommodations for persons attending (some advance notice may be required), please contact: Sonya Pacheco, Legislative Coordinator, Telephone 905.874.2178, TTY 905.874.2130 cityclerksoffice@brampton.ca

Note: Meeting information is also available in alternate formats upon request.

Notice:
In consideration of the current COVID-19 public health orders prohibiting public gatherings of more than 10 people and requirements for physical distancing between persons, in-person attendance at this Committee meeting will be limited to Members of Council and essential City staff only.

Members of the public may watch the meeting live from the City of Brampton website at: https://www.brampton.ca/EN/City-Hall/meetings-agendas/Pages/Welcome.aspx or http://video.isilive.ca/brampton/live.html

Correspondence related to agenda business to be considered at the Committee Meeting may be submitted via email to the City Clerk at cityclerksoffice@brampton.ca up until the start of the meeting.

During the Committee Meeting, the public may submit questions regarding decisions made at the meeting via email to the City Clerk at cityclerksoffice@brampton.ca, to be introduced during the Public Question Period section of the meeting.
1. **Call to Order**

   *Note: The City Clerk will conduct a roll call at the start of the meeting.*

2. **Approval of Agenda**

3. **Declaration of Interest under the Municipal Conflict of Interest Act**

4. **Consent**

   * The following items listed with a caret (^) are considered to be routine and non-controversial by the Committee and will be approved at this time. There will be no separate discussion of any of these items unless a Committee Member requests it, in which case the item will not be consented to and will be considered in the normal sequence of the agenda.

   (nil)

5. **Delegations/Presentations**

6. **Reports – Internal Audit**

   6.1. Staff Report re: *Internal Audit Charter (R 143/2020)*

       *Recommendation*


       *To be received*

   6.3. Staff Report re: *Status of Management Action Plans (MAPs) – March 31, 2020 (I 60/2020)*

       *To be received*
6.4. Staff Report re: Corporate Fraud Prevention Hotline Update (I 62/2020)
   To be received

6.5. Staff Report re: Purchasing Card Governance and Transaction Review Audit (I 59/2020)
   To be received

   To be received

6.7. Staff Report re: Rose Theatre Audit (I 64/2020)
   To be received

7. Reports – Finance

7.1. Staff Report re: Procurement Options – External Audit Services (I 69/2020)
   To be received

8. Other/New Business

9. Question Period

10. Public Question Period

15 Minute Limit (regarding any decision made at this meeting)

During the meeting, the public may submit questions regarding recommendations made at the meeting via email to the City Clerk at cityclerksoffice@brampton.ca, to be introduced during the Public Question Period section of the meeting.
11. **Closed Session**

Note: A separate package regarding these agenda items are distributed to Members of Council and senior staff only.

11.1. The security of the property of the municipality or local board

12. **Adjournment**

Next Regular Meeting: Tuesday, September 8, 2020 at 9:30 a.m.
Recommendations:

1. THAT the report titled: **Internal Audit Charter (R143/2020)**, to the Audit Committee Meeting of June 16, 2020, be received; and

2. THAT Audit Committee recommend City Council enact the By-law, attached as Appendix 1 to this report, adopting the Internal Audit Charter, attached as Appendix 2 to this report, and Audit Committee Terms of Reference, attached as Appendix 3 to this report.

Overview:

- On February 18, 2020, Satinder (Sunny) Kalkat became the Internal Auditor for The Corporation of the City of Brampton (the “City”). The appointment of a new Internal Auditor affords an opportunity to review the Internal Audit Charter;

- This Report provides an overview of the role and function of the City’s Internal Audit Division and recommends the adoption of an Internal Audit Charter as attached as Appendix 2 to this Report; and

- This report also recommends Audit Committee Terms of Reference setting out the role and objective of the Audit Committee and aligns with the recommended Internal Audit Charter, as attached as Appendix 3 to this Report.
Background:

The purpose, authority and responsibility of the internal audit activity is defined in its charter. The Audit Committee should review and approve the charter periodically. The Audit Committee, acting in its capacity, should periodically assess whether the purpose, authority, and responsibility as defined in the charter continues to be adequate to enable the internal audit activity to accomplish its objectives. Each new term of Committee and Council provides an opportunity to approve the charter.

Providing a formal, written document containing the charter of the internal audit activity is very important in managing the auditing function within the organization. The purpose, authority and responsibility of the internal audit activity is defined in the charter. The charter establishes the internal audit activity's position within the City structure, authorizes access to records, personnel and physical properties relevant to the performance of audits/reviews and investigations and defines the scope of internal audit work. The charter can be used by management and Council in evaluating the operations of the function. If a question should arise, the charter also provides a written record with Council approval about the role and responsibilities of the internal audit activity within the City.

Current Situation:

The Institute of Internal Auditors (IIA) standards highly recommend an Internal Audit charter be established to document the functions and responsibility of Internal Auditors within an organization. The IIA also provides recommendations, attached as Appendix 4, regarding the best practices in establishing a Charter.

Internal Audit considered the recommendations of the IIA in developing the recommendations in this Report regarding the establishment of a new Internal Audit Charter. In addition, the audit charters or mandates of several municipalities (Toronto, Mississauga, Oakville, Kingston, and Oshawa) were reviewed, and it was determined that the Chief Audit Executive (Director of Internal Audit) in most municipalities functionally report to the Audit Committee and administratively to the Chief Administrative Officer.

Based on the recommendations of the IIA and the scan of the charters of other local area municipalities, it is recommended the City adopt the Internal Audit Charter, attached as Appendix 2 to this report.

The key elements of the proposed Internal Audit Charter, attached as Appendix 2, including the following:
The functions performed by Internal Audit are intended to assist the Chief Administrative Officer, Audit Committee, Commissioners and senior staff to assess and identify concerns with the performance and operations of the City, and assist in recommending ways in which the City may improve its operations;

- Provides Audit Committee with “full and open access to Internal Audit Division”;

- Provides for quarterly reporting of audit findings to the City’s Audit Committee; and

- Delineates the reporting line to the Chief Administrative Officer, as the Council appointed executive responsible to Council for the performance and operation of the City.

It is also recommended that the Audit Committee Terms of Reference be amended to align with the Internal Audit Charter and to set out the roles and objectives of the City’s Audit Committee with respect to the Statutory Audit Function and Internal Audit Function, attached as Appendix 3 to this report.

In addition, it is recommended that the Internal Audit Charter be adopted formally through a By-law enacted by Council, as attached as Appendix 1 to this report.

Corporate Implications:

Financial Implications:

There are no financial implications arising from the conclusions and recommendations in this report.

Other Implications:

n/a

Term of Council Priorities:

This report is consistent with the 2018-2022 Term of Council Priorities as is supports Direction 5: Brampton is a Well-Run City.
Attachments:

Appendix 1: By-law to Adopt Internal Audit Charter (proposed)

Appendix 2: Internal Audit Charter (proposed)

Appendix 3: Audit Committee Terms of Reference (proposed)

Appendix 4: IIA (Institute of Internal Auditors) Guidance Regarding IA Charter
WHEREAS The Corporation of the City of Brampton (the “City”) wishes to approve and adopt the Internal Audit Charter and Audit Committee Terms of Reference as recommended by the Audit Committee in June 2020 setting out the functions and responsibilities of the City’s Internal Audit Division and the Audit Committee;

NOW THEREFORE the Council of The Corporation of the City of Brampton ENACTS as follows:

1. This By-law may be referred to as the “Internal Audit By-law”.

2. The Internal Audit Charter attached as Schedule “A” to this By-law is hereby approved and established as the Charter of the City’s Internal Audit Division.

3. The Terms of Reference attached as Schedule “B” to this By-law is hereby approved and established as the Terms of Reference for the City’s Audit Committee.

4. All prior Internal Audit Charters and Audit Committee Terms of Reference are hereby revoked.

5. The Internal Audit Charter and the Audit Committee Terms of Reference as hereby approved and established shall prevail to the extent of any inconsistency with any prior policy, procedure, charter or terms of reference relating to the Internal Audit function.
ENACTED and PASSED this day of , 2020.

THE CORPORATION OF THE CITY OF BRAMPTON

Approved as to form.

Patrick Brown, Mayor

Approved as to content.

Peter Fay, City Clerk
APPENDIX “B”
AUDIT COMMITTEE TERMS OF REFERENCE
City of Brampton
Office of the Chief Administrative Officer
Internal Audit Division
CHARTER

Purpose:
The primary purpose of Internal Audit is to serve the needs of the Chief Administrative Officer (CAO), Audit Committee, and senior management to meet their responsibilities for maintaining proper systems of internal controls, to identify and evaluate significant exposures to risk and to help strengthen risk management throughout the City. This is accomplished by providing independent, objective assurance, and consulting services designed to add value to and improve the City of Brampton’s operations. Internal Audit uses a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Scope:
The scope of Internal Audit’s reviews is to assess the adequacy and effectiveness of the City's risk management, governance, and system of internal controls as designed and presented by management. These processes should be functioning in a manner to ensure:

- Risks (including risk of fraud) are appropriately identified and managed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately; and
- Quality and continuous improvement are fostered in the City's control processes.

Our Clients:
The clients we serve include the CAO, Audit Committee, Commissioners, and other senior management within the City.
Our Services: The services we provide include:

- Assurance Services including the conduct of compliance, operational, financial, forensic, and internal control audits;
- Business and Risk Consulting, including advice on the design and development of new or enhanced programs, policies, processes or information systems and conducting special projects and/or reviews; and
- Advice and Support on responding to reports and the implementation of recommendations made by the external auditors, consultants, Internal Audit Division and/or external body/commission.

Responsibility: The Internal Audit Division have the responsibility to:

- Develop a flexible annual audit plan that includes risk or control concerns identified by management, Audit Committee as well as other special reviews or tasks requested by management;
- Maintain professional audit staff with sufficient knowledge, skills and experience and professional certifications;
- Measure the performance of Internal Audit against predetermined goals and/or standards;
- Perform consulting and advisory services related to governance, risk management and control for the City management;
- Coordinate work with the other audit groups as appropriate in order to ensure efficient use of audit resources;
- Follow up on management's responses to Internal Audit's recommendations; and
- Conduct follow up audits for the significant engagements.

Independence: All Internal Audit activities shall remain free of influence by any element of the organization to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity that would normally be audited including:

- Assessing specific operations for which they had responsibility within the previous year;
- Performing any operational duties for the City or City Related Boards;
- Initiating or approving transactions external to Internal Audit; and
• Directing the activities of any City employee not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Internal Auditors will:

• Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties;
• Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined;
• Make balanced assessments of all available and relevant facts and circumstances; and
• Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

Authority:
The establishment of an Internal Audit function was approved by City Council in May 1987 as part of an enhanced audit framework for the City of Brampton. Internal Audit shall have full and unrestricted access to any and all records, properties, and personnel relevant to the area under review. Internal Audit shall obtain information and documentation from employees and contractors during the course of its duties.

To facilitate the activities we perform, we expect divisional staff to be:

• Cooperative and professional in their dealings with Internal Audit staff;
• Transparent in terms of providing accurate and complete information requested;
• Open in their communication;
• Proactive in identifying problems and requesting assistance; and
• Responsive to information requested and in addressing issues.

Functional Reporting:
The findings, conclusions and recommendations resulting from the work conducted by Internal Audit will be reported to the appropriate division head and/or Commissioner, through the CAO. On a quarterly basis, all audit reports (open and in camera) will be presented to the Audit Committee for their review. All open audit reports will be published on the City of Brampton Internal Audit website.
Management responses and agreed upon timelines for actions will be incorporated into our reports. The Internal Audit division will work with appropriate management to ensure the timely completion of all identified action plans. The updated status of all management action plans will be reported to the Audit Committee on a quarterly basis. The CAO will be advised prior to Internal Audit sharing internal audit reports and/or related information with the Audit Committee. The Audit Committee has full access to the Director of Internal Audit.

Administration of Internal Audit & Reporting: Internal Audit reports administratively to the Chief Administrative Officer (CAO). The CAO is responsible for the general management of the affairs of the Internal Audit Division, including the appointment, dismissal and remuneration of the Director of Internal Audit.

Our Values & Principles: In carrying out audit activities, we value and promote:

- Integrity
- Professionalism
- Objectivity
- Transparency
- Ethical Behaviour
- Accountability
- Fiscal Responsibility, and
- Continuous Improvement
Standards for our Audit Activities

During the planning and conducting of audit activities and reporting results, Internal Audit staff are required to:

- Comply with the standards (Standards) of the International Professional Practices Framework (IPPF) and the Code of Ethics as set out by the Institute of Internal Auditors (IIA).
- Comply with standards and ethics of staff’s own professional bodies of certification, including the Chartered Professional Accountants of Ontario, the Information Systems Audit & Control Association, and the Institute of Certified Fraud Examiners.
- Comply with internal standards and procedures established by the Division and the City of Brampton. If the Internal Audit division is prohibited by law or regulation from conformance with certain parts of the Standards, appropriate disclosure will be made to the CAO and we will ensure the conformance of all other Standards.

Quality Assurance and Improvement Program

Internal Audit will maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of Internal Audit. The program will include an evaluation of Internal Audit’s conformance with the Standards and an evaluation of whether internal auditors apply the IIA’s Code of Ethics. The program will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

The Internal Audit division will communicate to the CAO and Audit Committee on Internal Audit’s QAIP, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the City.

David Barrick  
Chief Administrative Officer  
City of Brampton

Sunny Kalkat  
Director, Internal Audit  
City of Brampton
AUDIT COMMITTEE
Terms of Reference

Composition:
- Minimum of five members of Council
- The Mayor, who is an *ex-officio* member
- Minimum of one to a maximum of three citizen members

Term of Office: Concurrent with the term of Council, ending November 30, 2022, or until successors are appointed

Established by: Council Resolution

Meetings: Quarterly, or as required by the Chair

Reports to: City Council

Supported by: City Clerk's Office

Qualifications:

Elected Officials:
- Where feasible, a background in finance, audit, or accounting would provide the Committee with additional expertise

Citizen Member(s):
- Lives and/or operates a business in Brampton
- Has a professional Accounting designation with a minimum of 10 years experience
- Demonstrates skill in strategy and innovation
- Proficient in accounting and auditing
- Displays exceptional verbal, written, listening, teamwork and collaboration skills

Objectives of the Audit Committee:

The objective of the Audit Committee is to enhance Council’s understanding of financial and control reporting both internally (as provided by the City’s Internal Audit Division) and statutorily (as provided by the City’s Auditors). The Committee enables Council to fulfill its oversight and stewardship responsibilities. The Committee also provides a focal point for improved communication between Council, the Internal and Statutory Auditors, and Management. The Committee strengthens the impartial, objective and independent review of management practices through the internal and statutory audit functions. In particular, the Committee’s objectives are to:
• Demonstrate a higher level of public accountability;
• Provide additional assurance to the public that City services are administered in an effective, efficient and economical manner;
• Ensure compliance with legislation for public reporting;
• Ensure compliance with Corporate policies and procedures;
• Ensure the safeguarding of City assets; and
• Ensure impartial, objective and independent review of processes for City operations

Responsibilities of the Audit Committee

The Audit Committee is responsible for:

Statutory Audit Function

Making recommendations to City Council regarding the following:

• The selection and dismissal of the City's statutory Auditor(s) in accordance with the requirements of Section 296 of the Municipal Act, 2001;
• The terms of engagement, fees and scope of the audit services provided;
• The review and approval of the annual Audited Financial Statements; and
• The review and receipt of reports.

Internal Audit Function

• Reviewing and approving the risk based internal audit work plan as recommended by the Director of Internal Audit
• Reviewing and approving the Internal Audit Charter;
• Reviewing Internal Audit reports issued during the year;
• Reviewing the adequacy of management responses to audit concerns in relation to the risks and costs involved;
• Ensuring the Internal Audit recommendations are implemented by reviewing Internal Audit's follow up reports; and
• Ensuring all Internal Audit activities are free from interference and related implications.
Financial and Other Reporting
- Reviewing the annual Management Letter prepared by the City’s statutorily appointed auditors and the related management responses.

General
- Reviewing the Audit Committee mandate periodically;
- Communicating and meeting independently with the Director of Internal Audit as appropriate; and
- Any other matters that could come within the scope of the auditors.
Appendix 4: The Internal Audit Charter Guidance from IIA (Institute of Internal Auditors)

Introduction

One of the great challenges every organization faces is assuring efficient and effective risk management — those policies and processes designed to leverage or mitigate risks to the organization’s advantage. When done well, internal audit provides that assurance as part of its role to protect and enhance organizational value.

For internal audit to operate at the highest levels, it must have clearly defined and articulated marching orders from the governing body and management. This is most easily achieved with a well-designed internal audit charter.

The IIA’s Perspective

Every organization can benefit from internal audit, and an internal audit charter is vital to success of the activity (IIA Standard 1000).

The charter is a formal document approved by the governing body and/or audit committee (governing body) and agreed to by management. It must define, at minimum:

- Internal audit’s purpose within the organization.
- Internal audit’s authority.
- Internal audit’s responsibility.
- Internal audit’s position within the organization.

Why the Internal Audit Charter Is Important

A charter provides the organization a blueprint for how internal audit will operate and helps the governing body to clearly signal the value it places on internal audit’s independence.

Ideally it establishes reporting lines for the chief audit executive (CAE) that support that independence by reporting functionally to the governing body (or those charged with governance) and administratively to executive management. It also provides the activity the needed authority to achieve its tasks, e.g., unfettered access to records, personnel, and physical properties relevant to performing its work.

KEY TAKEAWAYS

- The internal audit charter is vital to internal audit’s success and should be reviewed annually by the governing body.
- The internal audit charter should be approved by the governing body and agreed to by senior management.
• The charter should at a minimum include internal audit’s purpose and mission, authority, responsibility, its independent reporting relationships, scope and requirement to conform to IIA Standards.
• The internal audit charter should include details of how the internal audit activity will assess and report on the quality of the internal audit activity.
• A charter provides a blueprint for how internal audit will operate and allows the governing body to clearly signal the value it places on internal audit’s independence.

Because internal audit can operate across the entire spectrum of industries, from financial services to chemical manufacturing to government, the audit charter allows the scope of internal audit activity to be defined specifically to unique needs of the organization. The charter can provide — in great detail if desired — what work internal audit will undertake and the support it will receive from senior management and the governing body to achieve that work. Finally, the audit charter serves as a reference point to measure the effectiveness of the internal audit activity.

Vital Components of an Internal Audit Charter

The IIA has identified seven key areas that support the overall strength and effectiveness of the activity and should be covered in the internal audit charter.

While some internal audit charters may not include all of these elements, any area the charter fails to address threatens to weaken it and, ultimately, the activity.

• **Mission and Purpose:**
  ➢ Internal audit’s mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.
  ➢ Internal audit’s purpose is to provide independent, objective assurance and consulting services designed to add value and improve the organization’s operations.

• **International Standards for the Professional Practice of Internal Auditing:**
  ➢ The internal audit activity will govern itself by adherence to the mandatory elements of The IIA’s International Professional Practices Framework (IPPF) including its Standards, Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, and Code of Ethics.

• **Authority – The charter should include:**
  ➢ A statement on the CAE’s functional and administrative reporting relationship in the organization.
  ➢ A statement that the governing body will establish, maintain and assure that the internal audit activity has sufficient authority to fulfill its duties by:
    o Approving the internal audit charter.
    o Approving a timely, risk-based, and agile internal audit plan.
    o Approving the internal audit budget and resource plan.
- Receiving timely communications from the CAE on performance relative to its internal audit plan.
- Actively participating in discussions about and ultimately approving decisions regarding the appointment and removal of the CAE.
- Actively participating in discussions about and ultimately approving the remuneration of the CAE.
- Making appropriate inquiries of management and the CAE to determine if there are any inappropriate scope or resource limitations.
- Developing and approving a statement that the CAE will have unrestricted access to, and communicate and interact directly with, the governing body without management present.
- Developing and approving an authorization that the activity will have free and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

- **Independence and Objectivity – The charter should include:**
  - A statement that the CAE will ensure that the internal audit activity remains free of conditions that threaten the ability of the activity to carry out its activities in an unbiased manner. If independence or objectivity is impaired in fact or appearance, the CAE will disclose the details of the impairment to the appropriate parties.
  - A statement that the internal audit activity will have no direct operational responsibility or authority over any of the activities audited.
  - A statement that if the CAE has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence and objectivity.
  - A requirement for the CAE to confirm at least annually the independence of the internal audit activity to the governing body.

- **Scope of Internal Audit Activities – The charter should include:**
  - A statement that the scope of the internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments on the adequacy and effectiveness of governance, risk management, and control processes.
  - A statement that the CAE will report periodically to senior management and the governing body on the results of its department and the work the activity performs.

- **Responsibility – The charter should include:**
  - Statements as to the responsibility for:
    - Submitting at least annually a risk-based internal audit plan.
    - Communicating with senior management and the governing body the impact of resource limitations on the plan.
    - Ensuring the internal audit activity has access to appropriate resources with regard to competency and skill.
    - Managing the activity appropriately for it to fulfill its mandate.
o Ensuring conformance with IIA *Standards*.
o Communicating the results of its work and following up on agreed-to corrective actions.
o Coordination with other assurance providers.

**Quality Assurance and Improvement Program – The charter should include:**

➢ A statement that the internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity including its evaluation of conformance to IIA *Standards*.

➢ A requirement for the CAE to report periodically the results of its quality assurance and improvement program to senior management and the governing body and to obtain an external assessment of the activity at least once every five years.

**Conclusion**

The internal audit charter should be viewed by senior management and the governing body as an important policy document that enables the CAE and internal audit activity to effectively carry out their roles in the organization. It establishes clarity among risk managers within the organization and among stakeholders of internal audit’s role in the risk management process, and helps stakeholders to enable and measure internal audit’s value to the organization.
Date: May 28, 2020

Subject: Annual Report- 2019

Contact: Sunny Kalkat, Director, Office of Internal Audit, 905-874-2215, satinder.kalkat@brampton.ca

Recommendations:

1. That the report titled: Annual Report- 2019 (I61/2020), to the Audit Committee Meeting of June 16, 2020, be received.

Overview:

- The annual report provides an overview of the work conducted by the Office of Internal Audit; and

- The objective of this report is for the Office of Internal Audit to inform Audit Committee members on the division’s achievements and initiatives.

Background:

In an effort to maintain transparency and accountability, the Office of Internal Audit presented its first annual report to the Audit Committee in 2017. This report provides Audit Committee and members of the public important and relevant information pertaining to the work conducted by the division. While audit reports and Management Actions Plans (MAPs) are presented to Audit Committee on a quarterly basis, this report provides a summary of the audits and MAPs, as well as an overview of the initiatives, achievements, and other projects the division accomplished in 2019.

Current Situation:

Please refer to the attached 2019 Annual Report.
Corporate Implications:

Financial Implications:
n/a

Other Implications:
n/a

Term of Council Priorities:

This report fulfills the Council Priority of ‘Brampton is a well-run city” through the establishment of an annual report, which promotes corporate accountability and governance best practices.

Conclusion:

The Office of Internal Audit provides objective and independent assessments and valuable and practical recommendations to assist management in improving processes and procedures.

The Office of Internal Audit is committed to continue updating Audit Committee on a regular basis, providing members with information and oversight.

Authored by:
Sabrina Cook, Coordinator
The Office of Internal Audit

Reviewed by:
Sunny Kalkat, Director
The Office of Internal Audit

Approved by:
Sunny Kalkat, Director
The Office of Internal Audit

Submitted by:
David Barrick
Chief Administrative Officer

Attachments:

Appendix 1: Annual Report 2019
2019 was yet another busy and rewarding year for the Office of Internal Audit. We welcomed the year with a strong work plan and eager to continue learning and working together with our colleagues across the City of Brampton.

We continued raising awareness about internal audit; an important initiative, which allows us to educate City staff about the work we do and the value it adds, creates dialogue, and builds trust.

We continued cultivating and fostering strong relationships with our peers throughout the City through various audits and consulting engagements, special projects, and corporate events and learning days.

In order to stay up to date with the latest information and to allow us to stay connected with our peers in other municipalities and audit functions, we attended several conferences, seminars, workshops, and training sessions throughout the year. Some of our colleagues from the Digital Innovation and IT team presented on Open Data, Data Governance, and Analytics to a group of auditors at an IIA Seminar in June - this was a fantastic opportunity to collaborate with our IT colleagues while also showcasing the great things happening in Brampton!

We embrace the City of Brampton’s corporate values of courage, trust, compassion, and integrity in everything we do, and our team’s hard work and passion truly embodies these qualities.

For more information, please visit our webpage or follow us on Twitter @bramptonauditor.
Our Mandate

The Office of Internal Audit performs independent and objective assurance and consulting activities that are guided by a philosophy of adding value to improve the operations of the City of Brampton.

We assist the City in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization’s governance, risk management, and internal controls.

Our team provides objective and independent assessments on the effectiveness and efficiencies of controls and processes; valuable and practical recommendations to assist management in improving processes and procedures; as well as providing consulting services to management and staff on current and future initiatives.

The City of Brampton places an emphasis on good corporate governance through: educating and engaging the citizens of Brampton in transparent and accountable ways that show value and enhance the image of the City, investing in a collaborative environment with supportive organization and governance practices and policies, and lastly, practicing the proactive, effective, and responsible management of municipal assets and services. Good governance is a critical foundational element that reinforces the City’s transformational shift in its operations, and The Office of Internal Audit is an integral part of the City’s corporate governance structure.

The primary focus of The Office of Internal Audit is to ensure that City processes and related controls are functioning as intended. We determine if services can be improved or become more efficient, and ensure that the resources of the City are being used effectively.

Ultimately, we endeavour to provide the taxpayers of Brampton assurance that City services and resources are being administered in an effective, efficient, and economical manner.
Independence and Objectivity

The Institute of Internal Auditors’ (IIA) *International Standards* (Standards) require internal auditors to be independent and objective in performing their work. The IIA provides the following interpretation:

“Independence is the freedom from conditions that threaten the ability of internal audit to carry out their responsibilities in an unbiased manner.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.”

**Being independent allows the Office of Internal Audit to provide objective assessments of the City of Brampton’s operations; this includes audit selection, scope, procedures, timing, and content.**

The Office of Internal Audit’s independence is assured as a result of the following:

- Direct administrative and functional reporting relationship to the Chief Administrative Officer (CAO) and quarterly functional reporting, or as needed, to City Council through the Audit Committee
- CAO and Audit Committee approval of the Internal Audit Charter
- CAO and Audit Committee approval of the Annual Audit Work plan
- No direct operational responsibility or authority over any operational activity
- The addition of citizen members on Audit Committee (new for 2019; endorsed by Council in 2018)
Our Divisional Goals

The Office of Internal Audit's divisional goals for 2019 focused on three main themes: leadership, collaboration, and performance. These three areas, along with the corporate values, are our division's foundation and are the driving force for the work that we do.

1. Establishment as a Leader in Internal Audit

The Office of Internal Audit at the City of Brampton will become an established leader in internal audit

   a. Internal audit will develop and maintain an audit framework which incorporates best practices and ensures audit effectiveness
   b. Internal Audit will engage with City staff and forge deeper relationships with industry organizations, other municipalities and/or other internal audit functions
   c. Auditors will have core competencies and sufficient training / technical knowledge to undertake any engagement
   d. Auditors will be professional, objective, knowledgeable and courteous

2. Collaboration and Continuous Improvement

Foster an environment of continuous improvement: Partner with city departments / divisions to assist them in achieving the City’s strategic priorities; Identify opportunities to improve City processes; Undertake special projects (special review, advice, participation on project committee) to provide value added services to the City. The benefits of an environment of continuous improvement will include:

   a. Increasing the value of City services (increased efficiency, enhancing process effectiveness and/or increased capacity)
   b. Leveraging current technology / integration of current technology / consideration of automation
   c. Identifying opportunities for increased revenue and/or cost savings
   d. Proactively addressing any identified control weaknesses

3. Engagement Performance

Perform engagements using a risked based approach that identify opportunities for efficiencies, process improvements, automation, cost savings, increased revenue, increased capacity as well as ensuring compliance to applicable policies, procedures, regulations and/or by-laws. Engagements will be performed efficiently and effectively while achieving overall client satisfaction.

   a. Engagements include financial, operational, compliance, Value for Money, information systems audits, other reviews, investigations and consulting work
   b. Final engagements reports will be clearly conveyed, concise, accurate, timely and relevant
c. Engagements will consider utilization of technology, analytics as well as continuous auditing tools

d. Client post-engagement feedback will be obtained and will measure overall satisfaction of the engagement
Our Accomplishments

2019 Audits Completed/ Work plan Completion

In 2019, our team completed 11 audit engagements and two consulting engagements from the 2019 work plan. We also completed four audits from the 2018 work plan and one consulting engagement. In total, 17 reviews were scheduled to be completed in 2019; 13 were completed including an assignment completed by KPMG, which represents 76% completion of the 2019 work plan. Two audit engagements were deferred to 2020 and two audit engagements were in progress and are now complete.

Figure 1: Status of Audit and Consulting Engagements

<table>
<thead>
<tr>
<th>Year of Audit Work plan</th>
<th>Audit Engagement</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>Transit Operations</td>
<td>Deferred to 2020</td>
</tr>
<tr>
<td>2019</td>
<td>HR Employee Benefits (Phase 2)</td>
<td>Deferred to 2020</td>
</tr>
<tr>
<td>2019</td>
<td>Rose Theatre Operations</td>
<td>In progress. Completion 2020</td>
</tr>
<tr>
<td>2019</td>
<td>Contract Management</td>
<td>In progress. Completion 2020</td>
</tr>
<tr>
<td>2019</td>
<td>Contract Cleaning</td>
<td>Completed</td>
</tr>
<tr>
<td>2019</td>
<td>Fleet Services</td>
<td>Completed</td>
</tr>
<tr>
<td>2019</td>
<td>Chris Gibson Rec Centre Cash Handling and Revenue</td>
<td>Completed</td>
</tr>
<tr>
<td>2019</td>
<td>Payroll Services</td>
<td>Completed</td>
</tr>
<tr>
<td>2019</td>
<td>Active Directory</td>
<td>Completed</td>
</tr>
<tr>
<td>2019</td>
<td>Firewall Rules</td>
<td>Completed</td>
</tr>
<tr>
<td>2019</td>
<td>Data Centre</td>
<td>Completed</td>
</tr>
<tr>
<td>2019</td>
<td>IT Disaster Recovery</td>
<td>Completed</td>
</tr>
<tr>
<td>2019</td>
<td>Review of Councillor Budget and Staffing Model</td>
<td>Completed by KPMG</td>
</tr>
<tr>
<td>2019</td>
<td>Employee Data Change (EDC)</td>
<td>Consulting</td>
</tr>
<tr>
<td>2019</td>
<td>Yard Inventory Count- Road Operations</td>
<td>Consulting</td>
</tr>
<tr>
<td>2019</td>
<td>Driver Certification Program (DCP)- Fleet &amp; Fire</td>
<td>Completed</td>
</tr>
<tr>
<td>2019</td>
<td>Driver Certification Program (DCP)- Transit</td>
<td>Completed</td>
</tr>
<tr>
<td>2018</td>
<td>Construction</td>
<td>Completed</td>
</tr>
<tr>
<td>2018</td>
<td>HR Recruitment Follow-Up</td>
<td>Completed</td>
</tr>
<tr>
<td>2018</td>
<td>HR Employee Benefits (Phase 1)</td>
<td>Completed</td>
</tr>
<tr>
<td>2018</td>
<td>IT Service Desk</td>
<td>Completed</td>
</tr>
<tr>
<td>2018</td>
<td>HR Salary Administration</td>
<td>Converted to Consulting. Completed</td>
</tr>
</tbody>
</table>
Please visit our webpage or refer to appendix 3 to view the 2020 work plan.

Management Action Plans (MAP)

In 2006, the Office of Internal Audit implemented a follow-up process to monitor and ensure that Management Action Plans (MAP) for audit recommendations have been successfully implemented. This process is in accordance with the requirements of Standard 2500.A1 of the International Standards for the Professional Practice of Internal Auditing.

Divisions are required to provide a quarterly update to the Office of Internal Audit on the progress of implementing agreed-upon audit recommendations. We review the comments submitted by the client, and where necessary, the Director of Internal Audit will meet with management to discuss the respective progress and comments. The implementation status updates from management are reported to the Audit Committee on a quarterly basis.

At the end of 2019, 126 of 178 recommendations have been completed and implemented by management. The remaining 52 recommendations are scheduled to be implemented throughout 2020. The majority of these 52 recommendations are not yet due, meaning their original target completion dates are slated for 2020. There are a few recommendations, notably from audits prior to 2019, which have not yet been implemented due to new and updated systems scheduled for implementation throughout 2020. Figure 2 below shows the status of MAP as of December 31, 2019.

Figure 2: Status of Audit Recommendations as of December 31, 2019

<table>
<thead>
<tr>
<th>Audit Report</th>
<th>Rating</th>
<th>Year</th>
<th>Recs</th>
<th>Total Completed</th>
<th>As of December 31, 2019</th>
<th>Completed</th>
<th>Deferred</th>
<th>Not Yet Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Handling and Revenue-Cassie Campbell Community Centre</td>
<td></td>
<td>2017</td>
<td>8</td>
<td>6</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources Salary Administration</td>
<td></td>
<td>2017</td>
<td>13</td>
<td>12</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building Permits</td>
<td></td>
<td>2017</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of Logical Access Management</td>
<td>N/A</td>
<td>2018</td>
<td>6</td>
<td>-</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building Inspections</td>
<td></td>
<td>2018</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>By-Law Enforcement/Parking Infractions</td>
<td></td>
<td>2018</td>
<td>13</td>
<td>7</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fire and Emergency Services</td>
<td></td>
<td>2018</td>
<td>14</td>
<td>11</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Security</td>
<td></td>
<td>2018</td>
<td>14</td>
<td>12</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road Resurfacing</td>
<td></td>
<td>2018</td>
<td>15</td>
<td>15</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT Service Desk</td>
<td></td>
<td>2019</td>
<td>10</td>
<td>3</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile Phone Management Follow-Up</td>
<td></td>
<td>2019</td>
<td>13</td>
<td>4</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll Services</td>
<td></td>
<td>2019</td>
<td>10</td>
<td>-</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction- Countryside Dr. Road Widening</td>
<td></td>
<td>2019</td>
<td>13</td>
<td>11</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active Directory</td>
<td></td>
<td>2019</td>
<td>8</td>
<td>2</td>
<td>5</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR Recruitment Follow-Up</td>
<td></td>
<td>2019</td>
<td>11</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Handling and Revenue- Chris Gibson Recreation Centre</td>
<td></td>
<td>2019</td>
<td>8</td>
<td>-</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracted Cleaning</td>
<td></td>
<td>2019</td>
<td>11</td>
<td>-</td>
<td>8</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of Councillor Budget and Staffing Model</td>
<td>N/A</td>
<td>2019</td>
<td>4</td>
<td>-</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>178</strong></td>
<td><strong>92</strong></td>
<td><strong>34</strong></td>
<td><strong>24</strong></td>
<td><strong>28</strong></td>
<td></td>
</tr>
</tbody>
</table>
The Office of Internal Audit is committed to continuously collaborating with management in identifying, reviewing, improving, and updating policies, procedures, and processes on a regular basis, and enhancing efficiencies and process effectiveness.

We thank management and staff for their continued support and encourage them to continue striving to meet the target completion dates of audit recommendations.
Emerging Themes from Completed Audits

In May 2018, Council endorsed Brampton’s 2040 Vision; a vision that is based on redefining what a ‘bedroom community’ looks like, while creating a vibrant city where people will live, work, and play in harmony with nature and one another. Brampton City Council’s Term of Council Priorities for 2018-2022 are a key step in moving us toward 2040; 22 priorities will inform our activities, decisions, and budgets, and are organized in five themes: opportunities, mosaic, green, healthy & safe, and well-run.

The Office of Internal Audit reviewed the completed 2019 audits, and identified these recurring themes as opportunities for continuous improvement to be addressed by management.

Policies and Procedures

We found outdated policies that were not reflective of current practices, as well as a lack of regular updates and reviews of policies.

Having updated policies that reflect current practice provides greater transparency and ensures consistency of practice for all staff. In addition, having a methodology with which to review and update policies on a regular basis ensures that all policies remain relevant.

Increasing Management Oversight

Changing processes throughout the Corporation requires sufficient management oversight to ensure appropriate controls are in place in order to reduce any new exposures to risk. In our audits, we found that increased management oversight was needed in order to ensure the efficiency of processes. Management oversight through performance measures, exception reporting, post-evaluation reviews, and data analytics, and security monitoring of technology and physical assets should be considered. Management understood the required improvements and is in the process of making enhancements.
Fraud Prevention and Awareness

As part of the City of Brampton's commitment to protecting its assets and to the principles of accountability, transparency, honesty, and respect, the Corporation has established a framework to prevent, detect, and report incidents of fraud, and a process to investigate and report on fraudulent acts. This initiative reflects the City's ongoing efforts to demonstrate our commitment to responsible, sound, and ethical operating practices. The Fraud Prevention Policy and the Fraud Hotline are components of this framework. They complement other existing policies, which, taken together, are intended to support and strengthen our commitment to the City’s Corporate values (courage, trust, compassion, and integrity), to promote and maintain a high level of integrity of our employees so that they feel empowered to do the right thing, and to ensure the City’s assets are protected.

The City’s Fraud Prevention Hotline was established in July 2016 to provide all City staff with a convenient, secure, confidential, and anonymous way to report possible incidents of fraud. The City uses an independent third-party service provider to manage its Hotline.

Since the launch of the Fraud Hotline there have been a total of 41 reports of alleged fraud. In 2019, 18 reports were received, which represents a 50% increase from 2018. Internal Audit conducted investigations of all 18 reports and closed them successfully. Figure 3 provides a breakdown of the report intake by method; the change in the means by which reports are now received appears to indicate an increased trust in reporting through our third-party Hotline.

*Figure 3: Report Intake by Method*

Fraud Hotline service also provided The Office of Internal Audit with a Benchmarking report of some of the other Canadian municipalities (Clients) for the period December 1, 2018 to November 30, 2019.
Figure 4 shows that the number of reports received between December 1, 2018 and November 30, 2019 was 29.5, whereas for Brampton the number was 16 in the same time period.

Figure 4: Number of Reports Received Compared to Other Clients

The following is a summary of the Fraud Hotline activities in 2019:

Table 5: Reports Received by Category
Moving into 2020, our focus will be to continue educating City staff on fraud awareness so that every employee is familiar with the risks related to fraud, is cognizant of identifying potential fraud in their respective area, and knows how to proactively address them.
## Internal Audit Scorecard

### 2019 Scorecard

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reports Issued to Audit Committee</td>
<td>Consulting: 3, Audit: 12, All: 24</td>
</tr>
<tr>
<td>Number of Auditors to Organizational Staff</td>
<td>1:932</td>
</tr>
<tr>
<td>Audit Recommendations Issued</td>
<td>108</td>
</tr>
<tr>
<td>Audit Recommendations Accepted</td>
<td>100%</td>
</tr>
<tr>
<td>Recommendations Implemented by Due Date</td>
<td>59%</td>
</tr>
<tr>
<td>Workplan Completion</td>
<td>76%</td>
</tr>
<tr>
<td>Actual Cost Savings</td>
<td>$20,083</td>
</tr>
<tr>
<td>Projected Cost Savings</td>
<td>$3mIn</td>
</tr>
<tr>
<td>Auditors with Professional Designations</td>
<td>100%</td>
</tr>
<tr>
<td>Overall Performance (Out of 5)</td>
<td>4</td>
</tr>
</tbody>
</table>

*Annual Report 2019*
The audit report rating is intended to provide management with an indication of the overall status of internal controls and processes in the audited area. The audit report rating is based on Internal Audit’s overall assessment of the significance of issues identified during the audit process, and in conjunction with professional judgement also considers the following:

1. Design and effectiveness of internal controls, processes, procedures, policies, and systems.
2. Compliance with policies, standard operating procedures, and other requirements (i.e. legal, regulatory, accounting, contractual).
3. Quality of the data and information provided by management and related systems.
4. Efficiency of systems, processes and procedures.

| Effective | - Key controls are adequately and appropriately designed, and are operating effectively to support objectives and manage risks.  
| - Audit recommendations resulted in only minor enhancements to the effectiveness or efficiency of controls and processes.  
| - One or more Priority 3 findings.  
| - Insignificant cumulative financial impact when all audit findings have been considered.  
| - Audit findings would not be subject to a follow-up by Internal Audit. |
| Enhancement Required | - A few key control weaknesses were noted that require enhancements to better support objectives and manage risks.  
| - One Priority 2 finding and Priority 3 findings.  
| - Priority 3 findings only where the cumulative financial impact is significant.  
| - Corrective action and oversight by management is needed.  
| - Audit findings could be subject to a follow-up by Internal Audit. |
| Significant Improvement Required | - Numerous key control weaknesses were noted that require significant improvement to support objectives and manage risks.  
| - One Priority 1 finding, or more than one Priority 2 findings and Priority 3 findings.  
| - Priority 2 and 3 findings only where the cumulative financial impact is significant.  
| - Corrective action and oversight by senior management is required.  
<p>| - Audit findings will be subject to a follow-up by Internal Audit. |</p>
<table>
<thead>
<tr>
<th>Immediate Action Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Key controls are either not adequately or appropriately designed and are not operating effectively, or there is an absence of appropriate key controls to support objectives and manage risks.</td>
</tr>
<tr>
<td>- More than one Priority 1 finding, combined with Priority 2 or 3 findings.</td>
</tr>
<tr>
<td>- Regardless of the type of findings, the cumulative financial impact is material to the City's financial statements.</td>
</tr>
<tr>
<td>- Confirmed fraud by management or staff.</td>
</tr>
<tr>
<td>- Corrective action and oversight by Corporate Leadership Team is required immediately.</td>
</tr>
<tr>
<td>- Follow-up of such audit findings by Internal Audit would be of high priority.</td>
</tr>
</tbody>
</table>
### Priority 1 (P1)

**One or more** of the following conditions exist that require *immediate attention of the Corporate Leadership Team*. Corrective actions by senior management must be implemented.

- Financial impact of both actual and potential losses is material.
- Management’s actions, or lack thereof, have resulted in the compromise of a key process or control, which requires immediate significant efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks. Failure by management to remedy such deficiencies on a timely basis will result in the City being exposed to immediate risks and/or financial loss.
- One or more of the following conditions is true: i) management failed to identify key risks; ii) management failed to implement processes and controls to mitigate key risks.
- Management’s actions, or lack thereof, have resulted in a key initiative to be significantly impacted or delayed, and the financial support for such initiative will likely be compromised.
- Management failed to implement effective control environment or provide adequate oversight, resulting in a negative pervasive impact on the City or potential fraudulent acts by City staff.
- Fraud by management or staff, as defined by the Corporate Fraud Prevention Policy (policy 2.14).

### Priority 2 (P2)

**One or more** of the following conditions exist that require attention by senior management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is significant.
- Management’s actions, or lack thereof, may result in a key process or control to be compromised, which requires considerable efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Management correctly identified key risks and have implemented processes and controls to mitigate such risks, however, one or more of the following is true: i) the processes and controls are not adequate in design; ii) the processes and controls are not operating effectively on a consistent basis.
- Management's actions, or lack thereof, have impacted or delayed a key initiative, and the funding for such initiative may be compromised.
- Management failed to provide effective control environment or oversight on a consistent basis, resulting in a negative impact on the respective division, or other departments.
- Management failed to comply with Council-approved policies, by-laws, regulatory requirements, etc., which may result in penalties.
- Management failed to identify or remedy key control deficiencies that may impact the effectiveness of anti-fraud programs.

### Priority 3 (P3)

**One or more** of the following conditions exist that require attention by management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is insignificant.
- A non-key process or control if compromised may require some efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Processes and controls to mitigate risks are in place; however, opportunities exist to further enhance the effectiveness or efficiency of such processes and controls. Management oversight exists to ensure key processes and controls are operating effectively.
- Minimal risk of non-compliance to Council-approved policies, by-laws, regulatory requirements, etc.
- Low impact to the City’s strategic or key initiative.
- Low impact to the City’s operations.
Internal Audit Work Plan 2020

<table>
<thead>
<tr>
<th>Audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brampton Transit</td>
</tr>
<tr>
<td>Building Design and Construction</td>
</tr>
<tr>
<td>Real Estate Management</td>
</tr>
<tr>
<td>P-Card Management</td>
</tr>
<tr>
<td>Compensation Benefits (Phase 2)</td>
</tr>
<tr>
<td>Insurance Providers</td>
</tr>
<tr>
<td>Contract Management</td>
</tr>
<tr>
<td>Segregation of Duties</td>
</tr>
<tr>
<td>Cyber Maturity Assessment and Vulnerability Assessment</td>
</tr>
<tr>
<td>Asset Management/End of Life Management</td>
</tr>
<tr>
<td>Data Architecture and Management</td>
</tr>
<tr>
<td>IT Assurance and Risk Management</td>
</tr>
<tr>
<td>DCP-Fleet</td>
</tr>
</tbody>
</table>
Recommendations:
1. That the report titled: Status of Management Actions Plans (MAPs)- March 31, 2020 (I60/2020), to the Audit Committee Meeting of June 16, 2020, be received.

Overview:

- As part of the internal audit follow-up process, departments are required to provide the Office of Internal Audit with an update on current status and progress of all outstanding MAPs.

- The objective of this report is for the Office of Internal Audit to inform Audit Committee members on the progress of the implementation of MAPs, as reported by management;

- The comments reflect the status of the implementation of MAPs due to be completed by or prior to March 31, 2020;

- As of March 31, 2020, 29 MAPs were implemented by management and 17 MAPs have been deferred. 39 new MAPs are created in the first quarter of 2020;

- The Office of Internal Audit may validate results at a subsequent date as part of the follow-up audit process; and

- Details concerning the individual MAPs are available upon request.
**Background:**

In accordance with the requirements of Standard 2500.A1 of the International Standards for the Professional Practice of Internal Auditing, the Office of Internal Audit has established a follow-up process to monitor and ensure that management action plans for audit recommendations have been successfully implemented. This process has been in place since 2006.

For the follow-up process, departments are required to provide an update to the Office of Internal Audit on the progress of implementing agreed-upon MAPs. The Office of Internal Audit reviews the comments submitted by the department, and where necessary, the Director of Internal Audit will meet with Management to discuss the respective progress and comments. Upon complete implementation of the MAPs by Management, Internal Audit will assess whether a follow-up audit is necessary to validate the operating effectiveness of the implemented processes and procedures. Such follow-up audits are included in Internal Audit’s annual work plan and is approved by the Audit Committee.

The implementation status updates from Management are reported to the Audit Committee. This report summarizes the status of all MAPs due to be implemented by management on or prior to March 31, 2020.

**Current Situation:**

As of March 31, 2020, 29 MAPs were implemented by management on or prior to this date. 17 MAPs were deferred. Majority of the MAPs are deferred due to COVID-19 and organizational changes. The remaining MAPs identified as “not yet due” have anticipated completion dates between Q2 and Q4 2020. The following table details the open and deferred MAPs.

<table>
<thead>
<tr>
<th>Open MAPs at Q4,2019</th>
<th>New MAPs During Q1,2020</th>
<th>MAPs Completed During Q1,2020</th>
<th>Open MAPs end of Q1,2020</th>
<th>MAPs Deferred During Q1,2020</th>
<th>MAPs Due by Q4,2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>51</td>
<td>39</td>
<td>29</td>
<td>61</td>
<td>17</td>
<td>44</td>
</tr>
</tbody>
</table>

Please refer to Appendix 1 for the details of the MAPs as of March 31, 2020.

**Corporate Implications:**

**Financial Implications:**

n/a
Other Implications:
n/a

Term of Council Priorities:

This report achieves the Term of Council Priority of ‘Brampton is a well-run city’ through the establishment of an internal audit follow up procedure for the implementation of MAPs, which promotes corporate accountability, values, and governance best practices.

Conclusion:

The Office of Internal Audit is committed to continuously collaborating with management in identifying, reviewing, improving, and updating policies, procedures, and processes on a regular basis, and enhancing efficiencies and process effectiveness.

The Office of Internal Audit encourages management and staff to continue striving to meet the target completion dates of Management Action Plans.

Authored by: Sabrina Cook, Coordinator
The Office of Internal Audit

Reviewed by: Darshan Janda, Manager
The Office of Internal Audit

Approved by: Sunny Kalkat, Director
The Office of Internal Audit

Submitted by: David Barrick
Chief Administrative Officer

Attachments:

Appendix 1: Management Action Plans as of March 31, 2020
<table>
<thead>
<tr>
<th>Audit Report</th>
<th>Rating</th>
<th>Year</th>
<th>MAPs Open Dec. 31</th>
<th>MAPS open Q1 2020</th>
<th>MAPS Due Mar. 31</th>
<th>Completed</th>
<th>Deferred</th>
<th>Not Yet Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Handling and Revenue-Cassie Campbell</td>
<td>Green</td>
<td>2017</td>
<td>2</td>
<td>0</td>
<td></td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Community Centre</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources Salary Administration</td>
<td>Orange</td>
<td>2017</td>
<td>1</td>
<td>0</td>
<td></td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Building Permits</td>
<td>Yellow</td>
<td>2017</td>
<td>1</td>
<td>0</td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Review of Logical Access Management</td>
<td>N/A</td>
<td>2018</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td></td>
<td></td>
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<tr>
<td>Building Inspections</td>
<td>Yellow</td>
<td>2018</td>
<td>2</td>
<td>0</td>
<td></td>
<td>2</td>
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<tr>
<td>By-Law Enforcement/Parking Infractions</td>
<td>Yellow</td>
<td>2018</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Corporate Security</td>
<td>Red</td>
<td>2018</td>
<td>2</td>
<td>2</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>IT Service Desk</td>
<td>Green</td>
<td>2019</td>
<td>7</td>
<td>5</td>
<td>2</td>
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<tr>
<td>Mobile Phone Management Follow-Up</td>
<td>Green</td>
<td>2019</td>
<td>9</td>
<td>2</td>
<td>2</td>
<td>5</td>
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<tr>
<td>Payroll Services</td>
<td>Yellow</td>
<td>2019</td>
<td>10</td>
<td>1</td>
<td></td>
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<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Construction- Countryside Dr. Road Widening</td>
<td>Orange</td>
<td>2019</td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active Directory</td>
<td>Green</td>
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<td>1</td>
<td>1</td>
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<td></td>
</tr>
<tr>
<td>HR Recruitment Follow-Up</td>
<td>Green</td>
<td>2019</td>
<td>3</td>
<td>2</td>
<td></td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Cash Handling and Revenue- Chris Gibson</td>
<td>Green</td>
<td>2019</td>
<td>4</td>
<td>0</td>
<td></td>
<td>4</td>
<td></td>
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<tr>
<td>Recreation Centre</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Contracted Cleaning</td>
<td>Red</td>
<td>2019</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of Councillor Budget and Staffing Model</td>
<td>N/A</td>
<td>2019</td>
<td>2</td>
<td>0</td>
<td></td>
<td>2</td>
<td></td>
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</tr>
<tr>
<td>Firewall Audit</td>
<td>Green</td>
<td>2019</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
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<td></td>
</tr>
<tr>
<td>Fleet Services</td>
<td>Green</td>
<td>2019</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Data Centre - Transit</td>
<td>Green</td>
<td>2019</td>
<td>7</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data Centre - Corporate Services</td>
<td>Green</td>
<td>2019</td>
<td>5</td>
<td>5</td>
<td></td>
<td>5</td>
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<td></td>
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<tr>
<td>HR Benefits</td>
<td>Green</td>
<td>2019</td>
<td>6</td>
<td>6</td>
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<td></td>
<td></td>
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<tr>
<td>Rose Theatre Operations</td>
<td>Orange</td>
<td>2020</td>
<td>6</td>
<td>0</td>
<td></td>
<td>6</td>
<td></td>
<td></td>
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<tr>
<td>Purchasing Card Review</td>
<td>Green</td>
<td>2020</td>
<td>2</td>
<td>0</td>
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<td>2</td>
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<td></td>
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<tr>
<td>Asset Management</td>
<td>Green</td>
<td>2020</td>
<td>4</td>
<td>0</td>
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<td>4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL** 51 39 37 29 17 44
Date: May 27, 2020

Subject: Corporate Fraud Prevention Hotline Update

Contact: Sunny Kalkat, Director, Office of Internal Audit, 905-874-2215, satinder.kalkat@brampton.ca

Recommendations:

1. That the report titled: Corporate Fraud Prevention Hotline Update (I62/2020), to the Audit Committee Meeting of June 16, 2020, be received.

Overview:

- The Corporate Fraud Prevention Hotline (“Fraud Hotline”) was launched on July 4, 2016 for the use of City of Brampton employees;

- Since the launch, the Fraud Hotline has received a total of 46 reports of alleged fraud. Since the last update to Audit Committee on March 10, 2020, four reports were received by the Fraud Hotline. Internal Audit has been conducting the investigations of all four reports;

- Internal Audit will provide ongoing updates on the status of the Fraud Hotline to the Audit Committee.

Background:

As part of the City of Brampton’s (“the City”) commitment to protecting its assets, a Fraud Framework to prevent, detect, and report incidents of fraud, as well as investigate any suspected acts of fraud, was established. On July 4, 2016 the City launched the Corporate Fraud Prevention Hotline, which allows City employees to report alleged incidents of fraud. The Fraud Hotline allows employees to report incidents anonymously and confidentially 24 hours a day, seven days a week. To report an incident of suspected fraud, employees can submit a report through the third-party secure website or over the phone through a third-party dedicated toll-free number.
As a result of low activity related to the Fraud Hotline and the number of new employees joining the City, the Fraud Framework was re-launched in 2018, consisting of the updated Fraud Prevention Policy and the Fraud Hotline. The Fraud Framework complements other existing Policies, which taken together, are intended to support and strengthen the City’s commitment to the Corporate Values of courage, trust, compassion, and integrity.

Internal Audit performs its assurance and consulting activities guided by a philosophy of adding value to improve the operations of the City of Brampton. As part of this commitment, Internal Audit has created and maintains an Employee Fraud Awareness Program, providing employees with tools and information and encouraging the use of the Fraud Hotline. If required, employees should feel empowered to do the right thing to ensure the City’s assets are protected.

Current Situation:

Internal Audit updates the Audit Committee on the status of the Fraud Hotline, including statistics on the number and types of reports received. Since the update report was presented at the March 10, 2020 Audit Committee Meeting, the Fraud Hotline has received four new reports.

The following table provides a summary of all reports received between January 1 and March 31, 2020 (Q1).

Table 1: Reports Received from January 1, 2020 to March 31, 2020

<table>
<thead>
<tr>
<th>Date Submitted</th>
<th>Report Category</th>
<th>Report Method</th>
<th>Report Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2020</td>
<td>Conflict of Interest</td>
<td>Web</td>
<td>Closed</td>
</tr>
<tr>
<td>January 2020</td>
<td>Undefined</td>
<td>Web</td>
<td>Open</td>
</tr>
<tr>
<td>February 2020</td>
<td>Embezzlement or Fraud</td>
<td>Web</td>
<td>Open</td>
</tr>
<tr>
<td>March 2020</td>
<td>Unethical Conduct</td>
<td>Web</td>
<td>Open</td>
</tr>
</tbody>
</table>

*Due to the office closures, Internal Audit could not close the reports effectively. All calls have been reviewed and delegated. Internal Audit will keep working with appropriate parties to conclude these reports.

Corporate Implications:

Financial Implications:

The 2020 operating budget approved by Council, includes amounts for a third-party to operate the Corporate Fraud Prevention Hotline.
Other Implications:
None.

Term of Council Priorities:

This report fulfills the Council Priority of 'Brampton is a well-run city' through the support of the Corporate Fraud Prevention Policy and Fraud Hotline, which promote Corporate accountability, our Corporate values, and governance best practices.

Conclusion:

The Corporate Fraud Prevention Policy and Hotline enhances and strengthens the City’s governance structure. It reinforces Council’s expectations regarding rules of behavior and emphasizes the values of the City. The Office of Internal Audit will continue to update the Audit Committee on the status of the Fraud Hotline and any ongoing and/or completed fraud investigations.

Authored by:  
Sabrina Cook, Coordinator  
The Office of Internal Audit

Reviewed by:  
Darshan Janda, Manager  
The Office of Internal Audit

Approved by:  
Sunny Kalkat, Director  
The Office of Internal Audit

Submitted by:  
David Barrick  
Chief Administrative Officer
Date: May 04, 2020

Subject: **Purchasing Card Governance and Transaction Review Audit**

Contact: Sunny Kalkat, Director, Office of Internal Audit, 905 874 2215, satinder.kalkat@brampton.ca

**Executive Summary:**

Internal audit undertook an independent review of the cardholder compliance with Purchasing Card (P-Card) requirements (including Allowable/Disallowable provisions). In addition we assessed Accounts Payable procedures and tools used to process transactions and provide oversight of P-Card expenditures. There were a total of $13.7M in expenses on P-Cards from March 4, 2019 to February 29, 2020.

During the review we utilized data analytics to understand the types and amounts of categories of spend and identified individual transactions for further review.

The scope of our review included:

- Review policies and procedures in place to manage P-Card transactions.
- Review controls intended to prevent and detect:
  - Non-compliance with the policies and procedures; and
  - Processing of unauthorized expenses and exceptions.
- Adequacy and effectiveness of related management oversight.
- Assess reporting on expenses and related monitoring activities.

The background, the audit scope and objective are explained in **Appendix 1**.

**Some of the strengths we found in the processes are as follows:**

- Built in controls in PeopleSoft to prevent duplicate payments on same invoices.
- Built in controls in Spend Dynamics to ensure each transaction is reviewed and approved along with the supporting documents.
- Management schedules mandatory training for new P-Card users on a monthly basis and cards are issued only after the training has been completed.
Purchasing is continuously monitoring transactional activities through monthly reviews to ensure card users enter all the required transactional information in Spend Dynamics.

Purchasing maintains a log of temporary credit limit changes and supporting documentation.

Accounting reviews the operating and capital account information on a monthly basis to ensure accuracy of the charges.

Internal Audit discussed the following improvement opportunities with P-Card Management team:

<table>
<thead>
<tr>
<th>Process</th>
<th>Finding</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with P-Card processes</td>
<td>P-cards being used for safety boots purchases</td>
<td>P3</td>
</tr>
<tr>
<td>Compliance with P-Card Processes</td>
<td>P-Cards being used for Data Storage subscriptions</td>
<td>P3</td>
</tr>
</tbody>
</table>

These issues and associated management action plans are explained in more detail in Appendix 1. These issues are rated as per criteria explained in Appendix 2.

**Conclusion:**

Internal controls over Purchasing Card (P-Card) governance and transactions review are effective.

Overall report rating is determined as per criteria for audit report rating explained in Appendix 3.

We thank the Purchasing and Accounting departments for their support and efforts during the audit.

**Authored by:**
Darshan S Janda, Manager
The Office of Internal Audit

**Reviewed by:**
Sunny Kalkat, Director
The Office of Internal Audit
Appendices:

Appendix 1: P-Card Audit 2020 Report
Appendix 2: Criteria for Audit Report Rating
Appendix 3: Criteria for Evaluating Audit Findings
Audit Name | Purchasing Card Governance and Transaction Review Audit  
Sponsor(s) | Director, Purchasing  
Business Unit | Purchasing, Corporate Support Services  
Date Issued | May 04, 2020

1.0 Executive Summary

<table>
<thead>
<tr>
<th>Audit Rating and Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall findings</td>
</tr>
<tr>
<td>Internal controls over Purchasing Card (P-Card) governance and transactions review are effective.</td>
</tr>
</tbody>
</table>

Inherent risk was evaluated as high due to the potential impact on expenses ($13.7M) between March 4, 2019 to February 29, 2020.

During the review we noted good processes are in place. Some of the strengths we found in the processes are:

- Built in controls in Peoplesoft to prevent duplicate payments on same invoices.
- Built in controls in Spend Dynamics to ensure each transaction is reviewed and approved along with the supporting documents.
- Management schedules mandatory training for new P-Card users on a monthly basis and cards are issued only after the training has been completed.
- Purchasing is continuously monitoring transactional activities through monthly reviews to ensure card users enter all the required transactional information in Spend Dynamics.
- Purchasing maintains a log of temporary credit limit changes and supporting documentation.
- Accounting reviews the operating and capital account information on a monthly basis to ensure accuracy of the charges.

Internal Audit discussed the following improvement opportunities with P-Card management team to support the organization’s objectives:

- Compliance with the processes
  - P-Cards should not be used to purchase safety boots as per policy.
  - City-Owned data should be stored on Share Folder, P-Card should not be used to purchase unauthorized devices.
These issues and associated management action plans are explained in more detail within the body of this report.

**Background, Objectives, and Scope**

The 2020 Internal Audit work plan included an audit over Purchasing Card Governance and Transactions review. P-cards are available to employees and Elected Officials who have delegated authority to purchase low dollar value goods, services and construction.

Key softwares used includes Spend Dynamics (Bank of Montreal application) for tracking, reviewing and approving transactions and PeopleSoft Financials for payments and charging the expenses to City’s expense accounts.

Our audit objective was to independently review cardholder compliance with P-Card requirements (including Allowable/Disallowable provisions). In addition we assessed Accounts Payable procedures and tools used to process transactions and provide oversight of P-Card expenditures.

During the review we utilized data analytics to understand the types and amounts of categories of spend and identified individual transactions for further review.

The period under review was May 1, 2019 to March 31, 2020.

The scope of our review included:
- Review policies and procedures in place to manage P-Card transactions.
- Review controls intended to prevent and detect:
  - Non-compliance with the policies and procedures; and
  - Processing of unauthorized expenses and exceptions.
- Adequacy and effectiveness of related management oversight.
- Assess reporting on expenses and related monitoring activities.
### 2.0 Detailed Audit Findings and Proposed Management Actions

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Audit Findings</th>
<th>Finding Rating</th>
<th>Management Action Plan</th>
<th>Responsible Party</th>
<th>Targeted Completion Date</th>
</tr>
</thead>
</table>
| 1     | **Compliance to P-Card processes**  
**P-cards being used for safety boots purchases**  
We reviewed transactions for purchasing of safety boots. We identified that nine purchases were made from a random vendor.  
The City of Brampton has a contract with a particular vendor to supply safety footwear. The process requires a pre authorization form signed by employee’s supervisor. This form needs to be submitted to the vendor. Vendor gets paid by the City on submission of these forms.  
The purchase of safety footwear with P-Cards is non-compliance with the P-Cards procedures.  
**Potential Exposure**  
Non-compliance with P-card procedures and potential risk of fraud. | P3 | To ensure compliance, Purchasing will communicate to all P-card holders that safety boots should not be purchased on P-Card. | Manager, Purchasing Performance | June 30, 2020 |
<table>
<thead>
<tr>
<th>Ref #</th>
<th>Audit Findings</th>
<th>Finding Rating</th>
<th>Management Action Plan</th>
<th>Responsible Party</th>
<th>Targeted Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td><strong>P-Cards being used for Data Storage subscriptions</strong></td>
<td>P3</td>
<td>To ensure compliance, Purchasing and IT will communicate to all P-Card holders that City-Owned information should not be stored on unauthorized devices and P-Cards should not be used for such payments.</td>
<td>Manager, Purchasing Performance Manager, Information Technology</td>
<td>June 30, 2020</td>
</tr>
<tr>
<td></td>
<td>We found two employees currently using P-cards to pay for subscription to a third party vendor for cloud based document storage and transfer service in non-compliance with City’s Information Technology Use Policy.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Information Technology Use Policy (Policy No. 2.11.0) prohibits storage of city-owned information on unauthorized devices. Use of services such as Dropbox constitutes non-compliance with the IT Use Policy.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Potential Exposure</strong></td>
<td></td>
<td>Storage of City-Owned information on unauthorized devices increases the risk of data breach.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2: Criteria for Audit Report Rating

The audit report rating is intended to provide management with an indication of the overall status of internal controls and processes in the audited area. The audit report rating is based on Internal Audit’s overall assessment of the significance of issues identified during the audit process, and in conjunction with professional judgement also considers the following:

1. Design and effectiveness of internal controls, processes, procedures, policies, and systems. 
2. Compliance with policies, standard operating procedures, and other requirements (i.e. legal, regulatory, accounting, contractual).
3. Quality of the data and information provided by management and related systems.
4. Efficiency of systems, processes and procedures.

| Effective | - Key controls are adequately and appropriately designed, and are operating effectively to support objectives and manage risks.  
- Audit recommendations resulted in only minor enhancements to the effectiveness or efficiency of controls and processes.  
- One or more Priority 3 findings.  
- Insignificant cumulative financial impact when all audit findings have been considered.  
- Audit findings would not be subject to a follow-up by Internal Audit. |
|---|---|
| Enhancement Required | - A few key control weaknesses were noted that require enhancements to better support objectives and manage risks.  
- One Priority 2 finding and Priority 3 findings.  
- Priority 3 findings only where the cumulative financial impact is significant.  
- Corrective action and oversight by management is needed.  
- Audit findings could be subject to a follow-up by Internal Audit. |
| Significant Improvement Required | - Numerous key control weaknesses were noted that require significant improvement to support objectives and manage risks.  
- One Priority 1 finding, or more than one Priority 2 findings and Priority 3 findings.  
- Priority 2 and 3 findings only where the cumulative financial impact is significant.  
- Corrective action and oversight by senior management is required.  
- Audit findings will be subject to a follow-up by Internal Audit. |
| Immediate Action Required | - Key controls are either not adequately or appropriately designed and are not operating effectively, or there is an absence of appropriate key controls to support objectives and manage risks.  
- More than one Priority 1 finding, combined with Priority 2 or 3 findings.  
- Regardless of the type of findings, the cumulative financial impact is material to the City’s financial statements.  
- Confirmed fraud by management or staff.  
- Corrective action and oversight by Corporate Leadership Team is required immediately.  
- Follow-up of such audit findings by Internal Audit would be of high priority. |
Appendix 3: Criteria for Evaluating Audit Findings

**Priority 1 (P1)**

*One or more* of the following conditions exist that require **immediate attention of the Corporate Leadership Team**. Corrective actions by senior management must be implemented.

- Financial impact of both actual and potential losses is material.
- Management's actions, or lack thereof, have resulted in the compromise of a key process or control, which requires immediate significant efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks. Failure by management to remediate such deficiencies on a timely basis will result in the City being exposed to immediate risks and/or financial loss.
- One or more of the following conditions is true: i) management failed to identify key risks; ii) management failed to implement processes and controls to mitigate key risks.
- Management's actions, or lack thereof, have resulted in a key initiative to be significantly impacted or delayed, and the financial support for such initiative will likely be compromised.
- Management failed to implement effective control environment or provide adequate oversight, resulting in a negative pervasive impact on the City or potential fraudulent acts by City staff.
- Fraud by management or staff, as defined by the Corporate Fraud Prevention Policy (policy 2.14).

**Priority 2 (P2)**

*One or more* of the following conditions exist that require attention by senior management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is significant.
- Management's actions, or lack thereof, may result in a key process or control to be compromised, which requires considerable efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Management correctly identified key risks and have implemented processes and controls to mitigate such risks, however, one or more of the following is true: i) the processes and controls are not appropriate or adequate in design; ii) the processes and controls are not operating effectively on a consistent basis.
- Management's actions, or lack thereof, have impacted or delayed a key initiative, and the funding for such initiative may be compromised.
- Management failed to provide effective control environment or oversight on a consistent basis, resulting in a negative impact on the respective division, or other departments.
- Management failed to comply with Council-approved policies, by-laws, regulatory requirements, etc., which may result in penalties.
- Management failed to identify or remedy key control deficiencies that may impact the effectiveness of anti-fraud programs.

**Priority 3 (P3)**

*One or more* of the following conditions exist that require attention by management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is insignificant.
- A non-key process or control if compromised may require some efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Processes and controls to mitigate risks are in place; however, opportunities exist to further enhance the effectiveness or efficiency of such processes and controls. Management oversight exists to ensure key processes and controls are operating effectively.
- Minimal risk of non-compliance to Council-approved policies, by-laws, regulatory requirements, etc.
- Low impact to the City's strategic or key initiative.
- Low impact to the City's operations.
Date: May 19, 2020

Subject: **IT Asset Management – End User Computing Audit**

Contact: Sunny Kalkat, Director, Internal Audit Division, 905 874 2215, satinder.kalkat@brampton.ca

**Executive Summary:**

Internal audit undertook an independent review of the End User Computing asset management lifecycle process, including supporting financial and purchasing processes to make sure that:

- Desktop and laptop computer assets are identified and recorded in inventory and financial systems,
- The asset base is reviewed periodically to identify ways to optimize costs and maintain alignment with business needs, and,
- IT assets and electronic information storage devices are disposed securely and ensure financial management information is updated.

The end user computing refresh programs includes desktop and laptop computers. The program is designed so that one quarter of the computers are replaced every year, coinciding with those computers’ asset value reaching zero and past the warranty period. The program cost approximately $1.15 million in 2019. There are currently over 2,300 deployed end user computer assets. City pricing is in accordance with the Province of Ontario Agreement for Desktop Management Services (VOR) Arrangement and Publicly Funded Organization Agreement.

The background, the audit scope and objective are explained in Appendix 1.

**Our review identified the following strengths in the processes:**

- The annual desktop planning and refresh program is mature and is integrated with Finance and Purchasing processes,
- Purchases are made in bulk and financial information automatically flows from accounts payable through to finance asset management,
- Physical asset disposal conforms to purchasing requirements and security practices, and,
End of life computers are reallocated to be used in City of Brampton elections, saving the city the cost of purchasing or renting additional computers.

Internal Audit discussed the following improvement opportunities with Digital Innovation and Information Technology:

<table>
<thead>
<tr>
<th>Process</th>
<th>Finding</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automated Asset Discovery &amp; Management</td>
<td>Ineffective automated asset discovery and management tool.</td>
<td>P2</td>
</tr>
<tr>
<td>Asset Management Lifecycle</td>
<td>Key person dependency risk. Reliance on a single individual performing the end user computing asset management function.</td>
<td>P2</td>
</tr>
</tbody>
</table>

These issues and associated management action plans are explained in more detail in Appendix 1. These issues are rated as per criteria explained in Appendix 2.

**Conclusion:**

**Improvement is required** to the asset discovery and management software, and to mitigate single person risk. Inherent risk was evaluated as medium due to the value of end user computing assets ($1.15M) and the impact to daily operations in the city. Overall report rating is determined as per criteria for audit report rating explained in Appendix 3.

We thank everyone who participated in the audit for their support and effort.

Authored by:

Richard Gervais, Sr Advisor, IT Audit
Internal Audit Division

Reviewed and Approved by: Submitted by:

Sunny Kalkat, Director       David Barrick
Internal Audit Division     Chief Administrative Officer
Appendices:

Appendix 1: IT Asset Management – End User Computing Audit
Appendix 2: Criteria for Audit Report Rating
Appendix 3: Criteria for Evaluating Audit Findings
IT Asset Management – End User Computing – Audit Report

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>IT Asset Management- End User Computing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sponsor(s)</td>
<td>Chief Information Officer, Digital Innovation and IT, Corporate Services</td>
</tr>
<tr>
<td>Business Unit</td>
<td>End User Computing, Digital Innovation and IT</td>
</tr>
<tr>
<td>Date Issued</td>
<td>May 19, 2020</td>
</tr>
</tbody>
</table>

1.0 Executive Summary

Audit Rating and Conclusion

Overall findings
Improvement is required to the asset discovery and management software, and to mitigate single person risk.

Inherent risk was evaluated as medium due to the value of end user computing assets ($1.15M) and the impact to daily operations in the city.

During our review, some of the strengths we found in the processes are as follows:
- The annual planning and refresh process is mature and is integrated with corporate processes. Digital Innovation and IT (DIIT) manages the program based on a rolling ten year plan that incorporates projected staffing growth and historical data.
- Approximately 25% of computers are refreshed every year, distributing replacements costs and the work over a four year time frame.
- DIIT funding approval and purchasing are integrated with Finance and Purchasing processes.
- Purchases flow from accounts payable through to finance asset management.
- Physical asset disposal conforms to purchasing requirements and security practices.
- End of life computers are transferred to the Clerks department to be used in City of Brampton elections. About 1,000 computers are put aside for this purpose, saving the city the cost of purchasing or renting additional computers. Data on computer hard drives are protected through the life cycle through hard drive encryption. Elections’ computer hard drives are wiped prior to handing them off to Clerks. These computers are not in scope for this review.

Internal Audit discussed the following improvement opportunities with Digital Innovation and Information Technology:
- Ineffective automated asset discovery and management tool
  - Security risk exists due to a lack of effective access control to the asset information and lack of an effective audit trail.
Completeness, timeliness and accuracy risk is present due to the asset database refresh rate and inconsistent historical asset data.

Inefficiencies due to manual processes needed to compensate for the tool’s limitations.

DIIT management is in the process of modernizing the IT Service Desk application and includes replacing the asset discovery and management tool.

- Key Person Dependency Risk
  - Reliance on a single individual performing the asset management function.

DIIT is assessing different options to mitigate the risk.

These issues and associated management action plans are explained in more detail within the body of this report. Other less significant items as well as details related to observed issues were also provided to and discussed with management involved in the related activities.
### Background, Objectives, and Scope

#### Background

The purpose of IT Asset Management is to account for all IT assets and optimize the value provided by these assets. IT Asset Management supports the achievement of:

- Transparency of IT costs, benefits and risk,
- Optimization of IT assets, resources and capabilities,
- License compliance and alignment with business need, and,
- Maintaining assets at optimal levels.

Digital Innovation and IT and Internal Audit management agreed to scope the 2020 IT Asset Management audit to hardware assets. Hardware assets are managed within the following three IT functions:

- End User Computing,
- Network and Telecommunication, and
- Data Centre and Cloud Computing.

We selected to review the End User Computing’s Asset Management process. The End User Computing team manages the lifecycle of end user computers, including desktop, laptop and tablets. The capital cost of the program is approximately $1.15 million per year, with operating cost under $100 thousand, excluding the labour. There is one IT staff person dedicated to asset management, however, other resources are involved through-out the lifecycle of an end user computer, including Finance, Purchasing and DIIT. Finance and Purchasing provide corporate oversight over funding, accounting, accounts payable, procurement, asset retirement, and financial asset management. DIIT is responsible for planning, inventory management, contract management, finance reporting, and hardware disposal. The same corporate processes provide oversight over network, telecommunication, data centre and cloud computing assets.

An audit of IT software asset management will be scheduled in a future audit year.

#### Objectives and Scope

Our audit objective is to independently review the End User Computing asset management lifecycle, including supporting financial and purchasing processes, to make sure that:

- Relevant assets are identified and recorded in inventory and financial systems,
- The asset are utilized as effectively and efficiently as possible,
- The asset base is reviewed periodically to identify ways to optimize costs and maintain alignment with business needs, and,
IT assets and electronic information storage devices are disposed securely when they serve no useful purpose and ensure financial management information is updated.

During the review we utilized data analytics to understand and assess the inventory data.

The period under review is January 1, 2019 to December 31, 2019.

The scope of our review includes:
- Review policies, procedures and tools in place to manage asset management lifecycle,
- Interviews with key personnel,
- Completeness and accuracy of the inventory and of financial records, and,
- Adequacy and effectiveness of related management oversight.
### 2.0 Detailed Audit Findings and Proposed Management Actions

<table>
<thead>
<tr>
<th>Rec #</th>
<th>Audit Findings</th>
<th>Finding Rating</th>
<th>Proposed Management Action</th>
<th>Responsible Party</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Ineffective automated asset discovery and management tool</strong>&lt;br&gt;Modernized integrated asset discovery and asset management tools to ensure up-to-date and accurate records of all IT assets and alignment with IT service management processes is needed.&lt;br&gt;&lt;br&gt;The current Service Desk tool, contains an automated discovery tool. We noted the following control weaknesses:&lt;br&gt;  - Security risk due to ineffective access control to the asset information and lack of an effective audit trail.&lt;br&gt;  - Completeness and accuracy risk due to:&lt;br&gt;    - Refreshing the asset database can take up to 30 days, and,&lt;br&gt;    - Inconsistent historical asset data.&lt;br&gt;  - Inefficient processes, due to:&lt;br&gt;    - Manually maintained spreadsheets are used to compensate for the tool's limitations, and,&lt;br&gt;    - New assets are entered manually into the asset database rather than relying on the automated tool.</td>
<td>P2</td>
<td>An approved and funded project is underway to modernize the IT Service Desk system tool. Control gaps in the current tool are known to IT management and IT has started a project to modernize the system.&lt;br&gt;&lt;br&gt;The project is on track for completion by December 31st 2020.&lt;br&gt;&lt;br&gt;Management notes that the impact of COVID19 may delay the project.</td>
<td>Program Mgr., DIIT</td>
<td>December 31, 2020</td>
</tr>
</tbody>
</table>
## Audit Findings

<table>
<thead>
<tr>
<th>Rec #</th>
<th>Audit Findings</th>
<th>Finding Rating</th>
<th>Proposed Management Action</th>
<th>Responsible Party</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td><strong>Key Person Dependency Risk</strong></td>
<td></td>
<td>Management will be reviewing and developing an action plan to mitigate the single person risk upon return to the office after the current pandemic lock-down. Many elements will need to be reviewed when it relates to staffing and job roles.</td>
<td>Sr. Manager, End User Computing</td>
<td>Date to be set after the current pandemic lock-down.</td>
</tr>
<tr>
<td></td>
<td>The objective is to minimize reliance on a single individual performing a critical job function. There is only one designated resource to manage IT assets. No backup resources are available to manage assets in case Asset Management Analyst is not available. It is evidenced by a fact that during one absence, a laptop was removed from the inventory without being recorded. The missing laptop was not detected until the Asset Management Analyst returned to work. The issue was resolved using the access log and Security Services’ camera monitoring system. We did note that IT has documented standard operating procedures, and there is management of oversight process.</td>
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</tbody>
</table>

### Distribution List

- Manager, Facilities Services & Ops, Community Services
- Chief Administrative Officer
- Manager, Accounting, Corporate Services
- Sr. Manager, Accounting Services & Deputy Treasurer, Corporate Services
- Program Manager, DIIT, Corporate Services
The audit report rating is intended to provide management with an indication of the overall status of internal controls and processes in the audited area. The audit report rating is based on Internal Audit’s overall assessment of the significance of issues identified during the audit process, and in conjunction with professional judgement also considers the following:

1. Design and effectiveness of internal controls, processes, procedures, policies, and systems.
2. Compliance with policies, standard operating procedures, and other requirements (i.e. legal, regulatory, accounting, contractual).
3. Quality of the data and information provided by management and related systems.
4. Efficiency of systems, processes and procedures.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effective</strong></td>
<td>- Key controls are adequately and appropriately designed, and are operating effectively to support objectives and manage risks.</td>
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<tr>
<td></td>
<td>- Audit recommendations resulted in only minor enhancements to the effectiveness or efficiency of controls and processes.</td>
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<tr>
<td></td>
<td>- One or more Priority 3 findings.</td>
</tr>
<tr>
<td></td>
<td>- Insignificant cumulative financial impact when all audit findings have been considered.</td>
</tr>
<tr>
<td></td>
<td>- Audit findings would not be subject to a follow-up by Internal Audit.</td>
</tr>
<tr>
<td><strong>Enhancement Required</strong></td>
<td>- A few key control weaknesses were noted that require enhancements to better support objectives and manage risks.</td>
</tr>
<tr>
<td></td>
<td>- One Priority 2 finding and Priority 3 findings.</td>
</tr>
<tr>
<td></td>
<td>- Priority 3 findings only where the cumulative financial impact is significant.</td>
</tr>
<tr>
<td></td>
<td>- Corrective action and oversight by management is needed.</td>
</tr>
<tr>
<td></td>
<td>- Audit findings could be subject to a follow-up by Internal Audit.</td>
</tr>
<tr>
<td><strong>Significant Improvement Required</strong></td>
<td>- Numerous key control weaknesses were noted that require significant improvement to support objectives and manage risks.</td>
</tr>
<tr>
<td></td>
<td>- One Priority 1 finding, or more than one Priority 2 findings and Priority 3 findings.</td>
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<tr>
<td></td>
<td>- Priority 2 and 3 findings only where the cumulative financial impact is significant.</td>
</tr>
<tr>
<td></td>
<td>- Corrective action and oversight by senior management is required.</td>
</tr>
<tr>
<td></td>
<td>- Audit findings will be subject to a follow-up by Internal Audit.</td>
</tr>
<tr>
<td><strong>Immediate Action Required</strong></td>
<td>- Key controls are either not adequately or appropriately designed and are not operating effectively, or there is an absence of appropriate key controls to support objectives and manage risks.</td>
</tr>
<tr>
<td></td>
<td>- More than one Priority 1 finding, combined with Priority 2 or 3 findings.</td>
</tr>
<tr>
<td></td>
<td>- Regardless of the type of findings, the cumulative financial impact is material to the City's financial statements.</td>
</tr>
<tr>
<td></td>
<td>- Confirmed fraud by management or staff.</td>
</tr>
<tr>
<td></td>
<td>- Corrective action and oversight by Corporate Leadership Team is required immediately.</td>
</tr>
<tr>
<td></td>
<td>- Follow-up of such audit findings by Internal Audit would be of high priority.</td>
</tr>
</tbody>
</table>
### Priority 1 (P1)

**One or more** of the following conditions exist that require **immediate attention of the Corporate Leadership Team**. Corrective actions by senior management must be implemented.

- Financial impact of both actual and potential losses is material.
- Management's actions, or lack thereof, have resulted in the compromise of a key process or control, which requires immediate significant efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks. Failure by management to remedy such deficiencies on a timely basis will result in the City being exposed to immediate risks and/or financial loss.
- One or more of the following conditions is true: i) management failed to identify key risks; ii) management failed to implement processes and controls to mitigate key risks.
- Management's actions, or lack thereof, have resulted in a key initiative to be significantly impacted or delayed, and the financial support for such initiative will likely be compromised.
- Management failed to implement effective control environment or provide adequate oversight, resulting in a negative pervasive impact on the City or potential fraudulent acts by City staff.
- Fraud by management or staff, as defined by the Corporate Fraud Prevention Policy (policy 2.14).

### Priority 2 (P2)

**One or more** of the following conditions exist that require attention by senior management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is significant.
- Management's actions, or lack thereof, may result in a key process or control to be compromised, which requires considerable efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Management correctly identified key risks and have implemented processes and controls to mitigate such risks, however, one or more of the following is true: i) the processes and controls are not appropriate or adequate in design; ii) the processes and controls are not operating effectively on a consistent basis.
- Management's actions, or lack thereof, have impacted or delayed a key initiative, and the funding for such initiative may be compromised.
- Management failed to provide effective control environment or oversight on a consistent basis, resulting in a negative impact on the respective division, or other departments.
- Management failed to comply with Council-approved policies, by-laws, regulatory requirements, etc., which may result in penalties.
- Management failed to identify or remedy key control deficiencies that may impact the effectiveness of anti-fraud programs.

### Priority 3 (P3)

**One or more** of the following conditions exist that require attention by management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is insignificant.
- A non-key process or control if compromised may require some efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Processes and controls to mitigate risks are in place; however, opportunities exist to further enhance the effectiveness or efficiency of such processes and controls. Management oversight exists to ensure key processes and controls are operating effectively.
- Minimal risk of non-compliance to Council-approved policies, by-laws, regulatory requirements, etc.
- Low impact to the City's strategic or key initiative.
- Low impact to the City's operations.
Date: May 27, 2020

Subject: Rose Theatre Audit

Contact: Sunny Kalkat, Director, Office of Internal Audit, 905 874 2215, satinder.kalkat@brampton.ca

Executive Summary:

Internal Audit undertook an independent review of Rose Theatre, including assessing the adequacy and effectiveness of internal controls, processes, and procedures in place to mitigate risks associated with revenue, cash handling, and asset management for the period January 1, 2019 to December 31, 2019.

The background, audit scope and objective are explained in Appendix 1.

Our review identified the following strengths in the processes:

- Software functions are being utilized by staff to document reasons for business decisions such as refunding patron tickets.
- Technical assets are being managed through use of a formal inventory management system that includes detailed tracking of all assets and performance of inventory counts.
- Management is continuously monitoring operational activities through formal meetings with staff and senior management, and review of key documents such as rental agreements.
- Physical access controls over cash handling areas and safes are adequate.

Internal Audit discussed the following improvement opportunities with Performing Arts:

<table>
<thead>
<tr>
<th>Process</th>
<th>Finding</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental revenue</td>
<td>Staffing charges are not fully recovered from rental clients.</td>
<td>P2</td>
</tr>
<tr>
<td>Rental revenue</td>
<td>Rental deposit and outstanding amounts are not consistently collected from rental clients.</td>
<td>P2</td>
</tr>
</tbody>
</table>
Asset management | Review and reconciliation of technical asset purchases not properly segregated.  

Policies and procedures | Standard Operating Procedures (SOPs) are not complete or current.  

Cash handling | Weekly cash float verifications were not reviewed and signed off.  

Asset management | User access for inventory management system includes use of shared accounts.  

These issues and associated management action plans are explained in more detail in Appendix 1. These issues are rated as per criteria explained in Appendix 2.

Other observations:

- Cash handling area is secure, however it does not have adequate camera coverage. Management is in the process of assessing the addition of cameras with the assistance of Security Services.
- There is tracking of rental agreements that were granted a rental fee waiver through the metrics data collection tool. This process requires review to ensure that all information is captured consistently, completely and accurately. Waivers can be up to $2,500 per event.
- No formal KPIs are measured; however, management has active projects that will assess venue space utilization and other metrics.
- Cash handling training frequency is not consistent (annually in some areas and bi-annually in other areas). Having core training conducted at regular intervals will ensure all staff across Performing Arts will have the same knowledge base.
- Physical access cards are being monitored on a bi-annual basis. Area Coordinators should communicate with the Facilities Coordinator upon staffing changes to ensure cards are deactivated immediately and updated into the access card tracker.

Conclusion:

**Improvement is required** over controls related to revenue, cash handling, and asset management to mitigate associated risks. Inherent risk was evaluated as high due to the potential impact on revenue ($2.2M), assets ($4M replacement value), and Rose Theatre’s relationship with the public as a highly visible organization. Overall report rating is determined as per criteria for audit report rating explained in Appendix 3.

We thank the Performing Arts division for their support and efforts during the audit.
Background:
Please refer to Appendix 1

Audit Scope and Objectives:
Please refer to Appendix 1

Findings and Recommendations:
Please refer to Appendix 1

Other Matters:
Please refer to Appendix 1

Conclusion:
Please refer to Appendix 1

Author: Mary Chu, Senior Internal Auditor
Reviewed by: Sunny Kalkat, Director
The Office of Internal Audit
The Office of Internal Audit

Approved by: Sunny Kalkat, Director
Submitted by: David Barrick
The Office of Internal Audit
Chief Administrative Officer

Appendices:
Appendix 1: Rose Theatre Audit – Audit Report
Appendix 2: Criteria for Audit Report Rating
Appendix 3: Criteria for Evaluating Audit Findings
1.0 Executive Summary

Audit Rating and Conclusion

Overall findings

Improvement is required over internal controls over revenue, cash handling and asset management processes at Rose Theatre.

Inherent risk was evaluated as high due to the potential impact on revenue ($2.2M), assets ($4M replacement value), and Rose Theatre’s relationship with the public as a highly visible organization. Internal Audit discussed the following improvement opportunities with Rose Theatre management to support the organization’s objectives:

- Potential revenue
  - Labour (approximately $23K) provided to rental clients is not fully charged back through the rental reconciliation process.

- Processes and procedures
  - Collection of rental deposits and outstanding amounts is not done in accordance with user fee by-law.
  - Purchases are not reconciled against the inventory management system.
  - SOPs are outdated or not inclusive of all core activities.
  - Cash handling activity is missing verification sign-offs by preparer and/or reviewer.

- User Access
  - Shared administrative accounts are being used amongst inventory management software users.

These issues and associated management action plans are explained in more detail within the body of this report. Other less significant items as well as details related to observed issues were also provided to and discussed with employees involved in the related activities.
During our review, some of the strengths we found in the processes are:

- Software functions are being utilized by staff to document reasons for business decisions such as refunding patron tickets.
- Technical assets are being managed through use of a formal inventory management system that includes detailed tracking of all assets and performance of inventory counts.
- Management is continuously monitoring operational activities through formal meetings with staff and senior management, and review of key documents such as rental agreements.
- Physical access controls over cash handling areas and safes are adequate.

Other observations

- Cash handling area is secure, however it does not have adequate camera coverage. Management is in the process of assessing the addition of cameras with the assistance of Security Services.
- There is tracking of rental agreements that were granted a rental fee waiver through the metrics data collection tool. This process requires review to ensure that all information is captured consistently, completely and accurately. Waivers can be up to $2,500 per event.
- No formal KPIs are measured; however, management has active projects that will assess venue space utilization and other metrics.
- Cash handling training frequency is not consistent (annually in some areas and bi-annually in other areas). Having core training conducted at regular intervals will ensure all staff across Performing Arts will have the same knowledge base.
- Physical access cards are being monitored on a bi-annual basis. Area Coordinators should communicate with the Facilities Coordinator upon staffing changes to ensure cards are deactivated immediately and updated into the access card tracker.
Background, Objectives, and Scope

The 2019 Internal Audit work plan included an audit over Rose Theatre's operations. Rose Theatre's main revenue streams include revenues from ticket sales, rentals, and sale of food and beverages. Rose Theatre does not produce any shows in-house.

Key software used includes AudienceView for tickets, CLASS for concessions and rental agreements, and IntelliEvent for inventory management. SharePoint is used to supplement other areas such as tracking equipment movement and managing budget expenses.

Our audit objective was to assess the adequacy and effectiveness of internal controls, processes, and procedures in place to mitigate risks associated with revenue, cash handling, and asset management for the period January 1, 2019 to December 31, 2019.

The scope of the review included:

- Policies and procedures in place to safeguard cash, record revenue, and accounts receivable
- Compliance with the Cash Handling Manual
- Reconciliation and verification of cash handling transactions
- Asset management over technical assets
- Related management oversight of above processes


## 2.0 Detailed Audit Findings and Proposed Management Actions

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Audit Findings</th>
<th>Finding Rating</th>
<th>Management Action Plan</th>
<th>Responsible Party</th>
<th>Targeted Completion Date</th>
</tr>
</thead>
</table>
| 1     | **Staffing charges are not fully recovered from rental clients**  
During the review of ten rental agreements, we noted that the hours of labour spent to execute the rental events were not fully recovered from the client.  
Management indicated rental fees at all performing arts locations includes one technician, and events at Rose Theatre include a front of house “floater” staff to meet operational needs. The user fee by-law does not including any staffing within the rates except for the photo rate.  
Staff, often technicians, arrive before the client does in order to set up, but those hours are not charged back to the client.  
From the ten sampled rental agreements, we found that if all labour were charged back to the client, the incremental revenue would be:  
(A) Technical Staff $3,810.31  
(B) Tech Supervisor On-Site $3,104.70  
(C) Front of House “floater” $211.64  
(D) Hours on site vs. contract time $4,083.45 | P2 | Labour hours incurred should be fully charged back to the client.  
Consider baseline standardized hours for various rental events. | Manager, Theatres | September 30, 2020 |

### Potential Exposure

Uncharged labour hours can cause financial loss.
<table>
<thead>
<tr>
<th>Ref #</th>
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<th>Targeted Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td><strong>Rental deposit and outstanding amounts are not consistently collected from rental clients</strong>&lt;br&gt;The process of collecting deposits and outstanding amounts is different than as outlined in the user fee by-law.&lt;br&gt;In our sample of rental agreement files, we noted that:&lt;br&gt;• All “Returning” clients are allowed to pay a 20% deposit instead of 50%. The user fee by-law only allows “Community” clients to pay 20%.&lt;br&gt;• Returning rental clients selling tickets through the Rose box office do not have to pay the outstanding balance prior to the rental date, since the box office is holding onto their ticket proceeds.&lt;br&gt;• The user fee by-law notes the deposit is non-refundable whether it is 20% or 50%. However the rental agreement templates states only 20% is non-refundable in the event of a timely cancellation.</td>
<td>P2</td>
<td>Processes over collection of rental deposits and outstanding amounts should be applied consistently for all clients.&lt;br&gt;If needed, management should consider proposing changes to the user fee by-law, or implement a process to waive deposits or outstanding amounts before a rental date for low-risk clients.</td>
<td>Manager, Theatres</td>
<td>December 31, 2020</td>
</tr>
<tr>
<td>Ref #</td>
<td>Audit Findings</td>
<td>Finding Rating</td>
<td>Management Action Plan</td>
<td>Responsible Party</td>
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<tr>
<td>3</td>
<td><strong>Review and reconciliation of technical asset purchases</strong>&lt;br&gt;Technical assets (such as microphones, sound systems, etc.) are purchased primarily by the Coordinator, Theatre Technical. The same individual receives the goods, and enter the goods into the inventory management system creating segregation of duties issues.&lt;br&gt;Coordinator, Performing Arts Administration is responsible for reconciling purchases to the budget expense tracker and uploading supporting documentation such as invoices, but their work does not extend into recording goods received into the inventory management system.</td>
<td>P2</td>
<td>Purchasing, receiving, and recording functions must be properly segregated.</td>
<td>Manager, Theatres&lt;br&gt;Coordinator, Performing Arts Administration&lt;br&gt;Coordinator, Theatre Technical</td>
<td>June 30, 2020</td>
</tr>
</tbody>
</table>

**Potential Exposure**<br>Failing to segregate incompatible functions can provide an opportunity for fraud.
<table>
<thead>
<tr>
<th>Ref #</th>
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</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td><strong>Standard Operating Procedures (SOPs) are not complete or current</strong></td>
<td>P2</td>
<td>Management should prepare SOPs for AudienceView, and set up and follow review dates for all SOPs.</td>
<td>Manager, Theatres</td>
<td>December 31, 2020</td>
</tr>
<tr>
<td></td>
<td>- Most SOPS were prepared for CLASS software users within Recreation. While Rose Theatre uses CLASS for concessions and rentals, the box office uses AudienceView software for ticket processing, which has no corresponding SOP.</td>
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<tr>
<td></td>
<td>- There is no formal SOP for the rentals process.</td>
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<td></td>
<td>- There were 10 SOPs with review dates ranging from June 2016 to December 2018 and 3 SOPs with no stated review dates</td>
<td></td>
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</tbody>
</table>

**Potential Exposure**

Outdated and missing SOPs may give rise to errors and create training issues.
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Weekly cash float verifications were not reviewed and signed off</td>
<td>P3</td>
<td>All review activity should be signed off on regularly by both the preparer and reviewer. Back up resources should be designated and trained to accommodate vacations and holidays.</td>
<td>Supervisor, Operations</td>
<td>Immediately</td>
</tr>
</tbody>
</table>

Rose Theatre collects cash in three locations: the box office, concessions, and front of house. Each area’s Coordinator performs a weekly float verification to ensure operational floats contain the correct amount of funds. The Supervisor is required to review and sign off on a monthly basis.

At the box office, float verifications were performed regularly; however, we could not evidence the Supervisor’s review.

At concessions, several months of verification logs from 2019 were signed by the Supervisor in February 2020. Back-up resources were not available to accommodate holidays and vacation. The Head Bartender conducted float verifications to accommodate vacations, but it was not documented.

**Potential Exposure**

Lack of verification and independent review can allow errors to go undetected and creates an opportunity for fraud.
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td><strong>User access for inventory management system</strong>&lt;br&gt;  All technical assets (approximately $4M replacement cost) are formally inventoried and tracked using the IntelliEvent inventory management system.&lt;br&gt; During our documentation of user access for IntelliEvent, we noted that two “admin” user accounts are being shared by multiple staff, partly due to operational needs and the cost/benefits of having individual accounts. The use of shared accounts makes it difficult to trace stock adjustments (such as deleting an inventory item from the system) back to a particular user. <strong>Potential Exposure</strong>&lt;br&gt; Appropriate user access is needed to safeguard inventory from inappropriate or unauthorized changes.</td>
<td>P3</td>
<td>All stock adjustments made in the inventory management system must have an audit trail with the user’s name.&lt;br&gt; Management should periodically review stock adjustments to ensure all changes are reasonable.</td>
<td>Manager, Theatres Coordinator, Performing Arts Administration Coordinator, Theatre Technical</td>
<td>June 30, 2020</td>
</tr>
</tbody>
</table>
The audit report rating is intended to provide management with an indication of the overall status of internal controls and processes in the audited area. The audit report rating is based on Internal Audit’s overall assessment of the significance of issues identified during the audit process, and in conjunction with professional judgement also considers the following:

1. Design and effectiveness of internal controls, processes, procedures, policies, and systems.
2. Compliance with policies, standard operating procedures, and other requirements (i.e. legal, regulatory, accounting, contractual).
3. Quality of the data and information provided by management and related systems.
4. Efficiency of systems, processes and procedures.

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<th>Effective</th>
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<tr>
<td>- Key controls are adequately and appropriately designed, and are operating effectively to support objectives and manage risks.</td>
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<td>- Audit recommendations resulted in only minor enhancements to the effectiveness or efficiency of controls and processes.</td>
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<tr>
<td>- One or more Priority 3 findings.</td>
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<td>- Insignificant cumulative financial impact when all audit findings have been considered.</td>
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<td>- Audit findings would not be subject to a follow-up by Internal Audit.</td>
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<tr>
<th>Enhancement Required</th>
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<td>- A few key control weaknesses were noted that require enhancements to better support objectives and manage risks.</td>
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<tr>
<td>- One Priority 2 finding and Priority 3 findings.</td>
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<tr>
<td>- Priority 3 findings only where the cumulative financial impact is significant.</td>
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<tr>
<td>- Corrective action and oversight by management is needed.</td>
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<td>- Audit findings could be subject to a follow-up by Internal Audit.</td>
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<th>Significant Improvement Required</th>
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<td>- Numerous key control weaknesses were noted that require significant improvement to support objectives and manage risks.</td>
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<tr>
<td>- One Priority 1 finding, or more than one Priority 2 findings and Priority 3 findings.</td>
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<tr>
<td>- Priority 2 and 3 findings only where the cumulative financial impact is significant.</td>
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<tr>
<td>- Corrective action and oversight by senior management is required.</td>
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<td>- Audit findings will be subject to a follow-up by Internal Audit.</td>
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<th>Immediate Action Required</th>
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<tr>
<td>- Key controls are either not adequately or appropriately designed and are not operating effectively, or there is an absence of appropriate key controls to support objectives and manage risks.</td>
</tr>
<tr>
<td>- More than one Priority 1 finding, combined with Priority 2 or 3 findings.</td>
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<tr>
<td>- Regardless of the type of findings, the cumulative financial impact is material to the City’s financial statements.</td>
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<tr>
<td>- Confirmed fraud by management or staff.</td>
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<tr>
<td>- Corrective action and oversight by Corporate Leadership Team is required immediately.</td>
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<tr>
<td>- Follow-up of such audit findings by Internal Audit would be of high priority.</td>
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### Appendix 3: Criteria for Evaluating Audit Findings

#### Priority 1 (P1)

**One or more** of the following conditions exist that require **immediate attention of the Corporate Leadership Team**. Corrective actions by senior management must be implemented.

- Financial impact of both actual and potential losses is material.
- Management's actions, or lack thereof, have resulted in the compromise of a key process or control, which requires immediate significant efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks. Failure by management to remedy such deficiencies on a timely basis will result in the City being exposed to immediate risks and/or financial loss.
- One or more of the following conditions is true: i) management failed to identify key risks; ii) management failed to implement processes and controls to mitigate key risks.
- Management's actions, or lack thereof, have resulted in a key initiative to be significantly impacted or delayed, and the financial support for such initiative will likely be compromised.
- Management failed to implement effective control environment or provide adequate oversight, resulting in a negative pervasive impact on the City or potential fraudulent acts by City staff.
- Fraud by management or staff, as defined by the Corporate Fraud Prevention Policy (policy 2.14).

#### Priority 2 (P2)

**One or more** of the following conditions exist that require attention by senior management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is significant.
- Management's actions, or lack thereof, may result in a key process or control to be compromised, which requires considerable efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Management correctly identified key risks and have implemented processes and controls to mitigate such risks, however, one or more of the following is true: i) the processes and controls are not appropriate or adequate in design; ii) the processes and controls are not operating effectively on a consistent basis.
- Management's actions, or lack thereof, have impacted or delayed a key initiative, and the funding for such initiative may be compromised.
- Management failed to provide effective control environment or oversight on a consistent basis, resulting in a negative impact on the respective division, or other departments.
- Management failed to comply with Council-approved policies, by-laws, regulatory requirements, etc., which may result in penalties.
- Management failed to identify or remedy key control deficiencies that may impact the effectiveness of anti-fraud programs.

#### Priority 3 (P3)

**One or more** of the following conditions exist that require attention by management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is insignificant.
- A non-key process or control if compromised may require some efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Processes and controls to mitigate risks are in place; however, opportunities exist to further enhance the effectiveness or efficiency of such processes and controls. Management oversight exists to ensure key processes and controls are operating effectively.
- Minimal risk of non-compliance to Council-approved policies, by-laws, regulatory requirements, etc.
- Low impact to the City's strategic or key initiative.
- Low impact to the City's operations.
Date: June 8, 2020

Subject: Procurement Options - External Audit Services

Contact: David Sutton, Treasurer
905-874-2257  david.sutton@brampton.ca

Recommendations:

1. That the report titled: Procurement Options - External Audit Services (I69/2020) to the Audit Committee Meeting of June 16, 2020, be received.

Overview:

- Section 296 of the Municipal Act states that a municipality shall appoint an auditor licensed under the Public Accounting Act, 2004, and an auditor of a municipality shall not be appointed for a term exceeding five years.

- The City has retained the audit services of KPMG LLP since 1990, through a combination of competitive procurements and Council approved extensions.

- Through competitive procurement, KPMG LLP were re-appointed as the City’s Auditor for a two-year term commencing November 20, 2013 and ending on November 19, 2015.

- Council extended the appointment of KPMG LLP for an additional three years in 2015 and additional one-year periods in 2018 and 2019.

- Extension recommendations were based on ongoing cost benchmarking exercises as well as evaluation of services provided by KPMG LLP.

- Under section 2.4 and Schedule D (paragraph 9(j)) of City’s Purchasing By-law, professional services conducted by accountants are exempt from the procurement processes set out in the Purchasing By-Law.

- Staff is seeking direction on Audit Committee’s preference on whether to proceed with a competitive procurement or to re-appoint KPMG through direct negotiation, for a three-year contract period ending November 2023.
Background:

Section 296 of the Municipal Act, 2001 states

(1) **Auditor** - A municipality shall appoint an auditor who is licensed under the Public Accounting Act, 2004 who is responsible for annually auditing the accounts and transaction of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit; and

(2) **Term** - An auditor of a municipality shall not be appointed for a term exceeding five years.

The City has retained the audit services of KPMG LLP since 1990, through a combination of competitive procurements and Council approved extensions.

Through competitive procurement, KPMG LLP were re-appointed as the City's Auditor for a two-year term commencing November 20, 2013 and ending on November 19, 2015.

Council extended the appointment of KPMG LLP for an additional three years in 2015 and additional one-year periods in 2018 and 2019.

Previous extension recommendations were based on ongoing cost benchmarking exercises as well as evaluation of services provided by KPMG LLP.

Current Situation:

The City of Brampton must appoint External Auditors in order to comply with the requirements of section 296 of the Municipal Act, 2001. The current one-year term of the appointment of KPMG LLP ends on November 20, 2020.

Staff is seeking direction from Audit Committee in terms of preference on whether to proceed with a competitive procurement or to re-appoint KPMG through direct negotiation. In order to align with this current Term of Council’s final calendar year end audit, a three-year contract period through to November 2023 would be required.

A competitive procurement would ensure best value for services through an open and competitive procurement process. The last competitive procurement took place in 2013.

If Audit Committee is satisfied with the current relationship and value for services provided by KPMG, the City can also opt to re-appoint KPMG through direct negotiation.
Under section 2.4 and Schedule D (paragraph 9(j)) of City’s Purchasing By-law, professional services conducted by accountants are exempt from the procurement processes set out in the Purchasing By-Law.

The following are some key aspects for Audit Committee’s consideration:

Staff have conducted several benchmarking analyses during KPMG (LLP)’s tenure, with the last one taking place in 2018. These have demonstrated that KPMG provides competitive pricing for the City of Brampton audit. The benchmarking showed that KPMG's audit fees were competitive and lower than the average, as compared to some of the sample municipalities.

Mr. Kevin Travers, Partner has been involved with the City’s audit for the last 27 years, providing important continuity in the provision of audit services and is KPMG’s Local (Municipal) Government Sector leader for the Greater Toronto Area.

Mr. Travers is Lead Audit Partner for some of the largest municipalities in the province of Ontario including Cities of Brampton, Mississauga, Markham, and Vaughan and the Region of York as well as two municipally-owned electric utilities (Alectra Inc. and Veridian).

KPMG (LLP) has ensured that Finance staff is updated on a regular basis with any new developments in the accounting and financial reporting requirements for Ontario municipalities. KPMG (LLP) updates include detailed explanations and impact analyses and their deep experience in this sector provides opportunities for Brampton to benchmark their accounting solutions with other Ontario municipalities.

KPMG provides their expertise at no additional charge for other areas such as tax, asset valuation and other special projects.

Corporate Implications:

Financial Implications:
Any adjustments to annual audit fees would be made through the 2021 operating budget, with future budgets amended as required.

Strategic Plan:
This report achieves the Strategic Plan priority of Good Government by practicing proactive, effective and responsible management of finances, policies and service delivery and promotes transparency in the reporting of the City’s financial affairs.
Term of Council Priorities:

This report fulfils the Council Priority of a Well-Run City through strict adherence to effective financial management policies and supports Brampton’s 2040 Vision by ensuring sustainable financial revenues.

Conclusion:

The City of Brampton must appoint External Auditors in order to comply with the requirements of section 296 of the Municipal Act, 2001. The current one-year term of the appointment of KPMG LLP ends on November 20, 2020.

Staff is seeking direction from Audit Committee in terms of preference on whether to proceed with a competitive procurement or to re-appoint KPMG through direct negotiation, for a three-year contract period ending November 2023.

Authored by:

Maja Kuzmanov, Manager of Accounting

Approved by:

David Barrick, Acting Commissioner, Corporate Support Services

Reviewed by:

David Sutton, Treasurer

Submitted by:

David Barrick, Chief Administrative Officer