

# *The Corporation of the City of Windsor Fraud Risk Management*

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*Final Internal Audit Report*

**3 October 2016**

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# ***Summary of Internal Audit Results***

Combating fraud is everyone's responsibility; City leaders are critical role models and it is important that they set the right tone at the top. City staff should understand fraud risks and what to do when fraud is discovered.

## ***Scope***

As part of internal audit of fraud management activities in effect internal audit we considered:

1. Fraud management policies
2. Culture and awareness
3. Risk assessment and responses
4. Investigation and remediation
5. Reporting and monitoring

Our scope covered the 12 month period from July 1, 2014 to June 30, 2015.

Fraud Risk Management refers to the processes and controls at the City's enterprise level and across specific ABC's which operate on the City's PeopleSoft system.

Internal Audit performed inquiry (online survey and in-person interviews) with the assistance with management to develop an understanding of the current culture and awareness by employees. The survey was administered with assistance with management across specific positions/staff levels with influence over decision making and/or financial transactions. Participants of the survey included, but were not limited to, leadership, directors, managers and ABC's that operate on the City's PeopleSoft financial system.

## ***Scope Exclusions***

PwC has been engaged by the City of Windsor as it's outsourced Internal Audit function and the engagement has PwC administer the Concerned Citizen Hotline and related protocols. The "Investigation and Remediation" review area noted above excluded potential fraud matters as well as the associated controls which were reviewed or performed by Internal Audit or required involvement from PwC in order to maintain independence and avoid self-review.

## ***Linkage to the internal audit plan***

The Fraud Risk Management audit is part of the risk based 2015-2016 City of Windsor Audit Plan approved by City Council on July 27 to address corporate risks related to "Fraud and Corruption", namely the risk of publicized illegal or improper acts by City employees.

Fraud can arise from intentional misrepresentation of suppliers, employees and customers. According to International Professional Practice Standards for Internal Auditors, standard 2120.A2, internal audit shall consider the practices the organization has to explicitly assess fraud risk and how the organization manages fraud risk.

The objective of this review was to obtain assurance that the controls around establishing effective procedures and controls in regards to fraud, including, but not limited to a review of the fraud policy; review of tools designed to detect fraud; whistle-blower ('hotline') policy; and a review of incidents where fraud was detected.

The City's Fraud Risk Management Framework was assessed in accordance with the scope of work as noted above, and covered the following five (5) review areas:

1. **Fraud management policies:** The City has a number of measures in place to prevent or reduce the risk of fraud. For instance, the City has established a Code of Ethics for Employees, Conflict of Interest policies and procedures, employees undergo screening processes including police clearances before being hired and the City continues to implement controls (such as segregation of duties) in many processes.
2. **Culture and awareness:** As part of this engagement, Internal Audit facilitated and administered a 35 question survey to gauge the awareness and culture towards fraud in the organization. The survey sample comprised about 2,000 individuals across 19 department/areas. The number of respondents who completed the survey was 269, realizing a **13%** return rate<sup>1</sup>. The key objective of the survey was to establish a baseline understanding of the awareness within the City. The results of this survey may be used to identify opportunities for raising the awareness of fraud reporting mechanisms.
3. **Risk assessment and responses:** The City has recently performed a "Fraud Risk Assessment" to identify and rank common threats or events which have a potential for fraud. As a result of this exercise, the City has a tool to increase the awareness of fraud as well as assess whether preventative and detective measures currently in place are sufficient to address the risks.
4. **Investigation and remediation:** The City has a formal Fraud Policy which outlines the strategy for responding to fraud or suspected fraud. The City also has an insurance policy to protect themselves against "Crime".
5. **Reporting and monitoring:** The City's Concerned Employee Policy provide employees with guidance and direction on how and when to report concerns. The City also has a Hotline which is available to residents and employees to report concerns of fraud, waste and misuse of assets. Since the hotline is administered by PwC, the review was limited to the City's process for raising awareness of the hotline as opposed to the process for administering incoming hotline calls/emails/letters or notifications.



In our view, a key reason that fraud is not detected by organizations in general is because of the inability of the organization's staff to recognize early warning signs or because they were unsure how to report their suspicions. During the course of the review, Internal Audit noted that training has been provided to some staff to increase its fraud awareness, and what steps to take if they are suspicious of its occurrence. Internal Audit noted there is an opportunity to expand the reach of this training or communication to other staff with a focus on raising awareness around how to report a suspected concern anonymously. Alternatively, those who attended the recent fraud training may wish to deliver key messages at department meetings to continue to raise the awareness.

Note: the survey was distributed to employees with email access only, or about 2,000 employees. Therefore, the results of this survey may not be representative of all employees.

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<sup>1</sup> Per review of research carried out by "SurveyGizmo", a 10-15% response rate for external surveys should be considered sufficient. A further study by Benchmark Email Survey indicated that only 15-20% of those receiving the request for the survey will review the request, while even less would carry out the survey questions. Finally, according to "How Many is Enough", the 13% response rate leads to a 95% confidence interval with a +/- 5% margin for error.

## Summary of Culture & Awareness Survey

There were a series of open ended questions, direct yes/no questions and questions where respondents could select from a five (5) point scale (Strongly Disagree, Disagree, Neutral or Not Sure, Agree and Strongly Agree). A complete listing of the questions is included in Appendix B – Section B3.

A sample of the yes/no type questions is as follows:

#	Question	Yes	No	Not Sure / Not applicable
3	Are you aware of how to access City Policies and Procedures?	254 (94%)	15 (6%)	
10	The Concerned Employee Policy provides anonymity to individuals who report suspected wrongdoing.	142 (53%)	9 (3%)	118 (44%)
11	Have you ever used this policy (Concerned Employee Policy) to report suspected wrongdoing anonymously?	4 (2%)	265 (98%)	
12	If you used the policy, are you happy with the way in which the matter was handled or dealt with?	2 (0.1%)	3 (0.1%)	264 not applicable (98%)
13	Have you signed the Code of Ethics for employees?	143 (53%)	12 (4%)	114 (43%)
20	If I was aware or had a suspicion that fraud, bribery or corruption was happening at work, I would feel comfortable with using the hotline.	208 (77%)	61 (23%)	

Given the survey was distributed to employees with access to email and computer, it was expected that majority of respondents would be aware of how to access City Policies and Procedures as these are available on the City's internal dashboard.

It was noted that the City has an annual reminder to employees about the Code of Ethics policy as part of the employee performance appraisal process. This is used to remind employees of the Code of Ethics and requires a supervisor sign off indicating that they have reviewed it with the employee.

Based on the sample of results above, there is an opportunity for raising the awareness and providing relevant training to employees as to how the concerned employee policy, fraud policy and City's hotline should be used. For instance, all staff may not be aware that the hotline provides for anonymously reporting concerns, which could lead to potentially unreported concerns or events.

When asked (*Question 30*) "how many incidents of fraud or corruption are you aware of at the City in the last two years", there were 161 respondents that stated "no instances" whereas 108 (40%) stated that they were aware of one (1) or more instances. This result could indicate that staff were aware of an incident that they themselves identified, an incident they became aware of after the fact or an event that may not necessarily have been reported. Employees having this awareness of instances of fraud can promote or reinforce the City's zero-tolerance of fraud, misuse and/or abuse involving City assets.



Additional details from the Fraud Awareness and Culture Survey are available in Appendix B.

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## *Report Classification*

Our current review found that overall, the City's existing FRM Framework does include most of the fundamental elements of a FRM Framework. However, certain elements of this framework could be further enhanced to minimize the City's risks and address potential fraud and misconduct. The following section describes some of the themes from the review:

### *Fraud management policies*

- The City's Fraud Policy and commitment from leadership provides the foundation for designing, implementing, monitoring, and reviewing fraud management working practices.

### *Culture and awareness*

- As required by the fraud policy, managers and supervisors should be reasonably familiar with the types of fraud or misuse of assets that might occur in their area and be alert for any indication of non-compliance.
- Ongoing and recommended initiatives, such as fraud awareness training and transparency in fraud reporting, should support the foundation in place to bring fraud prevention, detection and reporting to the attention of all employees.
- Training is currently provided to members of Administration, Senior Management, as well as Managers and Supervisors. Communication of the available mechanisms for reporting concerns and of the important provisions that protect employees, such as the hotline, should continuously occur with all employee groups.
- The City may consider implementing a periodic questionnaire/survey/quiz of all employees (similar to the survey facilitated during this review) ensure that roles and responsibilities are understood and a protocol to report/escalate concerns is known.

### *Risk assessment and responses*

- The City's management group participated in a formal fraud risk assessment in December 2015;
- The Purchasing Bylaw and purchasing templates forbid bribery, collusion and other forms of corruption;
- Management receives training on a periodic basis and receives guidance for identifying fraud risks and managing internal controls to either prevent or detect fraud; and
- It is recommended that the City enhance its fraud risk assessment processes documenting one common process for management to apply when entering into new business relationships, a process which could include guidance on when additional background checks are required for key business partners.

### *Investigation and remediation*

- In accordance with the City's Record Retention By-law, records from fraud investigation are kept confidential;
- Responsibility is assigned to corporate leadership to oversee investigation and follow up of when there is a concern or suspicion for wrongdoing reported; and
- Management may, on occasion, perform a detailed review of controls in a particular area which are considered higher risk or to respond to a concern.

### *Reporting and monitoring*

- The Fraud Policy requires that supervisors be aware of their responsibility and appropriately escalate concerns upward. In addition, employees have access to City policies and procedures on the dashboard and should understand from these policies and procedures the required controls embedded in their daily work that help prevent or detect exceptions or abnormal outcomes.
- The training delivered to management enables consistency in how monitoring activities are performed and supports an awareness and scepticism when carrying out certain monitoring and oversight controls.

- Hotline cases that are routed to management for review are managed centrally and the progress of the follow up procedures are reported to Council on a quarterly basis. There are benefits to having concerns routed through a central function, such as internal audit or the hotline, as there is a higher likelihood that concerns of fraud, waste or misuse are handled in a consistent manner.
- Monitoring and reporting processes have been designed to assist management in managing the working practices and maintaining transparency while remaining sensitive to employment and legal requirements.

The Concerned Employee Policy was drafted in 2003 and the Fraud Policy in 2005, with updated versions of both policies approved in 2015. There have also been a number of changes to the process for administrating the City’s hotline which employees may not be familiar with. The City has implemented a concerned employee policy which refers to a hotline webpage and hotline protocol.

As part of the fraud awareness and culture survey, it was noted that 77% respondents who said that the culture of their organization is such that they would be willing to raise any concerns they have regarding fraud (Question 20: if I was aware or had a suspicion that fraud, bribery or corruption was happening at work, I would feel comfortable with using the hotline)]

Internal audit has identified a number of proposed actions that the City may wish to consider for increasing the overall awareness and culture towards fraud risk management.

Based on the controls identified and tested as part of the Internal Audit of the City’s Fraud Risk Management process and controls we have determined that there is reasonable evidence to indicate that:

	No or limited scope improvement	No Major Concerns Noted	Cause for Concern	Cause for Considerable Concern
Controls over the process are designed in such a manner that there is:				
Sample tests indicated that process controls were operating such that there is:				

See Appendix C for Basis of Finding Rating and Report Classification. Management has provided comprehensive action plans, which we believe will address the deficiencies noted.

## Summary of Positive Themes

We noted the following positive themes as part of the review:

### 1. Policies and Procedures

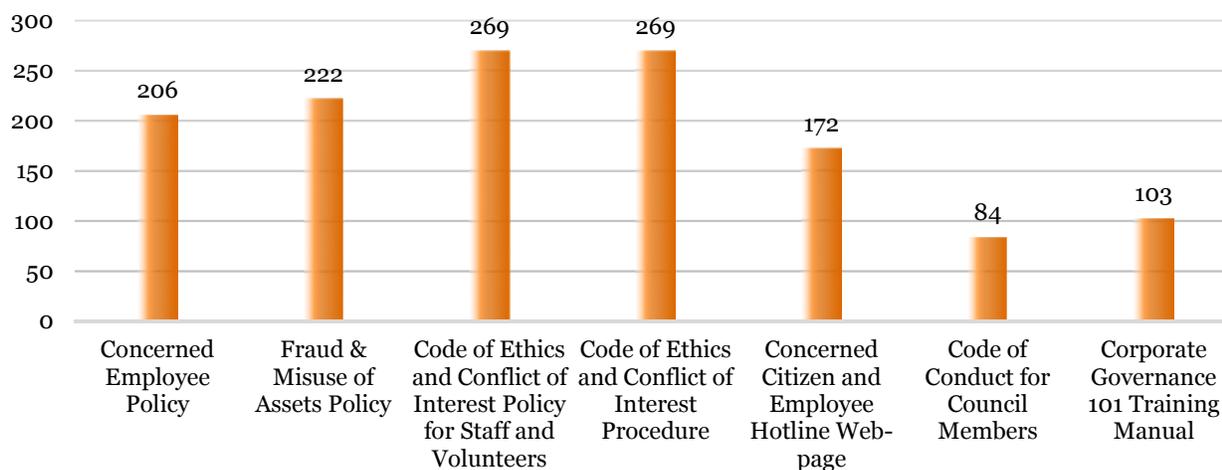
The Fraud, Conflict of Interest, Code of Ethics, Concerned Employee Policies as well as the Hotline Protocol are examples of policies which provide:

- Guidance and reporting methods when fraud or misuse of assets is suspected within the City;
- Guidance to ensure the protection of employees making good faith reports of fraud, waste or misuse of assets from intimidation or retaliation by City employees or elected officials; and
- Values and principles by which employees and volunteers are to govern their actions in the exercise of their duties.

Hiring policies and practices require police background checks for all new employees of the City which establishes and reinforces the City's zero tolerance of fraudulent activity.

94% of employees who responded to the survey indicated they were aware of how to access City Policies and Procedures and awareness of policies is generally strong across areas relevant to majority of employees, as illustrated by the following graph:

Q4: Have you been made aware of any of the following City policies and procedures? (Please select all that apply):



More people were aware of conflict of interest policies/procedures than those aware of the Hotline webpage.

### 2. Roles and Responsibilities

The Fraud Policy outlines the following key roles and responsibilities as it pertains to FRM:

- Corporate Leadership Team (CLT) and all Executive Directors (ED's) are responsible for ensuring employees under their direction are familiar with the provisions of the policy;
- Employees are responsible for promptly reporting any suspected fraud and/or misuse of City assets to their supervisor (or to one level above their supervisor if the supervisor is suspected);
- Human Resources shall ensure all new employees review and sign an acknowledgement of this policy at time of hire and prior to actively commencing work; and
- Management shall provide advice and guidance on the development of procedures and/or practices pertaining to this policy.

### 3. Fraud Awareness

In the last 3 years, the majority of incidents reported to Internal Audit which met the definition of fraud, waste or misuse and required further investigation by either management or internal audit, had come from management. This is a testament to the culture for employees feeling safe and comfortable to report their concerns.

During the review it was also noted that training was provided to management staff of the Windsor Public Library as part of the integration of library services as a City department. Furthermore, two regular training sessions concerning fraud, or containing a fraud component were delivered in the prior year. First, a Fraud Awareness training session was delivered by the Deputy Treasurer, Financial Accounting to various managers and supervisors throughout the City. As part of the training involving the year's budgets, the Deputy Treasurer, Financial Planning delivered further Fraud Awareness training to participants.

In addition, the survey revealed the following positive themes pertaining to fraud awareness and culture:

- Only 2% stated they would report a concern to the media;
- Only 8% stated they would do nothing when asked who they would contact if they suspected fraud;
- 77% of survey respondents felt comfortable with using the hotline;
- 88% agree with: New employees at the City undergo pre-employment screening that includes criminal background checks, reference checks etc.; and
- 70% disagree with: I am aware of fraud or corruption incidents in the last two years that have gone unreported to the City.

### 4. Investigation Process and Corrective/Disciplinary Actions

As part of the review, internal audit noted that:

- The City has a fraud response plan in place and knows how to respond if a fraud allegation is made;
- The fraud response plan considers: Who should perform the investigation; How the investigation should be performed; How to determine the remedial action; How to remedy control deficiencies identified; and How to administer disciplinary action; and
- The City has insurance policy protecting against crime involving dishonest employees, counterfeit currency and fund transfer fraud, just to name a few.

To understand how effectively the City's leadership responds to fraud concerns, the following survey questions were considered:

#	Question	Strongly Disagree (1)	Disagree (2)	Neutral or Not Sure (3)	Agree (4)	Strongly Agree (5)	Average Rating
27	There is a lack of action taken by management when fraud is detected.	8%	24%	55%	9%	4%	2.77
28	I am aware of fraud or corruption incidents in the last two years that have gone unreported by the City.	34%	35%	25%	5%	2%	2.07

As noted above, there is a perceived visible commitment from management towards fraud correction. Understanding that survey respondents may not have visibility to specific actions taken by management, either due to the staff level or an issue is reported outside of the staff's primary area/department, 55% of respondents answered 'not sure' to whether management takes appropriate action when fraud is detected. Quarterly internal audit dashboards include the number and status of outstanding investigations at any point in time, providing employees and the public with knowledge that management is aware of potential incidents and is investigating. Upon review of a sample five (5) potential concerns that were routed to management for review and consideration,

it was noted that the fraud response plan and follow up procedures outlined in the fraud policy were followed, including notifying internal and external auditors.

### Summary of Findings

A summary of the four (4) internal audit findings, corresponding ratings and summary of agreed upon actions by management are provided in the following table. The “Detailed Observations” section of this report provides additional information about each finding and proposed action plans. In addition to the findings noted below, three (3) considerations for improvement have also been noted on page 16 of the report.

Finding #	Topic	Rating <sup>1</sup>			Management Action
		Significant	Moderate	Low	
<b>Fraud Risk Management</b>					
<b>Fraud Awareness</b>					
1	Fraud reporting culture and awareness		X		Management will continue to plan for regular fraud awareness updates via various manager, supervisory and staff training programs.
<b>Bribery and Corruption</b>					
2	Due Diligence & Contractor Screening Procedures	X			Management agrees that a background check procedure should be created and implemented which is reflective of the wide range of goods and services procured by the City and the varying degrees of scrutiny that should be applied.
<b>Other</b>					
3	Promotions, departures and transfers			X	Management intends to provide ongoing and recurring training regarding Code of Ethics and Fraud Policy; and to remind employees of the methods available to report known concerns or suspicious activities.
4	Data Analytics for Fraud Detection			X	Administration will consider a data analytics program in enhancing the monitoring programs currently in place.
<b>Total</b>		<b>1</b>	<b>1</b>	<b>2</b>	

### Summary of Significant Findings

Internal audit has identified the above deficiencies in the design or operating effectiveness of controls, one (1) of which has been classified as significant:

- Formalize and document risk based criteria or triggers for when and how to perform screening/ due-diligence checks over individuals that have a key relationship with the City.

### Management Comments

Management has reviewed the various findings and recommendations as presented by PricewaterhouseCoopers within this report. Detailed Management Action Plans and timelines to address the various matters identified within the report are presented below.

Name: Joseph Mancina  
 Title: CFO & City Treasurer  
 Date: 27/09/2016

# Detailed Observations

## Findings & Action Plans

Finding	Rating	Recommendation & Action Plan
<b>1. Fraud Reporting Culture &amp; Awareness</b>		
<p><b>Observation</b></p> <p>There appears to be some general training over policies including the Fraud Policy and the Concerned Employee policy. However, based on the survey results, there is an awareness gap with the available training or channels of reporting concerns. For instance:</p> <ul style="list-style-type: none"> <li>- Low number of respondents felt they would reach out to Internal Audit (8%) to report a potential incident of fraud;</li> <li>- 53% stated they haven't received fraud awareness training in the past two (2) years;</li> <li>- 44% aren't sure if the Concerned Employee Policy provides anonymity to individuals who report suspected wrongdoing;</li> <li>- More people were aware of the conflict of interest policies and procedures than those aware of the Hotline webpage; and</li> <li>- 30% disagreed with: The Fraud Policy at the City is communicated regularly (annually or bi-annually).</li> </ul> <p>It is encouraging to know that staff for the most part (77%) would be comfortable to speak up about their concerns.</p> <p>The fraud policy requires that managers and supervisors should be reasonably familiar with the types of fraud or misuse of assets that might occur in their area and be alert for any indication of non-compliance. During 2015, the management group received internal training which covered concepts of internal controls and fraud detection. Furthermore, some fraud training is delivered as part of Financial Planning's module for budget training on an annual basis to those participating in the budgeting process.</p> <p>For additional details on how various employee groups responded to the questions regarding fraud awareness training, refer to Appendix B.</p>	<p><b>Overall</b> Moderate</p> <hr/> <p><b>Impact</b> Medium</p>	<p><b>Recommendation</b></p> <p>Fraud-related training can reinforce the importance of anti-fraud, waste, and abuse measures to the organization. Results from the recent fraud risk assessment should be incorporated into existing training sessions. Management may wish to leverage the results of the survey conducted as part of this review to target the awareness efforts. Subsequent surveys may be sent to the employee groups that are targeted in awareness campaigns to evaluate the progress.</p> <p>Additional messages to deliver may include, but are not limited to:</p> <ul style="list-style-type: none"> <li>- Reported incidents are confidential for employment and legal reasons;</li> <li>- Reminder that Concerned Employee Policy provides anonymity;</li> <li>- The internal audit function is independent of management;</li> <li>- The hotline is administered by internal audit;</li> <li>- Suspected wrongdoing reported through the hotline by an employee is reviewed in accordance with the approved hotline protocols; and</li> <li>- Internal audit shall keep the identity of the individual reporting an incident/event anonymous and confidential from management, if requested.</li> </ul> <p>Management should promote the use of the Hotline through the Concerned Employee Policy, while being clear that all reports are anonymous and the complainants are protected from any potential negative consequences which could stem from a report in good faith.</p> <p>For employee groups below the supervisor level, management may want to require that staff periodically complete an Ethics and Fraud Quiz to gauge employee awareness of related policies and procedures.</p>

Finding	Rating	Recommendation & Action Plan
<p><b>Implication</b>  Insufficient reach/consumption by employees of fraud awareness campaigns or training may lead to undetected or unreported incidents of fraud, waste or misuse.</p>	<p><b>Likelihood</b>  Likely</p>	<p><b>Management Action Plan</b>  Management has provided focused Fraud Awareness training to various managers and supervisors throughout the City for some time. Additionally as part of the Accounting and Budgeting Course, the Deputy Treasurer, Financial Planning has also delivered further Fraud Awareness training to participants. Management agrees that ongoing and recurring fraud awareness training can reinforce the importance of anti-fraud, waste, and abuse measures to the organization and as such will continue to plan for regular fraud awareness updates via various manager, supervisory and staff training programs. Management will consider for inclusion with its next update of the Concerned Employee Policy sufficient language to promote the Hotline and highlight the anonymity and protections resulting from a good faith report.</p>
<p><b>Root Cause</b>  Policies are made available and communicated, however there is currently no mechanism to gauge all employees' understanding and awareness of the key policies.</p>		<p><b>Responsibility</b>  CAO and Finance</p> <p><b>Due Date</b>  3<sup>rd</sup> Quarter 2017</p>

Finding	Rating	Recommendation & Action Plan
<b>2. Due Diligence &amp; Contractor Screening Procedures</b>		
<p><b>Observation</b> Vendor performance evaluations, background checks and conflict of interest procedures exist, however there is no formal documented guideline as to which checks are mandatory vs. optional and when.</p> <p>In addition, documentation/support for the rationale of the type, depth and outcomes of the checks is not required. For instance, it may not be clear as to when the focus of background checks shall be placed on the key representatives/individuals of the organization the City does business with.</p> <p>There is currently no documented criteria available for when background checks should be renewed or what steps shall be taken when flags are raised during the mandatory checks.</p> <p>The factors or triggers are not defined for performing due diligence procedures, other than the routine checks, for both new and existing business relationships.</p>	<p><b>Overall</b> Significant</p>	<p><b>Recommendation</b> To mitigate risk of being associated individuals or businesses with an impaired/damaged reputation, management should identify and assess relationships with certain individuals/businesses that are higher risk or that provide higher risk services to the City. For higher risk relationships, the City could define the type of available checks (i.e. mandatory, recommended) and document which checks are to be applied to the key individuals of the organization/business that the City does business with. The risks may also be mitigated by existing safeguards, such as evoking a right to audit clause.</p> <p>A procedure to guide staff could include, but may not be limited to, the following elements:</p> <ul style="list-style-type: none"> <li>- Assess inherent risk of the relationship which considers qualitative and quantitative factors (i.e. reputational impact on the City);</li> <li>- The risk assessment may incorporate the result of vendor performance evaluations or existing checks performed to prequalify vendors, if applicable;</li> <li>- Factors or triggers to consider when determining if additional checks for existing suppliers, agents etc. are needed;</li> <li>- Documentation requirements for existing checks and searches performed;</li> <li>- For existing relationships where background checks have been performed, the City may also want to determine whether the business or individual would require re-screening (i.e. define an expiry period);</li> <li>- Information collected during the screening and the results of such checks shall be retained with access restricted to approved City employees only; and</li> <li>- A review process over results of background checks which addresses how to handle exceptions or flags.</li> </ul>
<p><b>Implication</b> The risk profile of a key relationship may not be known, assessed appropriately or mitigated. Insufficient or inconsistent due diligence checks on representatives of new suppliers or business partners, individuals acting as agents of the City etc.. Damage to the City's image if associated with business partner or individual with a poor reputation or there is an undisclosed conflict of interest.</p>	<p><b>Impact</b> High</p>	<p>A log could be maintained to track the frequency and type of checks performed by the nature of relationship; which may enable consistency in the process.</p> <p>Evidence of the existence of a trigger, compliance with the process and outcomes/rationale should be documented, approved and retained.</p>

Finding	Rating	Recommendation & Action Plan
<p><b>Root Cause</b>            Formal criteria/triggers for due diligence, screening protocols and procedures have not been documented. Analysis of risks and safeguards is not required to be documented.</p>	<p><b>Likelihood</b>            Likely</p>	<p><b>Management Action Plan</b>            Management agrees that a background check procedure should be created and implemented which is reflective of the wide range of goods and services procured by the City and the varying degrees of scrutiny that should be applied. It is our view that such an endeavour would require appropriate dedicated resources to develop and manage such a program.</p> <p>It is noted that a tailored review of each potential service provider is a de facto element of each Request for Proposals process, as well as each Request for Prequalification process accompanying many tenders. This process reaches a relatively high proportion of vendors for which there are material transactions. It is also noted that a component of vendor centralization requires expressed adherence to the Corporate Code of Ethics and Conflict of Interest Policy.</p> <p>Given the various competing priorities and limited resources which the corporation currently faces, Administration will endeavour to address this recommendation in the medium-term subject to available resources and with due consideration to other competing corporate priorities.</p> <p><b>Responsibility</b>            City Solicitor/Purchasing Manager/Purchasing Supervisor</p> <p><b>Due Date</b>            3<sup>RD</sup> Quarter 2017</p>

Finding	Rating	Recommendation & Action Plan
<b>3. Promotion, Departure &amp; Transfers</b>		
<p><b>Observation</b> Exit interviews are conducted for departing employees on a voluntary basis. The success of a fraud response plan is highly dependent on reported and known incidents of wrongdoing. However, the current exit interview checklist does not ask employees to disclose known concerns or suspicious activity or remind them of alternative means to report concerns.</p> <p>Furthermore, there is currently no policy re-certification procedure or consideration for employees transferring in/out of Finance department into the City leadership/management positions or operational areas.</p>	<p><b>Overall</b> Low</p> <hr/> <p><b>Impact</b> Low</p>	<p><b>Recommendation</b> Employees departing the City should be provided with enough information about benefits of exit interviews such that they may make an informed decision to participate or not participate. Upon departure, employees should be reminded of the existence of the City's Hotline as a means to report concerns anonymously.</p> <p>Management should consider mandatory, continuous training for employees who progress within the organization, particularly to reinforce the Code of Ethics and their responsibilities under the fraud policy. Ethics and Fraud training should be strengthened for such instances (refer to finding #1).</p> <p>Management may want to consider having key management positions re-certify compliance with the Code of Ethics and Conflict of Interests and fraud policy upon changing into key positions within the City.</p>
<p><b>Implication</b> There is a risk that knowledge of financial reporting and monitoring controls places a limitation on objectively performing controls.</p>	<p><b>Likelihood</b> Likely</p>	<p><b>Management Action Plan</b> Management concurs that continuous training of employees who progress within the corporation regarding Code of Ethics and Fraud Policy is a good practice. Given management's intent (under item 1) to provide ongoing and recurring training, it is anticipated that such individuals would receive the necessary information during such training sessions. In addition, management will consider the implementation of an automated voter email acknowledgement of Conflict of Interest and Fraud Policies on a regular basis with all applicable staff to ensure that these requirements are communicated on a regular basis and there is documented evidence of employees having read and understood these requirements.</p> <p>The existing voluntary questionnaire provided to departing employees will be updated to include a reminder of the existence of the City's Hotline as a means to report known concerns or suspicious activity.</p>
<p><b>Root Cause</b> Emphasis is placed on communicating policies upon hiring as opposed to transfer, promotions or departures.</p>		<p><b>Responsibility</b> CAO, Human Resources &amp; Finance</p> <p><b>Due Date</b> 4<sup>TH</sup> Quarter 2017</p>

Finding	Rating	Recommendation & Action Plan
<b>4. Data Analytics for Fraud Detection</b>		
<p><b>Observation</b> As part of a recent fraud risk assessment exercise which the City participated in, existing controls mapped to key fraud risks identified a reliance on manual detective type controls. Data Analytics has not been a source of fraud detection, rather the primary source has been routine checks and oversight over transactions by department managers and supervisors.</p>	<p><b>Overall</b> Low</p>	<p><b>Recommendation</b> The City should consider specific computer assisted monitoring activities such as data analysis/mining of large amounts of data to identify abnormal or unusual patterns, or perform aggregated comparisons. Suspicious transaction monitoring should be integrated into the City's current financial &amp; management performance management &amp; reporting processes.</p>
<p><b>Implication</b> Limited opportunities to detect issues of fraud, waste or misuse of assets due to limited time and resources.</p>	<p><b>Impact</b> Moderate</p>	<p><b>Management Action Plan</b></p>
<p><b>Root Cause</b> Management control system relies on manual detection of errors, exceptions or anomalies based on periodic financial analysis and other monitoring controls.</p>	<p><b>Likelihood</b> Likely</p>	<p>Administration currently undertakes significant internal control monitoring functions some of which include the following:</p> <ul style="list-style-type: none"> <li>- Ongoing budget vs. actual review of expenses and revenues to compliment the quarterly City Council Variance Report;</li> <li>- Monthly review of Accounts Payable and Accounts Receivable transactions (sample basis);</li> <li>- Daily review of travel and business expenses prior to payment;</li> <li>- Monthly detailed review of Travel Advance, Travel Final and Business Expenses forms (on a sample basis);</li> <li>- Annual review of Accounts Payable Stamp Holders;</li> <li>- Regular and ongoing payroll variance review &amp; reporting across all levels of the corporation.</li> </ul> <p>While Administration concurs that specific computer assisted data analytics for monitoring large amounts of data would be a worthwhile initiative that could enhance the current monitoring programs, it is our view that such an endeavour would require appropriate computer systems/programs and dedicated resources to develop and manage such a program.</p> <p>Given the various competing priorities and limited resources which the corporation currently faces it is unlikely that such a program could be developed in the short to medium term. Administration agrees that a data analytics program would be useful in enhancing the current monitoring programs as such, Management will consider it in the longer term in context of available resources and with due consideration to other competing corporate priorities.</p> <p><b>Responsibility</b> CAO &amp; Finance</p> <p><b>Due Date</b> 4<sup>TH</sup> Quarter 2017</p>

## Considerations for Improvement

The observations noted below are intended for management's consideration to further improve or strengthen current controls or processes. These considerations were identified as opportunities to improve areas where the level of risk associated with achieving the control objective is lowered by controls already operating effectively.

### 1. Fraud Investigation and Follow up Checklist

Fraud incidents are assigned a lead to oversee investigation procedures and report results. However, there does not appear to be a standardized checklist/schedule of minimum activities which must be performed, individuals which must be consulted, documentation which must be retained (securely), or policies/by-laws which must be considered. Furthermore, files pertaining to fraud incidents are not maintained centrally.

Management should consider developing a standard checklist which should contain relevant information to demonstrate that the requirements of the fraud policy have been met and ensures that documentation is retained in a consistent manner. The fraud response and investigation checklist process may also be integrated into performance management/appraisal processes to hold management accountable to the responsibilities in the fraud policy.

Documentation should be kept securely in a central location such as HR or Legal Services.

### 2. Duplication of Service Requests logged through hotline

As per internal audit's understanding of the current reporting processes, management prepares a report to executive committee of council quarterly with a summary of hotline calls that were routed to management. Our understanding is that this tracking is done manually in excel.

Furthermore, Notification Tracking Sheets ("NTS forms") routed to management which are not related to fraud/waste/misuse are eventually logged into 311 as a separate service request.

The consideration for improvement would be to reduce the manual effort and leverage the data captured in 311 as the single source for reporting status of hotline calls quarterly. Management may want to consider using system generated reports for 311 type calls routed to management.

This would allow management to separately report the response to potential fraud/waste/misuse concerns or incidents routed to management and improve the overall transparency in the quarterly reporting.

### 3. Consolidated Anti-Bribery & Corruption ("ABC") Policy

While a central policy was not noted in regards to anti-corruption, bribery, collusion and other dishonest acts, it was noted that that these terms/conditions are provided in various policies or procurement documents (Purchasing Bylaw, RFT/RFP forms, Conflict of Interest, Code of Conduct for Council etc.). In comparison with other municipalities, it was noted that ABC policies are not the norm and the approach is similar to the City's.

Management should consider consolidating its stance on forbidden practices (such as bribery and corruption) into a consolidated policy with common ownership (i.e. Office of the CAO) similar to the Code of Ethics & Conflict of Interest Policy. This policy would provide accountability to appropriate policy owner(s) to ensure suspicious activity or potential violations can be monitored and acted upon in a consistent and effective manner.

## Appendix A: Number of Survey Responses

Department/Area	# of Respondents
Office of the CAO	7
Council and Communications (Office of the City Clerk)	21
Human Resources and Labour Relations(Office of the City Clerk)	16
Library Services(Office of the City Clerk)	9
Policy, Gaming, Licensing and By-Law Enforcement (Office of the City Clerk)	2
Engineering (Office of the City Engineer)	15
Facilities (Office of the City Engineer)	5
Operations (Office of the City Engineer)	19
Parks (Office of the City Engineer)	4
Pollution Control (Office of the City Engineer)	10
Employment and Social Services (Office of Community Development and Health Services)	34
Housing and Children's Services (Office of Community Development and Health Services)	16
Huron Lodge (Office of Community Development and Health Services)	7
Recreation and Culture (Office of Community Development and Health Services)	12
Finance and Asset Planning (Office of City Treasurer)	28
Information Technology (Office of City Treasurer)	20
Fire and Rescue (Office of the City Solicitor)	9
Legal, Purchasing, Risk Management, and Provincial Offences (Office of the City Solicitor)	19
Planning and Building Services (Office of the City Solicitor)	9
Other	7
<b>Total</b>	<b>269</b>

Overall, relative to the number of staff that received the survey in each of the six (6) corporate areas, there was a response rate of at least 9% per area, as shown below.

Staff Level	Number of Responses
CLT/Executive Director	5
Senior Manager/Manager	39
Supervisor	35
CANUE (non-manager)	69
Local 543	95
Local 82	5
WPFPA	7
ONA	0
Windsor Public Library CUPE Local 2067	6
Other	8
<b>Total</b>	<b>269</b>

Corporate Area	Response Rate
Office of the CAO	58%
Office of the City Clerk	19%
Office of the City Engineer	13%
Office of Community Development and Health Services	10%
Office of the City Treasurer	26%
Office of the City Solicitor	9%

## Appendix B: Detailed Survey Results

### B1. Culture and Awareness Survey Questions

#	QUESTION TYPE	QUESTION	REFERENCE TO SECTION IN REPORT
1	Information	Please select the department you work within:	Appendix A
2	Information	The level that best describes mine in the City:	Appendix A
3	Yes / No	Are you aware of how to access City Policies and Procedures?	Summary of Internal Audit Results
4	Multiple	Have you been made aware of any of the following City Policies and Procedures? (please select all that apply): <ul style="list-style-type: none"> <li>- Concerned Employee Policy</li> <li>- Fraud &amp; Misuse of Assets Policy</li> <li>- Code of Ethics and Conflict of Interest Policy for Staff and Volunteers</li> <li>- Code of Ethics and Conflict of Interest Procedure</li> <li>- Concerned Citizen and Employee Hotline Webpage</li> <li>- Code of Conduct for Council Members</li> <li>- Corporate Governance 101 Training Manual</li> </ul>	Summary of Positive Themes
5	Multiple	I have received or seen the following fraud awareness information at work (please select the most applicable): <ul style="list-style-type: none"> <li>- As part of my new hire training</li> <li>- Mandatory training</li> <li>- Fraud newsletter</li> <li>- Information alerts/Fraud alerts</li> <li>- Policy page on the Dashboard</li> <li>- City Circuit when Policies are updated</li> <li>- Other (please specify)</li> <li>- I haven't seen or received any fraud awareness information</li> </ul>	Finding #1 Appendix B – Section B2
6	Scale	I believe publicizing recent fraud, bribery and/or corruption persecutions or actions taken by the City to address recent fraud or misuse of assets would act as a deterrent to employees.	Appendix B – Section B3
7	Scale	I reviewed and signed an acknowledgement of the Fraud Policy at time of hire or when the Fraud Policy was last updated.	Appendix B – Section B3
8	Multiple	The fraud awareness training that I received at the City was: <ul style="list-style-type: none"> <li>• In the last 6 months</li> <li>• In the last 12 months</li> <li>• In the last 24 months</li> <li>• Over 2 years ago</li> <li>• I have never had fraud awareness training</li> </ul>	Appendix B – Section B2
9	Scale	The Fraud Policy at the City is communicated regularly (annually or bi-annually)	Finding #1 Appendix B – Section B3
10	Yes / No	The Concerned Employee Policy provides anonymity to individuals who report suspected wrongdoing.	Summary of Internal Audit Results, Finding #1

#	QUESTION TYPE	QUESTION	REFERENCE TO SECTION IN REPORT
11	Yes / No	Have you ever used this policy to report suspected wrongdoing anonymously?	Summary of Internal Audit Results
12	Yes / No	If you used the policy, are you happy with the way in which the matter was handled or dealt with?	Summary of Internal Audit Results
13	Yes / No	Have you signed the Code of Ethics for employees?	Summary of Internal Audit Results
14	Multiple	Please indicate who you think is eligible to report concerns concerning fraud and misuse involving City assets. Please select any that apply: <ul style="list-style-type: none"> <li>- Employees of the City of Windsor</li> <li>- Council Members</li> <li>- Residents of Windsor</li> <li>- Suppliers</li> <li>- Volunteers</li> <li>- Contractors</li> <li>- Employees of Agencies, Boards and Commissions</li> <li>- Residents outside of Windsor</li> </ul>	Appendix B – Section B4
15	Scale	New employees at the City undergo pre-employment screening that includes criminal background checks, reference checks etc.	Appendix B – Section B3
16	Scale	The City is committed to fighting fraud, bribery and corruption.	Appendix B – Section B3
17	Scale	The City takes a proactive approach to preventing fraud and corruption.	Appendix B – Section B3
18	Scale	The City supports an open and honest environment where staff can feel comfortable about reporting their concerns.	Appendix B – Section B3
19	Scale	If I had a suspicion that fraud, bribery or corruption was happening at work, I would report my concerns.	Appendix B – Section B3
20	Yes and No	If I was aware or had a suspicion that fraud, bribery or corruption was happening at work, I would feel comfortable with using the hotline.	Summary of Internal Audit Results,  Report Classification
21	Scale	I am confident that managers at the City understand their responsibilities for preventing and detecting the risks of fraud and corruption.	Appendix B – Section B3
22	Scale	I am confident that other employees understand their responsibilities for preventing, detecting and reporting the risks of fraud.	Appendix B – Section B3
23	Scale	My department manager encourages staff to come forward if they see or suspect fraud or corruption.	Appendix B – Section B3
24	Scale	The culture at the City is such that employees feel comfortable raising any concerns regarding fraud or corruption and that concerns will be taken seriously without any intimidation or retaliation towards employees.	Appendix B – Section B3
25	Scale	I work in an environment where I feel safe and secure making good faith reports of suspected fraud, waste or misuse of assets.	Appendix B – Section B3
26	Scale	Management communicates incidents of fraud to all staff at the City.	Appendix B – Section B3
27	Scale	There is a lack of action taken by management when fraud is detected.	Summary of Positive Themes
28	Scale	I am aware of fraud or corruption incidents in the last two years that have gone unreported by the City.	Summary of Positive Themes
29	Scale	I feel there are measures in place at the City to prevent, detect and report any incidence of fraud or misuse of assets.	Appendix B – Section B3

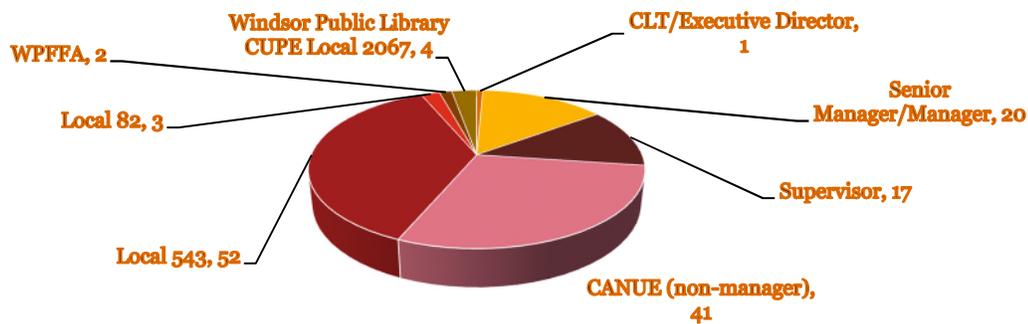
#	QUESTION TYPE	QUESTION	REFERENCE TO SECTION IN REPORT
30	Multiple	How many incidents of fraud or corruption are you aware of at the City in the last two years?	Summary of Internal Audit Results
31	Multiple	If you came across a fraud, who would you contact in your department? (Please select all that apply) Co-worker, other employee The suspected/alleged wrongdoer Your departmental Finance Manager Your supervisor Do nothing Other (please specify)	Appendix B – Section B4 Appendix B – Section B5
32	Multiple	If you felt it necessary to take the matter up outside your department area, who would you contact? - Internal Audit - Human Resources (HR) - Executive Director or Senior Leader - Chief Administration Officer - City Solicitor - Integrity Commissioner - City Council Member - The Press or Media - The Police - Friends or Family - Other (please specify)	Finding 1 Appendix B – Section B4 Appendix B – Section B5
33	Effectiveness Scale 1-6	How effective is the City's Whistleblower program in protecting the City and its stakeholders?	Not applicable – question was phrased incorrectly.
34	Open-Ended Response	What changes, if any, would you suggest the City should make with regards to their approach on fraud and bribery?	Specific themes have been incorporated into finding #1.
35	Open-Ended Response	Do you have any other concerns you would like to mention?	Specific themes have been incorporated into finding #1.

## B2. Awareness Training

### Q8 - The fraud awareness training that I received at the City was:



It should be noted that Internal Controls training targeted to the management group was last held in 2015. However, to ensure that the City reaches all relevant employee groups, the following chart illustrates how many employees from each employee group answered “I have never had fraud awareness training”.



The following table summarizes the responses for question 5 by staff level where internal audit asked respondents to select the most applicable source of fraud information at work:

Response	CLT/Executive Director	Senior Manager/Manager	Supervisor	CANUE (non-manager)	Local 543	Local 82	WPFPA	Windsor Public Library CUPE Local 2067	Other	Total
As part of my new hire training	1	2		16	10				1	30
Mandatory training	1	3	5	4	7		4	1	1	26
Fraud newsletter					1					1
Information alerts/Fraud alerts		8	11	19	30	2	2	2	3	77
Policy page on the Dashboard		13	7	9	14		1		2	46
City Circuit when Policies are updated	3	9	8	15	19	1		2		57
Other		1	3	5	11	2		1		23
<b>Sub-Total</b>	<b>5</b>	<b>36</b>	<b>34</b>	<b>68</b>	<b>92</b>	<b>5</b>	<b>7</b>	<b>6</b>	<b>7</b>	<b>260</b>
I haven't seen or received any fraud awareness information		3	1	1	3				1	9

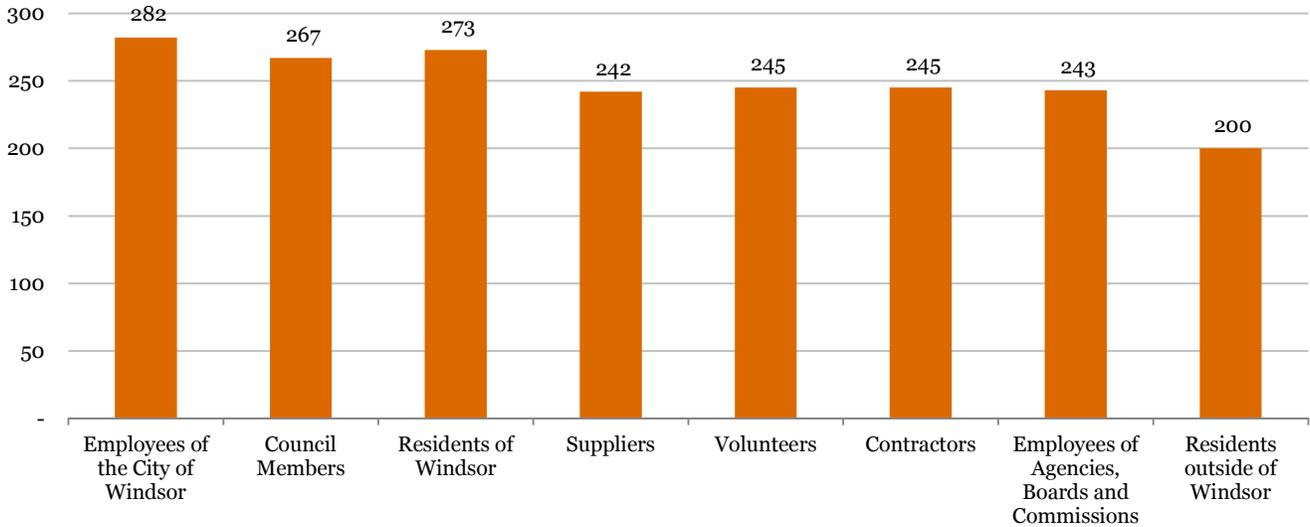
### B3. Questions with a rating scale

**Note:** Score of 3 is neutral and score above three is positive. The bolded questions were areas where the average ratings were less than a score of 3.5.

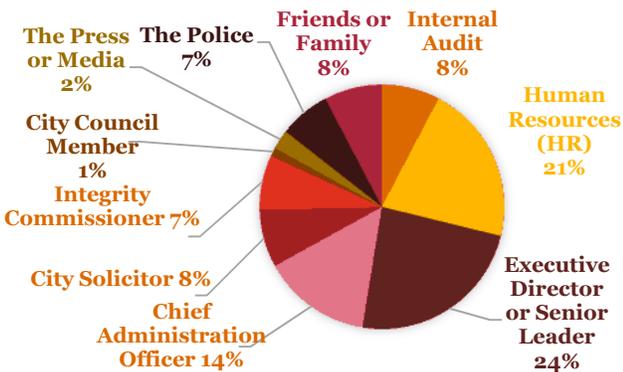
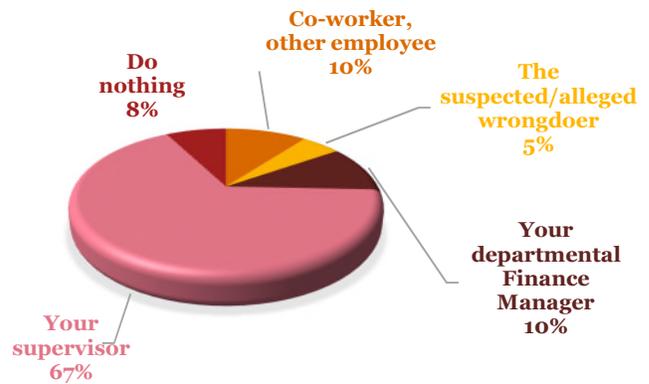
#	Question	Strongly Disagree (1)	Disagree (2)	Neutral or Not Sure (3)	Agree (4)	Strongly Agree (5)	Average Rating
6	<i>I believe publicizing recent fraud, bribery and/or corruption persecutions or actions taken by the City to address recent fraud or misuse of assets would act as a deterrent to employees.</i>	4%	9%	17%	50%	20%	3.75
7	<b>I reviewed and signed an acknowledgement of the Fraud Policy at time of hire or when the Fraud Policy was last updated.</b>	6%	18%	42%	28%	7%	3.13
9	<b>The Fraud Policy at the City is communicated regularly (annually or bi-annually)</b>	7%	23%	48%	19%	3%	2.87
15	<i>New employees at the City undergo pre-employment screening that includes criminal background checks, reference checks etc.</i>	2%	2%	8%	44%	44%	4.27
	<b>Average (Awareness Questions)</b>	<b>4%</b>	<b>13%</b>	<b>29%</b>	<b>35%</b>	<b>19%</b>	<b>3.51</b>
16	<i>The City is committed to fighting fraud, bribery and corruption.</i>	1%	5%	20%	54%	20%	3.87
17	<i>The City takes a proactive approach to preventing fraud and corruption.</i>	1%	6%	28%	51%	13%	3.68
18	<b>The City supports an open and honest environment where staff can feel comfortable about reporting their concerns.</b>	6%	14%	35%	36%	10%	3.31
19	<i>If I had a suspicion that fraud, bribery or corruption was happening at work, I would report my concerns.</i>	3%	4%	13%	53%	28%	3.99
21	<i>I am confident that managers at the City understand their responsibilities for preventing and detecting the risks of fraud and corruption.</i>	2%	8%	25%	50%	15%	3.68
22	<b>I am confident that other employees understand their responsibilities for preventing, detecting and reporting the risks of fraud.</b>	2%	18%	35%	35%	9%	3.32
23	<i>My department manager encourages staff to come forward if they see or suspect fraud or corruption.</i>	2%	9%	32%	39%	17%	3.60
24	<b>The culture at the City is such that employees feel comfortable raising any concerns regarding fraud or corruption and that concerns will be taken seriously without any intimidation or retaliation towards employees.</b>	8%	16%	40%	28%	7%	3.11
25	<i>I work in an environment where I feel safe and secure making good faith reports of suspected fraud, waste or misuse of assets.</i>	5%	11%	21%	49%	14%	3.57
26	<b>Management communicates incidents of fraud to all staff at the City.</b>	17%	44%	32%	7%	1%	2.30
29	<i>I feel there are measures in place at the City to prevent, detect and report any incidence of fraud or misuse of assets.</i>	1%	10%	32%	50%	7%	3.53
	<b>Average (Culture Questions)</b>	<b>5%</b>	<b>13%</b>	<b>28%</b>	<b>41%</b>	<b>13%</b>	<b>3.45</b>

**B4. Other Findings from Survey**

**Question 14 - Who do you think is eligible to report concerns of fraud or misuse involving City assets.**



The majority of respondents (67%) indicated that they would be most likely to report a concern to their direct supervisor. [Chart to right is based on question 31 - If you came across a fraud, who would you contact in your department?]



When asked who you would contact if you felt it necessary to take the matter up outside your department area (chart on left is based on question 32) there was a low number of respondents who felt they would reach out to Internal Audit (8%).

**B5. Additional details for select questions by functional area**

Question 32 asked, “If you felt it necessary to take the matter up outside your department area, who would you contact?”

**Summary of Responses by Corporate Function**

Corporate Area	Internal Audit	Human Resources (HR)	Executive Director	CAO	City Solicitor	Integrity Commissioner	City Council Member	Press or Media	Police	Friends or Family
Office of the CAO	4	1	2	3	1	1	0	0	1	0
Office of the City Clerk	8	16	16	10	5	8	1	4	7	5
Office of the City Engineer	4	22	23	13	5	6	1	2	2	8
Office of Community Development and Health Services	4	26	26	11	5	6	2	2	6	12
Office of the City Treasurer	12	15	23	17	6	4	0	2	5	5
Office of the City Solicitor	1	10	10	8	11	5	1	1	6	1
<b>Total</b>	<b>33</b>	<b>90</b>	<b>100</b>	<b>62</b>	<b>33</b>	<b>30</b>	<b>5</b>	<b>11</b>	<b>27</b>	<b>31</b>

**Summary of Responses by Staff Level**

Staff Level	Internal Audit	Human Resources (HR)	Executive Director	CAO	City Solicitor	Integrity Commissioner	City Council Member	Press or Media	Police	Friends or Family
CLT/Executive Director	2	2		3	3	1			1	
Senior Manager/Manager	10	13	25	23	11	2			5	
Supervisor	5	13	17	8	5	7		1	1	1
CANUE (non-manager)	8	21	33	11	9	8		1	6	3
Local 543	6	32	23	15	2	9	3	6	12	25
Local 82		2							1	2
WPPFA	1	2	1	1	1	1	1		2	1
Windsor Public Library CUPE Local 2067	1	2				2	1	2		
Other		4	3	1	2	1		1	1	1
<b>Total</b>	<b>33</b>	<b>91</b>	<b>102</b>	<b>62</b>	<b>33</b>	<b>31</b>	<b>5</b>	<b>11</b>	<b>29</b>	<b>33</b>

Question 31 asked “If you came across a fraud, who would you contact in your department? (Please select all that apply)”

**Summary of Responses by Corporate Function**

Corporate Area	Co-worker, other employee	The suspected/alleged wrongdoer	Your departmental Finance Manager	Your supervisor	Do nothing
Office of the CAO	1	1	1	7	0
Office of the City Clerk	8	3	2	39	3
Office of the City Engineer	5	3	5	45	7
Office of Community Development and Health Services	11	4	5	63	5
Office of the City Treasurer	6	2	17	34	5
Office of the City Solicitor	4	4	4	33	4
<b>Total</b>	<b>35</b>	<b>17</b>	<b>34</b>	<b>221</b>	<b>24</b>

**Summary of Responses by Staff Level**

Staff Level	Co-worker, other employee	The suspected/alleged wrongdoer	Your departmental Finance Manager	Your supervisor	Do nothing
CLT/Executive Director			1	5	
Senior Manager/Manager	2	5	8	36	
Supervisor	2	2	3	33	2
CANUE (non-manager)	5	2	12	61	5
Local 543	21	4	5	74	15
Local 82	1	1		2	2
WPPFA	2	3	1	6	1
Windsor Public Library CUPE Local 2067	2		2	2	
Other			3	7	1
<b>Total</b>	<b>35</b>	<b>17</b>	<b>35</b>	<b>226</b>	<b>26</b>

# Appendix C: Basis of Finding Rating and Report Classification

## Findings Rating Matrix

Audit Findings Rating		Impact		
		Low	Medium	High
Likelihood	Highly Likely	Moderate	Significant	Significant
	Likely	Low	Moderate	Significant
	Unlikely	Low	Low	Moderate

## Likelihood Consideration

Rating	Description
Highly Likely	<ul style="list-style-type: none"> <li>History of regular occurrence of the event.</li> <li>The event is expected to occur in most circumstances.</li> </ul>
Likely	<ul style="list-style-type: none"> <li>History of occasional occurrence of the event.</li> <li>The event could occur at some time.</li> </ul>
Unlikely	<ul style="list-style-type: none"> <li>History of no or seldom occurrence of the event.</li> <li>The event may occur only in exceptional circumstances.</li> </ul>

## Impact Consideration

Rating	Basis	Description
HIGH	Dollar Value <sup>2</sup>	Financial impact likely to exceed \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Significant control weaknesses, which would lead to financial or fraud loss.</p> <p><b>An issue that requires a significant amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• Failure to meet key strategic objectives/major impact on strategy and objectives.</li> <li>• Loss of ability to sustain ongoing operations: <ul style="list-style-type: none"> <li>- Loss of key competitive advantage / opportunity</li> <li>- Loss of supply of key process inputs</li> </ul> </li> <li>• A major reputational sensitivity e.g., Market share, earnings per share, credibility with stakeholders and brand name/reputation building.</li> </ul> <p><b>Legal / Regulatory</b> Large scale action, major breach of legislation with very significant financial or reputational consequences.</p>
MEDIUM	Dollar Value	Financial impact likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures.</p> <p><b>An issue that requires some amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• No material or moderate impact on strategy and objectives.</li> <li>• Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives</li> <li>• Moderate reputational sensitivity.</li> </ul> <p><b>Legal / Regulatory</b> Regulatory breach with material financial consequences including fines.</p>
LOW	Dollar Value	Financial impact likely to be less than \$75,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies.</p> <p><b>An issue that requires no or minimal amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• Minimal impact on strategy</li> <li>• Disruption to normal operations with no effect on achievement of corporate strategy and objectives</li> <li>• Minimal reputational sensitivity.</li> </ul> <p><b>Legal / Regulatory</b> Regulatory breach with minimal consequences.</p>

<sup>2</sup> Dollar value amounts are agreed with the client prior to execution of fieldwork.

**Audit Report Classification**

Report Classification	The internal audit identified one or more of the following:
Cause for considerable concern	<ul style="list-style-type: none"> <li>• Significant control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met.</li> <li>• An unacceptable number of controls (including a selection of both significant and minor) identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Material losses have occurred as a result of control environment deficiencies.</li> <li>• Instances of fraud or significant contravention of corporate policy detected.</li> <li>• No action taken on previous significant audit findings to resolve the item on a timely basis.</li> </ul>
Cause for concern	<ul style="list-style-type: none"> <li>• Control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met.</li> <li>• A number of significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Losses have occurred as a result of control environment deficiencies.</li> <li>• Little action taken on previous significant audit findings to resolve the item on a timely basis.</li> </ul>
No major concerns noted	<ul style="list-style-type: none"> <li>• Control design improvements identified, however, the risk of loss is immaterial.</li> <li>• Isolated or “one-off” significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Some previous significant audit action items have not been resolved on a timely basis.</li> </ul>
No or limited scope for improvement	<ul style="list-style-type: none"> <li>• No control design improvements identified.</li> <li>• Only minor instances of controls identified as not operating which have mitigating back-up controls, or the risk of loss is immaterial.</li> <li>• All previous significant audit action items have been closed.</li> </ul>