



Office of the Auditor General / Bureau du vérificateur général

**AUDIT OF
INVENTORY AND ASSET MANAGEMENT PROCESSES**

2007

Chapter 7

**VÉRIFICATION DES PROCESSUS DE GESTION
DES STOCKS ET DES BIENS**

2007

Chapitre 7

Table of Contents

EXECUTIVE SUMMARY	i
RÉSUMÉ	ix
1 INTRODUCTION.....	1
2 BACKGROUND	1
3 AUDIT OBJECTIVES.....	5
4 AUDIT SCOPE	5
5 AUDIT CRITERIA.....	6
6 APPROACH.....	7
7 DETAILED OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS.....	9
7.1 Accounting and Controlling.....	9
7.2 Non-Stores (Operations Controlled Inventory).....	30
7.3 All Store	50
7.4 General Stores.....	52
7.5 Municipal Stores	61
7.6 Transit Stores	76
8 CONCLUSION.....	96
9 ACKNOWLEDGEMENT	96

EXECUTIVE SUMMARY

Introduction

The Audit of Inventory and Asset Management Processes was included as part of the 2007 Audit Plan that was received by Council, December 15, 2004.

Background

In 2006, the City of Ottawa had annual expenditures of approximately \$2 billion and operated with 11,700 Full Time Equivalents (FTEs). Management represented that \$267.7 million of goods, materials and supplies were purchased through Supply Management, Divisional Purchase Orders (DPOs) or procurement cards.

The expenditures were used to procure assets, materials or supplies to maintain and/or operate the assets and infrastructure for various City programs and services.

The City operates under a centralized procurement service for all its business sectors for transactions over \$10,000 and for other than procurement card transactions. Part of the inventory covering \$97.7 million of purchases, as represented by management, in 2006 was centrally managed and maintained in approximately 17 stores and 27 fuel sites (12 computerized/electronic dip tank sites and 15 manual dip measurement sites), both in the urban and rural areas of the City. These store functions were staffed by a total of 116 employees who processed an average of \$0.84 million each of inventory annually, including fuel purchases. If fuel purchases were excluded, each of these staff members would have processed an average of \$0.5 million. At fiscal year end 2006, management represented that this inventory balance amounted to approximately \$27 million. Financial Services Branch have two main stores, which supply satellite units where the logistics justify, and other stores, which receive goods directly from suppliers. Other branches such as Traffic and Parking Operations and Surface Operations manage additional inventories.

Of the \$267.7 million relating to expenditures for goods, material and supplies, the following were excluded from the scope:

- \$7.2 million for land and building acquisitions;
- \$37.8 million for hydro and heating fuels; and,
- \$19.2 million for non-City purchases relating to Ottawa Police Service, Ottawa Public Library, Pineview Municipal Golf Course, Business Improvement Areas, Ottawa-Nepean Campsite Authority, and Ontario Summer Games.

Therefore, our audit related to \$203.5 million of City expenditures.

City Purchased Materials and Supplies

For the year ended December 31, 2006

(Source: Financial Services)

Purchases expensed through inventory and official City stores	\$97.7 million
Purchases expensed directly and operating departments manage inventory	\$67.1 million
Remaining purchases of materials and supplies not managed as inventory	\$38.7 million
Total	\$203.5 million

On December 21, 2007, as part of the fact validation, management provided a composition for \$37.8 million for the remaining purchases of materials and supplies. A revised composition schedule for \$38.7 million was resubmitted on January 7, 2008. However, Financial Services Branch were unable to provide separate back-up by item, such as location, quantity used, etc., for the \$38.7 million in purchases of materials and supplies not managed as inventory. As part of the overall recommendations in this audit this inventory balance of \$38.7 million should be reviewed and adequately managed.

Five main areas covered by this audit included:

- a) Vehicles and Equipment;
- b) Diesel Fuel;
- c) Parts;
- d) Public Works and Services Inventory; and,
- e) Computers/Peripherals/Software.

M4, now M5 is the City's Fleet Management Information System. Its inventory module is used to control the Municipal Fleet Stores Inventory. SAP is the City's Corporate Financial Management System. Its Materials Management module is used to control General Stores and Transit Stores inventory. However, the asset management module of SAP is not used to record and control its assets.

- The responsibility for the City's centralized inventory falls within Financial Services Branch, which until May 2007, reported to the former Corporate Services Department. Financial Services Branch now reports to the City Manager. City of Ottawa staff approximates 11,700 full time equivalents. Financial Services Branch has 487 budgeted full time equivalent positions that report to the City Treasurer. In addition to this there are 33 unbudgeted FTEs in the Branch.
- The 2006 Audit of the Financial Control Environment reviewed Financial Services excluding the 153 employees of the Supply Management Division.

- The 2005 Audit of Procurement reviewed the services of the 37 employees of the Purchasing Unit of Supply Management Division.
- The services covered by the remaining 116 employees of Supply Management Division within the Materials Management General Unit, Materials Management Fleet Unit, and Materials Management Transit Unit are considered as part of this audit report.

A new Public Sector Accounting Board (PSAB) standard takes effect on January 1, 2009 that requires full accrual accounting for municipalities to account for all capital assets.

Audit Objectives

The objectives of this review were to determine:

1. Were controls adequate covering receipt, stocking, issue, declaration as surplus, disposal, and other inventory or adjustments.
2. Were inventory records in M4, M5 and other inventory systems in agreement with those in SAP and appropriately reflected in the financial statements.
3. Were there adequate physical safeguards.
4. Were there processes and reporting in place to detect and decrease risk resulting from weaknesses in controls.
5. Were the processes efficient and effective.

Audit Scope

The scope of the audit was to determine if there was an adequate system of internal controls covering all aspects of the receipt, inventory, use, and safeguards for protection of assets and inventory, accounting, and surplus declaration of assets, materials and supplies. We examined the policies, procedures and processes, responsibilities, approvals and documentation with respect to the above, as well as how items were declared surplus and how the disposal price was set. Where the disposal price appeared unreasonable we examined the cost of the initial purchase and other documentation relating to its maintenance to provide comments.

Included in the scope was the acquisition of:

1. Assets such as cars, trucks, buses, electronic equipment, furniture, signs, light standards, etc.;
2. Materials, such as repair and replacement parts, etc.; and,
3. Supplies, such as road salt, gravel, fuel, fluids, etc.

Excluded from this audit were all fixed infrastructure such as roads, bridges, sewers, sports facilities and buildings. While assets were included with respect to identifying

their presence, the efficiency and effectiveness of their use was excluded. The efficiency of usage levels of assets, materials and supplies were included in the scope of audit with respect to comments on inventory turnover and obsolete inventory. This audit excluded non-City purchases relating to Ottawa Police Service, Ottawa Public Library, Pineview Municipal Golf Course, Business Improvement Areas, Ottawa-Nepean Campsite Authority, and Ontario Summer Games. Health and Safety issues were also not addressed in this audit.

Summary of Key findings

1. The City has not assigned an overall authority for control and management of all corporate assets. There are also no overarching City policies, systems or procedures covering the capitalization, depreciation, identification, recording, tracking, controlling and safeguarding of City assets and inventory. Procedures and practices are not in place to optimize inventory management. The control and custody of non-balance sheet assets, such as furniture and miscellaneous equipment (not controlled by Fleet Services), is non-existent and the control of IT equipment requires significant improvement.
2. Our findings at this time indicate that the City is not currently ready for the implementation of the new PSAB rules covering municipal accounting for assets proposed for implementation starting in fiscal year 2009. Management have indicated that work is currently underway to complete the required activities and management is of the opinion that the City will be ready for implementation.
3. Our test sampling and the analysis we were able to conduct found that:
 - a) Inventory records whether controlled by the official stores or other areas had error rates that were too high;
 - b) There were excessive adjustments to inventory in SAP and M5;
 - c) There were many items contained in formal stores that had unacceptably low movement rates; and,
 - d) Items no longer required in stores were not disposed of in time to obtain a reasonable recovery rate.
4. The City's Vehicle and Equipment database contains incomplete descriptions of assets and non-current location information, making it difficult to locate the asset.
5. Some City stores are not properly secured during hours of operation, resulting in unauthorized persons entering.
6. Some City inventory is not located within the secure boundaries of a store and, therefore, could be diverted for non-City use more easily.

7. There is insufficient control on inventory charged as adjustments to work orders and adjustments made directly to inventory and therefore assurance that inventory is being used only to the benefit of the City cannot be made.
8. Shipments are received from sand, gravel suppliers etc., without using a proper means to verify the amount of the shipment.
9. There is inconsistent or incomplete documentation when goods change hands between City locations, City staff or the City and its contractors.
10. There is insufficient segregation of responsibility or preventative mitigating controls in the Municipal Store at Swansea.
11. Management have indicated that when a work order is completed, the supervisor prior to closing the work order reviews all labour, parts and commercial charges. Despite this review, our audit work indicated that, in some cases unusual transactions occurred and are not detected.
12. Goods are charged to closed work orders without subsequent scrutiny.
13. Municipal Fleet Maintenance staff in some locations are permitted to order their own parts and also receive them.
14. The M5 system was implemented without ensuring that the management reporting was functioning, and that data from prior years could be accessed appropriately.
15. There is a process for identifying vehicles and equipment, in the maintenance systems, that are planned for disposal. This is to avoid significant maintenance cost prior to disposal. The process is either not being used or not working.
16. Potentially obsolete parts are identified too late in their cycle and/or inventory volumes are not reduced sufficiently and/or the obsolete parts are not disposed of promptly, resulting in low recovery values on disposition.
17. Where staffing permits, independent staff should carry out the cycle and annual inventory counts.
18. There are insufficient detective reports available to management to reduce the risk of improper use being made of some of the inventory.
19. There are incorrect entries made to the inventory systems resulting in quantities existing for some items with a negative dollar value and vice versa and no stock of some items with a dollar value. There does not appear to be a routine review of the data in the inventory files nor reconciliations.
20. The City does not use the asset management module of SAP to record and control its assets. The M5 system is used to control the Municipal Fleet Stores Inventory and the SAP Materials Management module is used to control General and Transit Stores inventory. There are also legacy Excel and database systems in some departments in which assets are recorded, but this is by no means comprehensive. A

common system such as SAP should be used to record, track and account for City assets.

21. During our 2006 Audit of Fleet Services, we found that Fleet Services reported annual spending on Transit parts of \$18.4 million but Supply Management reported issues of \$37.8 million, a variance of \$19.4 million. During this audit, we found that \$14.9 million of this variance was due to Supply Management including internal transfers of inventory in their inventory turnover analysis. Internal transfers should not be included in the calculations of inventory turnover.

Main Recommendations and Management Responses

The detailed section contains 58 specific recommendations. Below are two overall recommendations as a result of this audit.

Recommendation 1

That the City Treasurer assign a function with the overall responsibility for all City assets. This function should be responsible for developing and issuing, for overall City asset and inventory management, overarching policies, systems and procedures covering the capitalization, depreciation, identification, accounting, recording, tracking, control and safeguarding of City assets, and inventory management.

Management Response

Management disagrees with this recommendation.

Under the Municipal Act, the Treasurer "...is responsible for handling all of the financial affairs of the municipality on behalf of and in the manner directed by the council of the municipality". As a result, within the City of Ottawa, the City Treasurer is responsible for materials that have not been expensed (inventory) - with the exception of salt and sand, as their control by Stores staff would not be cost-effective. Financial Services, has in place, policies for the management of inventory under their custody. As part of the implementation of tangible capital assets, the City Treasurer, in consultation with asset owners, will develop policies including capitalization thresholds, depreciation rates and methods, and accounting treatment at disposal.

The City is committed to protecting the assets of the corporation. Operational directors within the corporation are accountable for the control and safeguard of City assets they use in the delivery of services and are in the best position to align appropriate controls with their operational requirements. This is clearly stated under 'Management Responsibilities' within the City's Code of Conduct where it states: "The management of the City is accountable for protecting the assets of, and the public trust in, the City. Toward this end, management must make every effort to establish and maintain adequate systems, procedures and controls to prevent and

detect fraud, theft, breach of trust, conflict of interest, bias and any other form of wrongdoing. ”

The auditor concludes that the control and recording of assets not under the control of Stores is either non-existent or incomplete. Management disagrees with this conclusion. As evidenced in this audit, the areas reviewed manage the assets they control and have responded to the auditor’s recommendations as to where controls can be strengthened. This demonstrates that management is taking responsibility for assets and there would be no value-added in having the Treasurer involved in the process.

The auditor refers to \$38.7 million of “inventory balance” that should be reviewed and adequately managed. The \$38.7 million is the residual balance of the materials and supplies that were expensed during the year that are not within a major asset class nor did they go into the Stores inventory. These items relate to purchases made by the various departments in the delivery of their services and are not appropriate items for inclusion in inventory. The composition of these items was provided to the auditor and includes such items as the purchase of fire equipment, office supplies, janitorial supplies, food and beverages for the long-term care facilities, medical supplies and various program-related materials.

Recommendation 2

That the City Treasurer ensure that the City is ready to comply with the PSAB rules for full accrual accounting for local governments, which come into effect January 1, 2009.

Management Response

Management agrees with this recommendation.

Management is of the opinion that the City will be ready to comply with the PSAB 1350 requirement that will come into effect 1 January 2009 for reporting on the 2009 financial statements in mid 2010. A readiness assessment was undertaken in 2007 by a third party experienced with the PSAB 1350 requirements, which stated that: “The City of Ottawa is well positioned to address PSAB requirements...” It should be noted that over 80% of the value of assets that will be reported as a result of the PSAB requirements will be for real property and linear assets, which were not within the scope of this audit. Various items contained within the audit scope (i.e., computers, artwork and trees) will likely be immaterial, or under PSAB 1350, will be excluded from the definition of a tangible capital asset and, therefore, will not be included in the values reported in the financial statement.

Conclusion

There is no function within the City with overall responsibility for developing and issuing overarching City policy, systems and procedures on control of City assets and inventory. Our findings would indicate that the City is not currently ready for the

implementation of the new PSAB rules covering municipal accounting for assets proposed for implementation starting in fiscal year 2009. The control and recording of City assets that are not within the responsibility of Stores is either non-existent or incomplete and requires significant improvement. There is City inventory that is not controlled by Stores that should be contained within Stores and in either SAP or M5.

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.

RÉSUMÉ

Introduction

La vérification des processus de gestion des stocks et des biens était prévue dans le Plan de vérification de 2007 présenté au Conseil municipal le 15 décembre 2004.

Contexte

En 2006, les dépenses de la Ville d'Ottawa, qui fonctionnait avec un effectif de 11 700 équivalents temps plein (ETP), se montaient à environ 2 milliards de dollars. Selon la direction, 267,7 millions de dollars de biens, de matériel et de fournitures ont été acquis par l'entremise de Gestion de l'approvisionnement ou au moyen de bons de commande de division ou de cartes d'achat.

Les dépenses ont servi à obtenir les biens, le matériel et les fournitures nécessaires à l'entretien et à l'exploitation des éléments d'actif et d'infrastructure rattachés à divers programmes et services municipaux.

Un service d'approvisionnement centralisé régit, pour l'ensemble des secteurs d'activités de la Ville, toutes les transactions excédant 10 000 \$ ou effectuées par un autre moyen que la carte d'achat. En 2006, une partie des stocks, représentant des achats de 97,7 millions de dollars (d'après les renseignements fournis par la direction), a été gérée et entretenue de manière centralisée dans environ 17 magasins et 27 postes de ravitaillement (12 à jauge électronique/informatisée et 15 à jauge manuelle), répartis dans les secteurs urbain et rural de la Ville. Ces centres d'approvisionnement ont été exploités par un total de 116 employés qui ont, chacun, traité dans l'année des demandes de stocks d'une moyenne de 840 000 \$, y compris les achats de carburant. Si l'on exclut les achats de carburant de ce total, les stocks traités par chaque membre du personnel susmentionné représentent 500 000 \$ en moyenne. À la fin de l'exercice financier de 2006, la direction a déclaré que le solde de ces stocks s'élevait à près de 27 millions de dollars. La Direction des services financiers possède deux magasins principaux, qui alimentent les installations auxiliaires là où la logistique le justifie, ainsi que des magasins approvisionnés directement par les fournisseurs. Enfin, d'autres directions telles que la Direction de la circulation et du stationnement et la Direction des opérations de surface gèrent encore d'autres stocks.

Des 267,7 millions de dollars de dépenses associées aux biens, au matériel et aux fournitures, les portions suivantes n'ont pas été prises en considération dans la présente vérification :

- 7,2 millions de dollars pour l'acquisition de terrains et de bâtiments;
- 37,8 millions de dollars pour l'approvisionnement en électricité et en combustibles de chauffage;

- 19,2 millions de dollars pour des achats non municipaux associés au Service de police, à la Bibliothèque publique d'Ottawa, au terrain de golf Pineview, aux zones d'amélioration commerciale, au Terrain de camping municipal d'Ottawa-Nepean et aux Jeux d'été de l'Ontario.

Notre vérification porte donc sur des dépenses de 203,5 millions de dollars engagées par la Ville.

Achats de matériel et de fournitures par la Ville

Pour l'exercice financier ayant pris fin le 31 décembre 2006

(Source : Services financiers)

Achats effectués à même les stocks aux magasins officiels de la Ville	97,7 millions de dollars
Achats effectués directement auprès des fournisseurs – stocks gérés par les services d'exploitation	67,1 millions de dollars
Achats restants de matériel et de fournitures non gérés à titre de stocks	38,7 millions de dollars
Total	203,5 millions de dollars

Le 21 décembre 2007, dans le cadre de la validation des faits, la direction a fourni la ventilation des 37,8 millions de dollars d'achats restants de matériel et de fournitures. Une ventilation révisée prévoyant 38,7 millions de dollars d'achats a été soumise le 7 janvier 2008. Toutefois, la Direction des services financiers n'a pu produire de détails complémentaires justifiant chaque transaction, tels que le lieu, la quantité utilisée, etc. pour les 38,7 millions de dollars d'achats de matériel et de fournitures non gérés à titre de stocks. L'examen et la gestion adéquate de ce solde d'inventaire de 38,7 millions de dollars s'inscrit dans les recommandations générales du présent rapport.

La vérification a porté sur cinq volets :

1. les véhicules et l'équipement;
2. le diesel;
3. les pièces;
4. les stocks de Services et Travaux publics;
5. les ordinateurs, les périphériques et les logiciels.

M4 (aujourd'hui M5) est le système informatique de gestion du parc automobile de la Ville. Son module consacré à l'inventaire est utilisé pour gérer les stocks des magasins de Services du parc automobile. SAP est le système de gestion financière de la Ville. Son module de gestion du matériel sert à gérer les stocks des magasins généraux et du

transport en commun de la Ville. Toutefois, le module de gestion des biens de SAP n'est pas utilisé pour consigner et gérer les biens.

- La responsabilité de l'inventaire centralisé de la Ville appartient à la Direction des services financiers, laquelle relevait, jusqu'en mai 2007, de Services généraux, date à laquelle elle est devenue redevable au directeur municipal. L'effectif de la Ville d'Ottawa représente environ 11 700 ETP. La Direction des services financiers compte 487 postes d'ETP prévus au budget qui relèvent du trésorier municipal, et 33 ETP non prévus au budget.
- La vérification menée en 2006 sur l'environnement de contrôle financier comportait un examen des services financiers, duquel étaient toutefois exclus les 153 employés de la Division de la gestion de l'approvisionnement.
- La vérification du service d'approvisionnement menée en 2005 comportait l'examen des services des 37 employés de l'Unité des achats de la Division de la gestion de l'approvisionnement.
- Les services assurés par les 116 autres employés de la Division de la gestion de l'approvisionnement, rattachés à l'Unité générale de la gestion du matériel, l'Unité de la gestion du matériel du parc automobile et l'Unité de la gestion du matériel du transport en commun, ont été étudiés dans le cadre de la présente vérification.

Une nouvelle norme du Conseil sur la comptabilité dans le secteur public (CCSP), qui entrera en vigueur le 1^{er} janvier 2009, exigera des municipalités qu'elles adoptent la comptabilité d'exercice pour toutes les opérations rattachées à leurs immobilisations.

Objectifs de la vérification

La présente vérification visait à déterminer :

1. si la réception, l'emmagasiner, la sortie et l'aliénation des stocks, la déclaration d'excédents, et les opérations ou ajustements d'inventaire ont fait l'objet de contrôles adéquats;
2. si les données d'inventaire inscrites dans M4 et M5 et les autres systèmes de gestion des stocks concordaient avec celles figurant dans SAP et avaient été dûment prises en compte dans les états financiers;
3. si les mesures de protection physiques étaient adéquates;
4. si des processus et des mesures de reddition de comptes étaient en place pour que soient décelés et réduits les risques découlant de toute faiblesse potentielle des contrôles;
5. si les processus suivis étaient efficaces.

Portée de la vérification

La vérification visait à déterminer si un système adéquat de contrôles internes régissait tous les aspects de la réception, du stockage, de l'utilisation et de la protection des stocks ainsi que ceux de l'inventaire, de la comptabilité et de la déclaration d'excédents des biens, du matériel et des fournitures. Nous avons examiné les politiques, les procédures et les processus, les responsabilités, les autorisations et la documentation afférents aux aspects susmentionnés, de même que la façon dont les articles étaient déclarés excédentaires et dont leur prix d'aliénation était établi. Lorsque ce prix nous a semblé déraisonnable, nous avons examiné le coût d'achat initial et les renseignements relatifs à l'entretien afin de fournir nos commentaires.

La vérification englobait :

1. les biens tels que les automobiles, les camions, les autobus, l'équipement électronique, les meubles, les panneaux de signalisation et les lampadaires, etc.;
2. le matériel tel que les pièces de rechange, etc.;
3. les fournitures telles que le sel de voirie, le gravier, le carburant et les fluides, etc.

La vérification n'a pas porté sur l'infrastructure fixe telle que les routes, les ponts, les égouts, les installations sportives et les bâtiments. Elle a tenu compte du recensement des biens, mais non de l'efficacité ou de l'efficience de leur utilisation. L'efficacité du taux d'utilisation des biens, du matériel et des fournitures est mentionnée dans les observations relatives au taux de rotation des stocks et aux stocks désuets. Les achats non municipaux associés au Service de police, à la Bibliothèque publique d'Ottawa, au terrain de golf Pineview, aux zones d'amélioration commerciale, au Terrain de camping municipal d'Ottawa-Nepean et aux Jeux d'été de l'Ontario étaient exclus de la vérification. De même, les questions de santé et de sécurité n'ont pas été abordées dans la vérification.

Sommaire des principales constatations

1. La Ville n'a pas assigné la responsabilité générale du contrôle et de la gestion de l'ensemble des biens municipaux. Il n'existe pas non plus de politique, de procédure ou de système global qui régisse la capitalisation, la dépréciation, le recensement, la consignation, le suivi, le contrôle et les mesures de protection des biens et des stocks de la Ville. Aucune procédure ou pratique n'est non plus établie pour optimiser la gestion des stocks. Il n'existe aucun mécanisme de surveillance ou de garde de l'actif hors bilan, comme les meubles et l'équipement divers (non géré par Services du parc automobile) et le contrôle de l'équipement de technologie de l'information nécessite des améliorations importantes.
2. Nos observations indiquent que, pour le moment, la Ville n'est pas prête à appliquer les nouvelles règles du CCSP au sujet de la façon dont les municipalités

comptabilisent leurs immobilisations, règles qu'il a été proposé de mettre en œuvre pour l'exercice financier de 2009. La direction a fait savoir que des démarches sont en cours à cette fin et estime que la Ville sera prête à instaurer ces règles à temps.

3. Notre échantillonnage et l'analyse que nous avons pu réaliser ont révélé ce qui suit :
 - a) les livres d'inventaire, qu'ils soient tenus par les magasins officiels ou par d'autres, présentent un taux d'erreur trop élevé;
 - b) un nombre excessif d'ajustements ont été faits à l'inventaire dans les systèmes SAP et M5;
 - c) les magasins officiels contiennent un trop grand nombre d'articles en faible demande;
 - d) l'aliénation des stocks en magasin qui deviennent inutiles se fait trop tard dans le cycle de vie des articles pour que l'on puisse obtenir un recouvrement raisonnable des coûts.
4. La base de données sur les véhicules et l'équipement municipaux contient des descriptions incomplètes des biens et des renseignements non à jour sur leur emplacement; ces biens sont donc difficiles à repérer.
5. Certains magasins municipaux ne sont pas adéquatement sécurisés pendant les heures d'ouverture. Par conséquent, des personnes non autorisées y accèdent.
6. Certains stocks municipaux ne sont pas entreposés dans les limites protégées d'un magasin, ce qui pourrait faciliter leur détournement à des fins non liées aux activités de la Ville.
7. Les stocks réputés être requis aux termes d'un bon de travail et les rajustements effectués directement dans l'inventaire sont insuffisamment contrôlés, si bien qu'il est impossible de s'assurer que les stocks servent exclusivement aux besoins de la Ville.
8. Des livraisons de fournisseurs de sable, de gravier et d'autres matières sont également reçues sans que le volume du chargement soit vérifié adéquatement.
9. Le transfert de biens d'une installation municipale à une autre, d'un membre du personnel à un autre ou de la Ville à un entrepreneur est consigné de manière incohérente ou incomplète.
10. La ségrégation des responsabilités ou les mesures d'atténuation préventives sont insuffisantes au magasin municipal du croissant Swansea.
11. Bien que la direction ait indiqué qu'un superviseur vérifie les frais exigés pour la main-d'œuvre, les pièces, etc. afférents à tout bon de travail achevé avant que celui-ci ne soit clos, notre vérification a fait ressortir des cas où des transactions inhabituelles ont été effectuées sans toutefois avoir été décelées.

12. Des marchandises sont attribuées à des bons de travail clos et ne font l'objet d'aucun examen rigoureux subséquent.
13. À certaines installations, il est permis aux membres du personnel de la Division de l'entretien du parc automobile municipal de commander leurs propres pièces et de les faire livrer sur place.
14. Le système M5 a été implanté sans qu'on se soit assuré que les rapports de gestion fonctionnaient, et que les données des années précédentes étaient accessibles de façon appropriée.
15. Un processus est établi pour signaler, dans les systèmes d'entretien, les véhicules et l'équipement destinés à l'aliénation afin d'éviter que des travaux d'entretien coûteux soient effectués sur ceux-ci avant que la Ville ne s'en défasse. Or, ou bien le processus n'est pas utilisé, ou bien il ne fonctionne pas.
16. On repère trop tard dans leur cycle de vie les pièces qui risquent de devenir désuètes, on n'écoule pas les stocks assez rapidement ou encore on ne se départit pas assez vite des pièces qui deviennent inutiles, ce qui entraîne un faible recouvrement des coûts à l'aliénation.
17. Lorsque la dotation en personnel le permet, l'inventaire périodique et annuel devrait être dressé par des membres du personnel indépendants.
18. Le nombre de rapports d'investigation mis à la disposition de la direction est insuffisant et ne permet donc pas de réduire le risque d'utilisation impropre des stocks de la Ville.
19. Des inscriptions erronées sont faites dans les systèmes d'inventaire. Par conséquent, le recensement, d'une part, comporte des articles dont la valeur est négative, ou contrairement dont la quantité est négative mais une valeur monétaire est attribuée et, d'autre part, attribue une valeur monétaire à des stocks non existants. En outre, les données figurant dans les dossiers d'inventaire ne semblent faire l'objet ni d'un examen périodique, ni de rapprochements.
20. La Ville n'utilise pas le module de gestion des biens de SAP pour consigner et contrôler ses biens. L'inventaire des magasins du parc automobile municipal est contrôlé au moyen du système M5 et celui des magasins généraux et du transport en commun, au moyen du module de gestion du matériel de SAP. Enfin, certains services consignent des biens dans des chiffriers Excel et des bases de données existants, mais de façon non exhaustive. Un système commun tel que le SAP devrait être utilisé afin de consigner les biens, d'en assurer le suivi et d'en rendre compte.
21. Au cours de notre vérification de 2006 de Services du parc automobile, nous avons constaté que celui-ci déclarait des dépenses annuelles de 18,4 millions de dollars pour des pièces de véhicules de transport en commun, alors que Gestion de l'approvisionnement déclarait des sorties d'une valeur de 37,8 millions de dollars, ce qui représente un écart de 19,4 millions. La présente vérification nous a permis

d'attribuer une portion de 14,9 millions de cet écart au fait que Gestion de l'approvisionnement incluait les transferts internes dans son analyse de la rotation des stocks. Les transferts internes ne devraient pas être inclus dans le calcul de la rotation des stocks.

Principales recommandations et réponses de la direction

Le rapport complet contient 58 recommandations précises. La présente section expose deux recommandations de portée générale découlant de la vérification.

Recommandation 1

Que le trésorier municipal désigne un poste de responsable général des biens de la Ville, dont le titulaire sera chargé d'élaborer et d'établir des politiques, des procédures et des systèmes globaux qui régiront la capitalisation, la dépréciation, le repérage, la comptabilité, la consignation, le suivi, le contrôle et les mesures de protection de l'ensemble des biens de la Ville ainsi que la gestion de l'ensemble de ses stocks.

Réponse de la direction

La direction n'est pas d'accord avec cette recommandation.

En vertu de la *Loi sur les municipalités*, le trésorier « est chargé de s'occuper des affaires financières de la municipalité au nom du conseil municipal de la manière que celui-ci lui ordonne ». Par conséquent, au sein de la Ville d'Ottawa, le trésorier municipal est responsable du matériel qui n'a pas été utilisé (stocks), à l'exception du sel et du sable de voirie, car un contrôle par le personnel des magasins ne serait pas efficace sur le plan économique. Services financiers a des politiques qui régissent la gestion des stocks qui lui sont confiés. En prévision de la mise en œuvre de la comptabilité d'exercice pour toutes les opérations rattachées aux immobilisations corporelles, le trésorier municipal, en consultation avec les gestionnaires d'actif, élaborera des politiques établissant des seuils de capitalisation, des taux et des méthodes d'amortissement et le traitement comptable à l'aliénation.

La Ville se fait un devoir de protéger les biens municipaux. Les directeurs de l'exploitation au sein de l'administration municipale sont responsables du contrôle et de la protection des biens municipaux qu'ils utilisent aux fins de la prestation des services et sont les mieux placés pour adapter les contrôles appropriés en fonction de leurs besoins opérationnels. D'ailleurs, la section « Responsabilités de la direction » du Code de conduite des employés stipule que : « La direction protège les biens de la Ville et sauvegarde la confiance que le public accorde à l'administration municipale. À cette fin, elle met en œuvre tous les moyens dont elle dispose pour établir et tenir les systèmes, les méthodes et les contrôles qui lui permettent de prévenir et de détecter les cas de fraude, de vol, d'abus de confiance, de conflit d'intérêts, de discrimination et toute autre forme de méfaits. »

Le vérificateur conclut que le contrôle et la consignation des biens de la Ville qui ne sont pas confiés aux magasins sont ou bien inexistantes ou bien incomplets. La direction n'est pas d'accord avec lui sur ce point. Comme le prouve la vérification, les secteurs examinés gèrent les biens dont ils ont la responsabilité et ont réagi positivement aux recommandations du vérificateur pour resserrer les contrôles. La direction montre ainsi qu'elle assume ses responsabilités à l'égard des biens et l'intervention du trésorier n'ajouterait rien au processus.

Le vérificateur recommande un examen et une gestion adéquate du solde d'inventaire de 38,7 millions de dollars. Ce montant correspond au matériel et aux fournitures utilisés au cours de l'année qui ne s'inscrivent ni dans la catégorie des biens importants ni dans l'inventaire des magasins. Il représente des achats effectués par les divers services pour leurs activités qu'il ne convient pas d'inclure dans l'inventaire. Comme en avait été informé le vérificateur, ces achats comprennent du matériel de lutte contre le feu, des fournitures de bureau, des fournitures d'entretien et de nettoyage de bâtiments, des aliments et des boissons pour les installations de soins de longue durée, des fournitures médicales et du matériel divers destiné aux programmes.

Recommandation 2

Que le trésorier municipal veille à ce que la Ville soit prête à se conformer aux règles du CCSP qui obligeront les municipalités à adopter à compter du 1^{er} janvier 2009 la comptabilité d'exercice pour toutes les opérations rattachées à leurs immobilisations.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Elle estime que la Ville sera prête à se conformer, dans ses états financiers de 2009 qui seront produits à la mi-2010, à la norme 1350 du CCSP, qui entrera en vigueur le 1^{er} janvier 2009. Une évaluation de l'état de préparation de la Ville a été effectuée en 2007 par un tiers qui connaît bien les exigences relatives à la norme 1350 du CCSP et qui estime que la Ville d'Ottawa est en bonne voie de répondre aux exigences du CCSP. Il convient de mentionner que plus de 80 p. 100 de la valeur des biens qui seront comptabilisés conformément aux exigences du CCSP représentent des biens immobiliers et des « biens linéaires », lesquels ne s'inscrivent pas dans la portée de la présente vérification. Divers éléments vérifiés (p. ex., ordinateurs, œuvres d'art et arbres) seront probablement considérés comme immatériels ou seront exclus de la définition d'immobilisations corporelles aux termes de la norme 1350 du CCSP et, par conséquent, ne feront pas partie des valeurs déclarées dans les états financiers.

Conclusion

Aucun responsable n'est désigné au sein de l'administration municipale pour l'élaboration et l'établissement de politiques, de procédures et de systèmes globaux devant régir la gestion globale des biens et des stocks de la Ville. Nos constatations

semblent indiquer qu'à l'heure actuelle, la Ville n'est pas prête à mettre en œuvre les nouvelles règles du CCSP au sujet de la façon dont les municipalités comptabilisent leurs immobilisations, règles qu'il a été proposé d'adopter à compter de l'exercice financier de 2009. Le contrôle et la consignation des biens de la Ville qui ne sont pas confiés aux magasins sont ou bien inexistantes ou bien incomplets et d'importantes améliorations s'imposent à cet égard. Certains stocks de la Ville qui ne sont pas gérés par les magasins devraient être confiés à ceux-ci et intégrés au système SAP ou M5.

Remerciements

Nous tenons à remercier la direction de sa bienveillante collaboration et de l'aide qu'elle a apportée à l'équipe de vérification.

1 INTRODUCTION

The Audit of Inventory and Asset Management Processes was included as part of the 2007 Audit Plan that was received by Council, December 15, 2004.

2 BACKGROUND

In 2006, the City of Ottawa had annual expenditures of approximately \$2 billion and operated with 11,700 Full Time Equivalents (FTEs) staff. Management represented that \$267.7 million of goods, materials and supplies were purchased through Supply Management, Divisional Purchase Orders (DPOs) or procurement cards.

The expenditures were used to procure assets, materials or supplies to maintain and/or operate the assets and infrastructure for various City programs and services.

The City operates under a centralized procurement service for all its business sectors for transactions over \$10,000 and for other than procurement card transactions. Part of the inventory covering \$97.7 million of purchases, as represented by management, in 2006 was centrally managed and maintained in approximately 17 stores and 27 fuel sites (12 computerized/electronic dip tank sites and 15 manual dip measurement sites), both in the urban and rural areas of the City. These store functions were staffed by a total of 116 employees who processed an average of \$0.84 million each of inventory annually, including fuel purchases. If fuel purchases were excluded, each of these staff members would have processed an average of \$0.5 million. At fiscal year end 2006, management represented that this inventory balance amounted to approximately \$27 million. Financial Services Branch have two main stores, which supply satellite units where the logistics justify, and other stores, which receive goods directly from suppliers. Other branches, such as Traffic and Parking Operations and Surface Operations manage additional inventories.

Financial Services Branch provided various versions of reconciliation data. For example, on June 27, 2007 management provided an M4 reconciliation representing total purchases of \$6,964,876. As part of the factual review on December 21, 2007, a revised amount of \$6,244,727 was further provided which was again changed to \$6,112,726 on January 7, 2008.

TABLE 1

City Purchased Materials and Supplies
For the year ended December 31, 2006

(Source: Financial Services Branch)

	(In thousands)		%
	\$'000		
Materials and supplies	267,708		
Less: Land acquisition cost element 506143	13,176		
Building acquisition - cost element 506145	-6,000	7,176	
Subtotal primary costs materials and supplies	260,532		
Less: Non-City purchases relating to Ottawa Police Service, Ottawa Public Library, Pineview Municipal Golf Course, Business Improvement Areas, Ottawa-Nepean Campsite Authority, and Ontario Summer Games	19,245		
Hydro and heating fuels	37,755	57,000	
Total primary costs materials and supplies net of exclusions	\$203,532		
1. Materials, supplies and fixed assets expensed through inventory			
(i) Inventory purchased through SAP managed inventory	86,077	⁽¹⁾	
(ii) Vehicle parts and equipment purchased through M4	6,113		
(iii) Fuel purchased through inventory	5,520	97,710	48%
2. Materials, supplies and fixed assets expensed directly			
(i) Vehicles expensed directly excluding Police Capital Project	54,160		
(ii) Computer equipment purchases	12,613		
(iii) Cellular phone purchase expensed directly	166		
(iv) City fine art collection expensed directly	132		
(v) Protocol's gift register expensed directly	60	67,131	33%
3. Remaining materials and supplies		38,691	19%
Total	\$203,532		100%

⁽¹⁾ Detailed breakdown appears in Appendix 1.

Of the \$267.7 million relating to expenditures for goods, material and supplies, the following were excluded from the scope:

- \$7.2 million for land and building acquisitions;
- \$37.8 million for hydro and heating fuels; and,
- \$19.2 million for non-City purchases relating to Ottawa Police Service, Ottawa Public Library, Pineview Municipal Golf Course, Business Improvement Areas, Ottawa-Nepean Campsite Authority, and Ontario Summer Games.

Therefore, our audit related to \$203.5 million of City expenditures.

Five main areas covered by the audit included:

1. Vehicles and Equipment,
2. Diesel Fuel,
3. Parts,
4. Public Works and Services Inventory, and,
5. Computers/Peripherals/Software.

Of the \$203.5 million:

- \$97.7 million or 48% passed through official City Stores,
- \$67.1 million or 33% were managed by the operating departments and expensed directly, and,
- \$38.7 million or 19% were miscellaneous purchases.

On December 21, 2007, as part of the fact validation, management provided a composition for \$37.8 million for the remaining purchases of materials and supplies. A revised composition schedule for \$38.7 million was resubmitted on January 7, 2008. However, Financial Services Branch was unable to provide separate back-up by item, such as location, quantity used, etc., for the \$38.7 million in purchases of materials and supplies not managed as inventory. As part of the overall recommendations in this audit this inventory balance of \$37.8 million should be reviewed and adequately managed.

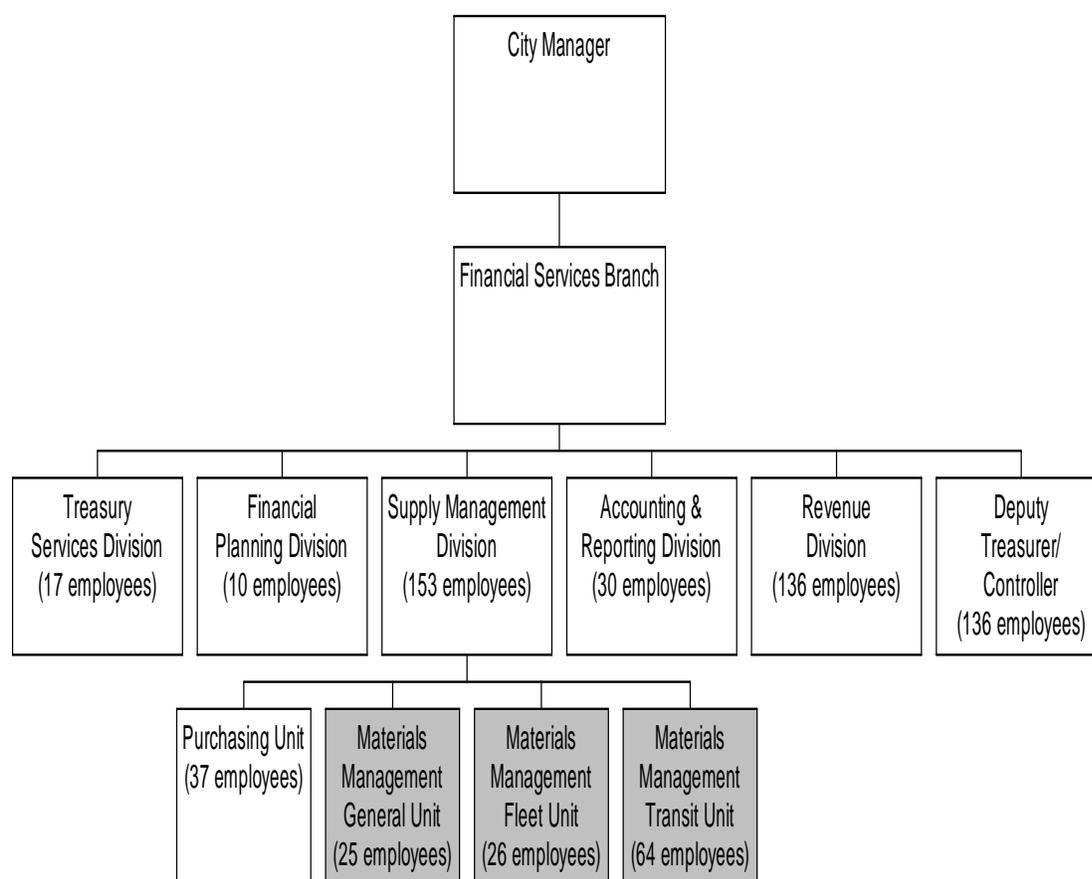
M4, now M5 is the City's Fleet Management Information System. Its inventory module is used to control the Municipal Fleet Stores Inventory. SAP is the City's Corporate Financial Management System. Its Materials Management module is used to control General Stores and Transit Stores inventory.

The responsibility for the City's centralized inventory falls within Financial Services Branch, which until May 2007, reported to the former Corporate Services Department. Financial Services Branch now reports to the City Manager as shown below. There is also inventory and assets handled by others that fall within other departments in the City.

TABLE 2

FINANCIAL SERVICES BRANCH – ORGANIZATIONAL CHART

(Source: SAP – FTE Summary Report as at November 6, 2007
Total Budgeted FTEs)



- City of Ottawa staff approximates 11,700 full time equivalents. Financial Services Branch has 487 budgeted full time equivalent positions that report to the City Treasurer. In addition to this there are 33 unbudgeted FTEs in the Branch.
- The 2006 Audit of the Financial Control Environment reviewed Financial Services excluding the 153 employees of the Supply Management Division.
- The 2005 Audit of Procurement reviewed the services of the 37 employees of the Purchasing Unit of Supply Management Division.

- The services covered by the remaining 116 employees of Supply Management Division within the Materials Management General Unit, Materials Management Fleet Unit, and Materials Management Transit Unit are considered as part of this audit.

A new Public Sector Accounting Board (PSAB) standard takes effect on January 1, 2009 that requires full accrual accounting for municipalities to account for all capital assets.

3 AUDIT OBJECTIVES

The objectives of this review were to determine:

1. Were controls adequate covering receipt, stocking, issue, declaration as surplus, disposal, and other inventory or adjustments.
2. Were inventory records in M4, M5 and other inventory systems in agreement with those in SAP and appropriately reflected in the financial statements.
3. Were there adequate physical safeguards.
4. Were there processes and reporting in place to detect and decrease risk resulting from weaknesses in controls.
5. Were the processes efficient and effective.

4 AUDIT SCOPE

The scope of the audit was to determine if there was an adequate system of internal controls covering all aspects of the receipt, inventory, use, and safeguards for protection of assets and inventory, accounting, and surplus declaration of assets, materials and supplies. We examined the policies, procedures and processes, responsibilities, approvals and documentation with respect to the above, as well as how items were declared surplus and how the disposal price was set. Where the disposal price appeared unreasonable we examined the cost of the initial purchase and other documentation relating to its maintenance to provide comments.

Included in the scope was the acquisition of:

1. *Assets*, such as cars, trucks, buses, electronic equipment, furniture, signs, light standards, etc.;
2. *Materials*, such as repair and replacement parts, etc.; and,
3. *Supplies*, such as road salt, gravel, fuel, fluids, etc.

Excluded from this audit were all fixed infrastructure such as roads, bridges, sewers, sports facilities and buildings. While assets were included with respect to identifying their presence, the efficiency and effectiveness of their use was excluded. The efficiency

of usage levels of assets, materials and supplies were included in the scope of audit with respect to comments on inventory turnover and obsolete inventory. This audit excluded all non-City purchases relating to Ottawa Police Service, Ottawa Public Library, Pineview Municipal Golf Course, Business Improvement Areas, Ottawa-Nepean Campsite Authority, and Ontario Summer Games. Health and Safety issues were also not addressed in this audit.

5 AUDIT CRITERIA

5.1 Objective 1

Were controls adequate covering receipt, stocking, issue, declaration as surplus, disposal, and other inventory or adjustments.

5.1.1 Criteria

1. Were the controls both automated and manual for the receipt, stocking and issue complete and comprehensive.
2. Were the controls both automated and manual for the return of goods, which were either incorrect or defective under warranty complete and comprehensive.
3. Were the controls for the declaration of surplus, disposal thereof and other adjustments complete and comprehensive.
4. Were miscellaneous inventory movements such as transfers, restocking, rebuilds, handled, controlled and recorded properly.

5.2 Objective 2

Were inventory records in M4, M5 and other inventory systems in agreement with those in SAP and appropriately reflected in the financial statements.

5.2.1 Criteria

1. Were appropriate records maintained for assets, materials and supplies within the control of Supply Management.
2. Were appropriate records maintained for assets, materials and supplies outside the control of Supply Management.
3. What caused the difference between the Fleet (OC Transpo) inventory records and that expensed in SAP.
4. Was there an objective verification process between book and physical inventory and were there adjustments to inventory as a result.
5. Where these records were intended to be included in the City's financial statements (or notes), did they balance with the financial statements.

5.3 Objective 3

Were there adequate physical safeguards.

5.3.1 Criteria

1. Were materials and supplies that have not yet been used for their purpose properly secured.
2. Was the access to these goods limited to only authorized personnel.
3. Could the goods be removed without appropriate authority.
4. Was there adequate separation of responsibility between those functions that receive, stock, issue, use and ship materials, supplies and assets

5.4 Objective 4

Were there processes and reporting in place to detect and decrease risk resulting from weaknesses in controls.

5.4.1 Criteria

1. Were there effective detective reports, which would make management aware of problems and thereby reduce the risk and were the reports used proactively by management.
2. Were there reports which analyze the inventory turnover by location, category and item.

5.5 Objective 5

5.5.1 Criteria

Was there excessive, obsolete or never used inventory and were there methods for proper disposition,

6 APPROACH

The following is a summary of the approach and methodology that we followed in this audit.

1. Identified the organizational areas within the City that, receive, stock, use, ship, or dispose of assets, materials and supplies for support of operational activities.
2. Collected and analyzed existing applicable policies.
3. Collected and analyzed existing applicable procedures and flow charts where they existed.
4. Reviewed recent Audit Reports and Management Letters relating to the scope of work and followed up on issues raised in these reports such as:

- a) Were Receiving Slips properly matched to purchase orders
 - b) How were goods shipped directly to the users received and documented
 - c) Were inventory counts conducted without the counting person being tainted with advance knowledge of the quantities that were in the records
 - d) How were defective parts and warranty returns handled at OC Transpo Fleet stores
 - e) Were inventory items for light trucks only used for the benefit of the City
 - f) Were there an excessive number of inventory items with very low turnover
 - g) Has all significant inventory outside of Stores been documented
 - h) Has any inventory that was previously not within the control of Stores been moved into Stores
 - i) Have cores, and used and rebuilt parts been moved into inventory
 - j) Is there a proper system to control nursery inventory
 - k) How was the receipt from the Supplier confirmed, and the issue of salt, gravel and fuel controlled
 - l) Were the balances in the inventory sub-systems and accounts in balance with the overall City inventory account and if not, from a general perspective why not
5. Reviewed recent Corporate Security reports related to the scope of work.
 6. Interviewed the job functions listed below to confirm that they are following documented processes where they exist and if not, determine the functions being carried out.
 7. Analyzed items declared surplus based on the City's records.
 8. Where assets, materials or supplies were in the custody of the users, a sample was taken of these to ensure that they were being used to the benefit of the City.
 9. Evaluated the controls in the inventory/asset system and processes as well as the process of declaring assets, materials or supplies surplus.
 10. Test counted the physical versus book inventory/asset on a judgmental sample basis. This included testing new purchases of assets for which there were no book records kept.
 11. Analyzed the data gathered to determine whether the functional responsibilities adequately segregated duties and whether there was a system of appropriate preventative and indicative internal controls.
 12. Examined the physical security of the assets, materials and supplies to determine if only authorized personnel were allowed into the controlled Stores area and if only these personnel were permitted to issue parts.

7 DETAILED OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

The management and systems of parts, materials and supplies inventory is organized into General Stores, Municipal Stores and Transit Stores. Assets other than the aforementioned are not managed through any Stores. For this reason, our detailed findings are grouped into the internal controls in the following areas:

1. Accounting and Controlling
2. Non-Stores (Operations Controlled Inventory)
3. All Stores
4. General Stores
5. Municipal Stores
6. Transit Stores
7. Other

7.1 Accounting and Controlling

7.1.1 Observations

During our audit, we found that there was no particular function in the City that was assigned the responsibility over all assets. As a result there was no overall City policy governing how assets were to be identified, tracked, recorded and controlled. The function should be responsible for developing policies, systems and procedures covering the capitalization, depreciation, identification, accounting, recording, tracking, controlling and safeguarding of City assets, whether they are on or off the balance sheet.

This has resulted in many assets being purchased and assigned to someone and no record being kept of it. Often assets will be moved from one location to another and again no record is kept of this change. Some areas responsible for assets make an attempt to track the assets for which they are responsible for procuring or using, however, that effort is either incomplete or inconsistent. More detail is given below as well as in a number of sections in this report.

7.1.2 Reconciliation

We asked a number of branches in which we were conducting the audit to provide a reconciliation of their 2006 assets or inventory:

- a) Surface Operations
- b) Information Technology Services

- c) Cultural Services and Community Funding
- d) City Clerk's
- e) Utility Services (Recycle Bins)

Many of these, for example, for recycle bins, backed into their 2006 opening inventory and also took an extended period of time to provide the documentation. The reconciliation required Financial Services to meet with the Financial Support Units (FSUs) in the various areas to assist in quantifying the value of the purchases expensed and reconcile them to SAP financial statements. In some cases the values had to be restated.

Early in the audit, we requested detailed reconciliations of the stores controlled inventory used and the uncontrolled inventory purchases against the 2006 City expenditures of \$267.7 million and for assets not carried in the City's balance sheet. While the cooperation of the Financial Services Branch, in providing this information, was excellent, the reconciliations were forwarded to the audit team between June 20 and September 5, 2007.

We obtained data files of inventory transactions for 2006 and the inventory status as at the end of 2006. The Auditee was unable to provide an inventory status as at the end of 2005. There was little evidence offered to us of routine inventory balance and purchase reconciliations to the financial statements. Management advised us that reconciliations are not applicable if underlying data is available in SAP. Financial statement preparation is high level based on SAP self-balancing accounts. In our opinion, carrying out a reconciliation, provides an opportunity to analyze the underlying data to determine whether the information makes sense and is reasonable and accurate. There was evidence of non-reconciliation and the lack of routine reports that provide information on anomalous situations that require further investigation by management. In addition, the raw data contained some items with negative quantities in inventory with positive values and vice versa. As a result some intended data analysis could not be carried out. We were, therefore, unable to rely on the data for further analysis. Examples are:

- a) The inventory data for trees and shrubs was examined and while extensive analysis was not conducted on it, it should be noted that we found Silver Maple trees had a balance of negative 20 trees.
- b) Salt, Sand and Gravel, etc., had:
 1. 2006 negative closing quantity balance and dollar value of Salt/Pre wet application 14,903 units, or \$990,029 and positive units of 8,762 and the same dollar value in 2005.

2. Highway Salt 40 kg bag 185 bags at Belfast Garage inventory with \$0 value in 2005.
 3. Salt roadway had a negative quantity of 137,259 units and a positive value of \$2,536,528 for 2005. Winter Grit had a negative quantity of 15,723 and positive value of \$25,084 for 2005. Grit Mix 90/10 at Plant 0300 Surface Operations had a negative quantity of 5,226 in inventory and a positive value of \$283 for 2005.
 4. Highway salt in Transit Stores St. Laurent and Pinecrest, had 30 bags each with no dollar value.
- c) 2005 year end Transit inventory of fuel diesel #1 showed as negative quantity of 19,135 in inventory with a value of \$2,078,257.

It is the Municipal Stores Inventory Analyst's responsibility to reconcile the Municipal Stores inventory. During interviews, we were informed that it does not reconcile. In 2006, the stores supervisor and not the inventory analyst ran the year-end inventory adjustment report, which examines the adjustments made.

We examined the adjustments made to inventory during the year that were recorded against inventory adjustment transaction codes. The results are presented in the table below.

TABLE 3

SAP Inventory Adjustments – Post Inventory Differences
Fiscal Year 2006

(Source: Electronic files from Financial Services)

Plant	Plant Name	# Records GI file	Positive # Records ⁽¹⁾	Positive \$	Negative # Records ⁽¹⁾	Negative \$
0010	St. Laurent	333,721	3,015	710,166	3,853	-742,719
0030	Pinecrest	49,939	534	65,633	922	-76,681
0040	Merivale	86,659	866	149,216	1,197	-143,278
0060	Belfast	12,091	225	11,222	252	-9,025
0070	ROPEC	11,772	131	25,204	223	-25,388
0080	Clyde	28,500	138	20,068	116	-11,985
0090	Loretta	13,826	101	1,274,813	98	-1,267,214
0100	Lemieux	6,834	29	1,420	67	-4,449
0110	EMS	15,677	55	12,612	70	-11,080
0120	Swansea Plant	19,977	169	17,721	203	-14,089
0130	Uniforms	27,835	229	24,123	141	-15,413

Plant	Plant Name	# Records GI file	Positive # Records ⁽¹⁾	Positive \$	Negative # Records ⁽¹⁾	Negative \$
0140	Swansea Fleet	3	-	-	-	-
0300	Surface Ops	37,141	-	-	-	-
0320	Loretta Ops	19,173	152	118,771	155	-125,394
0400	ROPEC	1,621	-	-	-	-
TOTAL SAP		664,769	5,644	\$2,430,969	7,297	-\$2,446,715

⁽¹⁾ Movement types 701 and 702

TABLE 4

M4 Inventory Adjustments
Fiscal Year 2006
 (Source: Electronic files from Financial Services)

Location	# Records Transaction file	Positive # Records ⁽¹⁾	Positive \$	Negative # Records ⁽¹⁾	Negative \$
(blank)	256				
BELFAS	15,977	65	2,162	62	-1,420
CLYDE	35,655	110	1,798	194	-1,791
CYRVL	771	1	688	25	-436
EMS	87	1	11	3	-26
GOULWG	2	0	0.00	1	-2
JONSHW	218	0	0.00	1	-3
MANOTK	18,833	190	5,393	310	-7,253
MOODIE	28,039	160	3,321	325	-6,809
MPLGR2	7,795	62	1,898	158	-2,682
MPLGRV	17,069	9	1,451	64	-4,875
RIDTWG	6	0	0.00	1	-2
SWANSE	129,303	576	39,038	900	-39,350
TRAIL	92	0		0	
TRIM	25	1	5	12	-285
VANIER	17	0		0	
Total M4	254,145	1,175	\$55,765	2,056	-\$64,934

⁽¹⁾ Movement types Qty Adjust PI and Qty Adjust

Total SAP and M4	918,914	6,819	\$2,486,734	9,353	-\$2,511,649
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In addition to these adjustments, Surface Operations Branch, Roads Division December 2006 year end adjustments totaled (\$587,118), which had not been coded within SAP as

adjustments. Examples included: Asphalt -HL2 - Sidewalk/Driveway (\$127,915); and, Concrete Ready Mix W 20 mm stone (\$108,170).

These adjustments in the amount of an absolute value of \$5.6 million (\$2,486,734+\$2,511,649+\$587,118) in our opinion are excessive. These should be read in relation to the total inventory position at the end of fiscal 2006 of \$27.1 million or 18% and the fact that in Municipal, General and Transit Stores adjustments are also made as direct charges to work orders after they have been closed or not coded as adjustments. The total value of all adjustments is not complete and not quantifiable based on current procedures.

One should look at the absolute values rather than the net of the adjustments (\$612,033) for the following reasons:

- a) Positive and negative errors may not relate to the same items; and,
- b) Errors can be caused from incorrect receipts, transfers, issues, returns to stock, warranty returns, etc., and give an indication of the accuracy level of all the functions in stores.

In addition to these adjustments in 2006, there were debit items totalling \$720,080 relating to Fleet M4 Inventory transactions identified as Return to Inventory and Return to Vendor. They included the correction of an erroneous entry to a work order for hose clamps with a quantity of 280,060 and associated \$201,640 instead of 2. In documentation provided by management they have categorized Returns to Inventory and Returns to Vendor as offsets to Goods Issued.

Since the data required by the audit team was not readily available it became obvious that there was no staff assigned the responsibility to conduct a routine periodic or year-end process of ensuring the financial transactions were in balance and did not contain errors. For example, some detailed inventory data files from both M5 and SAP that are controlled by General, Municipal and Transit Stores, contained items which had a balance of negative quantity and positive dollar value and vice versa. Some had a balance of a quantity on hand, but zero dollar value. Ensuring the accuracy and completeness of the data that controls City assets whether, they be included or excluded from the balance sheet and the transactions related to them should not be an activity that is only done for audit purposes.

7.1.3 Disposal of inventory

Transit Stores analyze their inventory annually and General and Municipal Stores less frequently for slow moving parts and prepare a list of items, which they are recommending for disposal. The operations branches, who have the final say, in many cases do not approve the disposal of some parts in the event that they might require it

at a later date. For example, in 2006, 2,366 Transit parts were proposed for disposal by stores and 713 were approved by operations with a book value of \$0.26 million, which were sold for \$8,000. Inevitably this results in the inventory of a part only being disposed of only when the vehicle or equipment, which it is supporting has been disposed of. Generally, inventory levels of these parts are also kept too high. For example, in 2003 General Stores sold off \$0.5 million of parts for \$20,000. The result is that once the part is approved by operations for disposal very little value can be recovered from its sale.

It is our understanding that the loss on disposal of inventory is charged to a general account. If the specific operations department was charged for the loss on disposal of obsolete parts, this might be an incentive for a more objective assessment by them of their future needs.

Municipal Stores did not dispose of any parts in 2006. However there is a plan in place to do so that will review parts that move too slowly. The evaluation of inventory for disposal in M5 will consider a purchase to be a movement. This may result in a part being retained for which a purchase was made unnecessarily. A report should be run on parts marked for disposal when a particular vehicle is being disposed of. This report will identify other vehicle types that have used the part previously. However, if a part is common to a new unit and has not been used for repair yet, there is a risk of this not being detected. The list would be reviewed with Transit Fleet but not with other municipalities.

Municipal Fleet Maintenance Supervision is not required to justify their decision to retain slow moving items in inventory. There is little incentive for the individual operations areas to want to minimize the inventory, as they are not charged for the loss on disposal of obsolete parts.

If the Fleet Maintenance staff rejected an item for disposal, stores does not stop the reordering or reduce the minimum inventory level on the item.

The Municipal Stores is able to sell a portion of its obsolete parts back to the supplier at close to the original cost.

During interviews, we were advised that a skid of parts, observed in the mezzanine at Clyde, had been there for four years. No action appears to have been taken to dispose of these parts when reasonable value could have been obtained for them. Management have indicated that their client has identified these parts as required and has purchased them. They are being stored on the client's behalf, as they do not have adequate room.

If an item was rejected for disposal by the Transit Fleet Maintenance staff, they do not stop the reordering or reduce the minimum inventory level on the item. It may however, still be stopped for reorder by the Material Requirements Planning person.

Transit Fleet Maintenance Supervision is not required to justify their decision to retain slow moving items in inventory. There is little incentive for the individual operations areas to want to minimize the inventory, as they are not charged for the loss on disposal of obsolete parts.

SAP does not have a field for identification of assemblies or the various series of buses in which parts may be used. If this were the case if one bus becomes obsolete they would immediately know whether the part would be used in another type of bus. Nor does SAP have a good tool that can be used for reducing the risk of ordering parts that were marked for disposal but required to be retained by operations.

Transit Stores is able to sell only a small portion of its obsolete parts back to the supplier and the recovery has varied from 25% of original cost to original cost less a restocking charge depending on the part.

In 2006 from an original list of 2,366 only 713 parts were approved for disposal. The book value of those parts was \$0.26 million of which \$9,000 was "sold" to the department and transferred from inventory. "Selling" parts to a department that declares them obsolete results in uncontrolled and untracked inventory, which can then be used for a benefit other than the City.

7.1.4 Different Databases

In many of the areas where we audited assets, we noted that there were incomplete or inconsistent databases of various sorts to keep track of assets and in the worst case the assets were not tracked at all. Where assets are movable and assigned for use by a specific employee, it may be beneficial for the City to tie the control of that asset in some manner to the employee's record. Any time there is a change to the employee's work location, responsibilities or employment status it could be reviewed and updated.

MS-SMS is only used for a portion of IT (information technology) assets; in particular, PCs connected to the network. Other items are recorded in a number of databases including spreadsheets, System Management Server (SMS), Active Directory and SupportMagic. However, this database is incomplete and contains incorrect information. It was noted during the test sampling work that portable IT equipment and other equipment such as monitors were not always recorded against the correct user in the ITS database. For example, some locations do not exist (1887 St. Joseph). Some IT equipment is assigned in bulk to one person who is not able to identify to whom each unique IT piece of equipment was assigned. Some records are out of date.

In another case, the person to whom the equipment was assigned retired a couple of years ago or was relocated and the equipment given to another person without the ITS record being updated. We found many of the items very difficult to verify as 23% of the items we selected either contained insufficient or incorrect information. For example, a multiple number of scanners contained the same contact person in Fleet. The scanners were distributed to a number of people and neither these people or the ultimate location of the scanners was entered in the ITS database or a Fleet database. The same situation was found with flat screen monitors and in-line projectors in the Fire Department.

Detailed listings with dollar values were created in response to the audit request for cameras, cellular phones, desktop and laptop computers, PDAs, printers, and in-line projectors totaling \$3.3 million for 2006. The remaining \$9.3 million was for 2006 purchases of servers, software, data communications equipment, telecommunications equipment, cables, scanners, etc., and purchases made outside of the technology infrastructure process. Detailed listings were subsequently provided for servers, telecommunications equipment, data communications and miscellaneous equipment, which were updated manually or through automated network management tools but these did not include the dollar values. As dollar values were not provided the listings could not be reconciled to the total purchases of \$12.6 million for 2006. For inventory management purposes a full listing of all items and dollar values should be maintained on an on-going basis.

In addition to recording transactions in SAP, the Nursery's receipts and issues are also recorded in the trees and shrubs database.

In Fleet Services there was equipment that was scrapped and was still shown as active on the M5 database. A vehicle was shown as operating out of the Moodie Drive facility when it had been transferred to the Cyrville location. A cube van was supposed to be operating out of 1125 Trim and was not there. We were advised that it was at 2035 Trim but we could not locate it there. A boat trailer was supposed to be at Mooney's Bay. We were told that it was stored at Britannia Bay but was finally located at 1125 Trim Road. An aerator was supposed to be at 1125 Trim and was found at Cyrville Road. We were told that it had been at Cyrville for a number of years. A piece of equipment with inadequate description could not be located at the Merivale Garage.

When artwork is acquired, it is photographed and documented. A file is set up on each piece and is entered into a Filemaker Pro database. There is an object file with its value when acquired, its latest appraised value, location, and an accession number is affixed to the piece.

Excluding works related to the Firestone Collection of Canadian Art, management advised that the City's insured artwork inventory contained 1,531 individual artworks

as at November 7, 2007. Per the database we received on July 5, 2007, this was made up of 2,609 separate itemized/serialized pieces. Artworks can contain multiple parts that if removable are identified as a “child” of the “parent” artwork. A “parent” artwork may have more than one “child”.

Management represented to us in their December 21, 2007 fact review that they are aware of 36 pieces with an assigned value of \$72,650 that have an unknown location and none with a blank location.

As previously mentioned, Management provided the OAG with the City’s Fine Art Collection’s database, excluding the Firestone Collection of Canadian Art, on July 5, 2007. On December 21, 2007, during the fact validation process, management indicated that when the data was originally transferred to the OAG, the collection database was in the process of being updated. As the OAG was not made aware of this until December 2007, our analysis of the database provided in July 2007 yielded the following information:

- a) 55 pieces of artwork had blank location:
 - Of the 55, 14 had no value assigned to them; and,
 - 41 pieces with assigned values totaled \$131,150.
- b) 59 pieces of artwork had an “unknown” location:
 - Of the 59, 7 had no value assigned to them (6 blanks and one 1 value); and,
 - 52 items with assigned values totaled \$133,900.

We also found gaps in the sequential Art assets numbers (accession numbers) in their database. On questioning, we were told that while assigning control numbers some were missed by mistake. Missing numbers in an asset control database could be indicative of assets that have been removed without authorization.

The Protocol Division purchases no more than \$2,000 at one time and the goods are accepted in Receiving and brought to the Chief of Protocol who inspects them and adds them to the Gift Registry Master List, which is an Excel spreadsheet.

Other assets owned or leased by the City, such as furniture and various office equipment not mentioned above, except for faxes and photocopiers (which are contained in an Excel spreadsheet), are not contained on any database.

The City does not currently have common systems such as the asset management SAP module to record, account for and track all City assets (excluding vehicles and equipment, which are covered by the M5 fleet management information system). Common systems should be used to account for all assets. For example, the SAP

module could be used for furniture and equipment. For assets (e.g., IT equipment, vehicles, etc.) assigned to specific individuals, perhaps a trailer in the HR module could be added to identify the asset.

7.1.5 Inventory Counts

The physical inventory counts in all stores we visited were performed by the staff who were involved with the inventory transactions. For example, General and Municipal Stores take annual inventory counts and Transit Stores takes on-going cycle counts. (Municipal Stores are planning to implement on-going cycle counts.) The staff that are involved with the transactions have access to the number of units that should be in stock. If the physical count matches the system records then there is no further investigation. This does not provide adequate internal control unless an independent person routinely tests a sample of these counts. There was an unbiased verification of the Transit Storekeepers' counts two years ago and they found that one Storekeeper had been fixing the count results rather than recording an actual count.

Cycle counts are done of inventory within the control of Traffic Operations at Loretta as follows:

- a) **Signals:** weekly
- b) **Cables:** weekly
- c) **Controllers:** monthly
- d) **Communications:** monthly
- e) **Pavement markings:** bi-weekly
- f) **Signs:** randomly

If the inventory is short, they look through prior work orders to determine where work was done against which the part had not been charged. They then charge out the part to that work order. This is not an accurate manner of recording inventory.

The Nursery does not do a physical inventory. However, the majority of the stock is planted on residents' or City's property by the end of the year. Most of the fertilizer is used by the end of the year and there is no inventory taken of it.

The efficiency of physical inventory counts could be improved if a routine was developed that would allow a hand held scanner to be used to assist with the count.

7.1.6 Access Permissions

Staff in General Stores (e.g., Loretta and EMS) have the ability to make adjustment entries to inventory. Staff handling Stores transactions should not have system

permission to make adjustment transactions. The issue of system permissions with respect to incompatible duties and segregation of duties was raised during the 2006 Audit of the Financial Control Environment. As of January 2008, Management advised us that clerks no longer had this access. However, upon a quick SAP review in these areas, we found at least two clerks with these accesses. These are inappropriate accesses that have not yet been corrected. Staff are to advise the Inventory Analyst who is to review these adjustments. The Program Manager and Inventory Analyst are not able to run a list of all adjustments to ensure that the Inventory Analyst has reviewed all of them. Therefore if someone does not tell him they have made an inventory adjustment it would not be detected. Staff handling Stores transaction should not have system permission to make adjustment transactions.

It should be noted that the Office of the Auditor General highlighted existing concerns over incompatible duties and segregation of duties as part of the its 2006 Audit of the Financial Control Environment where it was identified that at least 52 users had the capability of creating a purchase order, posting a goods receipts and altering the inventory listings. As of January 2008 there are inappropriate accesses that have not yet been corrected.

This issue was also discussed by Ernst & Young in their 2006 Management Letter to the City of Ottawa, which notes that employees conducting inventory counts and recounts have access to perpetual records.

7.1.7 Detective Reports

We were unable to find routine detective reports used by the various areas such as Traffic Operations at Loretta, Leitrim Nursery, Circulating Fine Art Collection, Gift Registry, and ITS that analyze and identify to management unusual usages, adjustments, returns, etc., that would require further review. It should be noted that essentially all nursery products are planted in the year received.

There are few routine analytical detective reports used by Stores management, which specifically monitor items that have high street value or which assess unusual transactions occurring in inventory by location, part, user ID, etc.

There are no routine reports that go to the supervisor for scrutiny, through which he can determine if there are actions contrary to the City policy with respect to inventory. These may be some of the reports that were previously available in M4. A new version of the system, M5, should not have been implemented until all the functionality was ready.

7.1.8 Sampling

We conducted a test on 60 samples consisting of 1,367 items under Traffic Operations control (Plant 0320). Of those, the physical count for 200 or 13% of the items did not agree to the book records.

It should be noted that the above variances exclude adjustments made to inventory during the year and year-end by staff as well as charges made to work orders made after the fact.

We took samples of 11 categories of IT items with the results shown in the table below. Overall we could not locate 28% of the items based on the information provided to us by ITS. 64% of the in-line projectors could not be confirmed followed by 57% of the PDAs. 57% of miscellaneous IT equipment such as hard drives, modems, CD ROMs, and scanners could also not be confirmed.

TABLE 5

IT Equipment Physical Count Testing Results

W/P Name	Located	Could not Locate	Total Sample	% Not Found
In-Line Projectors	5	9	14	64%
Blackberry	1	0	1	0%
PDA	12	16	28	57%
Printers	12	4	16	25%
Misc. IT Equipment	9	12	21	57%
Monitors	42	27	69	39%
Servers	7	1	8	13%
Laptops	43	3	46	7%
Desktops	49	4	53	8%
IT Cellular Phones	11	0	11	0%
Digital Camera	11	1	12	8%
TOTAL	202	77	279	28%

In addition to the above, we also took a sample of some IT equipment at four locations in the City and attempted to trace them back to the ITS database for that type of equipment. Of 11 items, we were unable to find 4 monitors, 2 PCs and 2 printers on the ITS database. This was an error rate of 73%. If one excludes the monitors as the ITS database provided to us did not have IT asset numbers and, therefore, were not traceable, the error rate drops to 57%. Management have indicated that monitors are tracked in a free form field in the Support Magic database and the information was pulled from this free form field into a column called "CASE DETAILS". However, after we had requested more information, we still had some instances where the data provided was incomplete.

We selected a sample of vehicles from the Municipal and Transit Fleet as well as a sample of equipment from the Municipal Fleet. The results are indicated in the table below. Through site visits we attempted to verify the existence of the assets. We were unable to locate a cube van (C5-1338) and a trailer (FP-0229). In both instances, we went to the location identified in the database, but at the time of our visit, the unit could not be found nor could anyone at the location help us locate the unit. Based on the information provided to us from the M5 database we were unable to locate 6% of the equipment. In our opinion this is an unacceptable rate.

TABLE 6

Vehicle Physical Count Testing Results

W/P Name	Located	Could not Locate	Total Sample	% Not Found
Equipment	16	1	17	6%
Vehicle	28	1	29	3%
Disposed Vehicle	6	0	6	0%
Disposed Equipment	2	0	2	0%
Buses	11	0	11	0%
Transit Disposals	3	0	3	0%
TOTAL	66	2	68	3%

We took a random sample of 18 trees that were planted on residential sites. We were unable to reach six residents. The balance of 12 trees was confirmed.

We selected 78 items from 3 categories of artwork from the Circulating Fine Art Collection's database for verification. The results are presented in the table below.

TABLE 7

Artwork Count Testing Results

W/P Name	Located	Could not Locate	Total Sample	% Not Found
Art on Display	13	1	14	7%
Art in Storage	27	3	30	10%
Firestone Collection	34	0	34	0%
TOTAL	74	4	78	5%

It should be noted that 114 items of art, in the City's artwork inventory database, have an unknown location and were therefore not included in the sample but would have fit in the "Could not Locate" category. This indicates improperly controlled City assets.

We test counted a sample of parts in various stores locations; the results are given below:

TABLE 8

Parts Count Testing Results

	Total Samples	Total number of items per sample *	Number of items found in inventory *	Net shortage of items *	% shortage
Traffic Operations	60	1,567	1,367	200	13%
Municipal Stores	61	210	198	12	6%
General Stores	49	372	366	6	2%
Transit Stores	82	446	445	1	0%
TOTAL	252	2,595	2,376	219	8%

*Based on unit of measure as per the inventory system, which can differ among items (e.g., rolls, meters, sets, etc.)

In our opinion, this error rate in controlled stores is excessive. There are a multitude of reasons for errors in test counts. For example, they can come from the receipt, issue, transfer or return of items for various reasons including the recording thereof. In addition, incorrect adjustments whether they be generated from cycle or annual counts or other reasons can create errors in the inventory. It is essential for staff to ensure that the transactions they enter into the inventory systems are complete and correct in order to minimize inventory errors and adjustments.

For Municipal Stores, the physical inventory in our sample was understated in the amount of \$200 for some of the items and overstated by \$800 for others. The General Stores inventory was overstated by \$500 and in Transit Stores inventory was understated by \$300 for some of the items and overstated by \$1,200 for others. It should be noted that these variances exclude adjustments made to inventory during the year and at year-end by staff as well as charges made to work orders made after the fact.

We also examined the databases for the General, Municipal and Transit Stores to determine the amount of stock that had not been issued in a six-month period. The results are presented in the tables below relating to SAP and M4.

TABLE 9

**Percentage of Material Issued in 2006 but
Not issued during last six months**

Fiscal Year 2006

(Source: Electronic files from SAP from Financial Services)

Plants	GI File Records ⁽¹⁾	Sum on Materials Records	< 30.06.06 Records	% of Material Issued in 2006 not issued during last 6Mths
TRANSIT STORES				
0010 St. Laurent	173,470	11,205	2,945	26%
0030 Pinecrest	37,433	3,549	1,034	29%
0040 Merivale	66,523	5,068	1,352	27%
0060 Belfast	10,491	1,390	776	56%
GENERAL STORES				
0070 ROPEC	11,319	2,474	837	34%
0080 Clyde	28,046	1,297	222	17%
0090 Loretta	12,082	1,056	189	18%
0100 Lemieux	6,609	1,298	363	28%
0110 EMS	15,528	835	129	15%
0120 Swansea Plant	18,212	1,491	304	20%
0130 Corporate Uniform Warehouse	25,503	1,307	263	20%
0140 Swansea Fleet	3	0	0	⁽²⁾ N/A
0300 Surface Operations	35,915	679	120	18%
0320 Traffic Operations	17,411	597	79	13%
0400 RPAM	1,483	130	23	18%
TOTAL	460,028	32,376	8,636	27%

⁽¹⁾ Issue to dept (no WO); Issue to direct acct; Issue to indirect acct; Issue to unit (no WO); Issue to WO

⁽²⁾ N/A Data does not meet criteria

TABLE 10

**Percentage of Material Issued in 2006 but
Not issued during last six months**

Fiscal Year 2006

(Source: Electronic files from M4 from Financial Services)

LOCATION	GI to Exp. Account Records ⁽¹⁾	Sum on Materials Records	< 30.06.06 Records	% of Material Issued in 2006 not Issued during last 6 Mths
BELFAS	6,211	2,331	1,027	44%
CLYDE	14,432	4,283	1,830	43%
CYRVL	459	84	35	42%
EMS	51	12	1	8%
JONSHW	4	3	2	67%
MANOTK	8,346	2,431	1,001	41%
MOODIE	11,351	3,680	1,577	43%
MPLGR2	2,405	1,059	82	8%
MPLGRV	6,665	2,479	1,523	61%
SWANSE	62,532	12,813	5,495	43%
TRAIL	32	4	0	0%
TRIM	5	3	3	100%
VANIER	4	4	2	50%
Totals	112,497	29,186	12,578	43%

⁽¹⁾ Movement types: 201, 202, 261, 262, 281 and 282

We found that some of the plants have a significant number of parts that have not been issued in the past six months. In Transit Stores, for example, plant 0010, St. Laurent, the main Transit Store, 26% of the inventory or 2,945 items were not used in six months and plant 0060, Belfast Transit 56% of the inventory or 776 items had not moved in six months. In the Municipal Stores Swansea the main Municipal Fleet Store had 43% of inventory or 5,495 items, which had not moved in six months. Maple Grove had the highest percentage at 61% of inventory or 1,523 items, which had not moved in six months. In General Stores location 0070, ROPEC, had 34% of the inventory or 837 items, which did not move in six months.

We have not seen measures, initiatives or plans to optimize the inventory levels. For example, we have not seen consideration for a process in SAP that allows mapping of parts common to more than one unit type, yet carrying a different part number so that inventory can be reduced.

7.1.9 Public Sector Accounting Board Requirements

The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP) established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). In June 2006, PSAB adopted accounting standards, which require local governments to report tangible capital assets beginning with their 2009 financial statements.

Preparing to report tangible capital assets would include developing inventories of the assets controlled by the City, determining the valuation of the inventories, and establishing the remaining useful life in order to depreciate the assets. A municipality should also develop a policy to manage tangible capital assets accounting including asset classification, establishing thresholds for asset capitalization, handling of disposals and write-downs, and reporting.¹

In order to meet these requirements, use the SAP asset management system to track and record all inventories.

In our opinion, the City is not currently ready for the implementation of the new PSAB standard, as the City does not currently have complete inventories with values and the estimated useful life or an overarching policy to address the management of tangible capital assets. Management have indicated that work is currently underway to complete the required activities and they are of the opinion that the City will be ready for implementation.

¹ Ontario Municipal Board, Municipal Guide to Accounting for Tangible Capital Assets, Version 2, January 25, 2007

Recommendation 1

That the City Treasurer assign a function with the overall responsibility for all City assets. This function should be responsible for developing and issuing, for overall City asset and inventory management, overarching policies, systems and procedures covering the capitalization, depreciation, identification, accounting, recording, tracking, control and safeguarding of City assets, and inventory management.

Management Response

Management disagrees with this recommendation. Under the Municipal Act, the Treasurer "...is responsible for handling all of the financial affairs of the municipality on behalf of and in the manner directed by the council of the municipality". As a result, within the City of Ottawa, the City Treasurer is responsible for materials that have not been expensed (inventory) - with the exception of salt and sand, as their control by Stores staff would not be cost-effective. Financial Services, has in place, policies for the management of inventory under their custody. As part of the implementation of tangible capital assets, the City Treasurer, in consultation with asset owners, will develop policies including capitalization thresholds, depreciation rates and methods, and accounting treatment at disposal.

The City is committed to protecting the assets of the corporation. Operational directors within the corporation are accountable for the control and safeguard of City assets they use in the delivery of services and are in the best position to align appropriate controls with their operational requirements. This is clearly stated under 'Management Responsibilities' within the City's Code of Conduct where it states: "The management of the City is accountable for protecting the assets of, and the public trust in, the City. Toward this end, management must make every effort to establish and maintain adequate systems, procedures and controls to prevent and detect fraud, theft, breach of trust, conflict of interest, bias and any other form of wrongdoing."

The auditor concludes that the control and recording of assets not under the control of Stores is either non-existent or incomplete. Management disagrees with this conclusion. As evidenced in this audit, the areas reviewed manage the assets they control and have responded to the auditor's recommendations as to where controls can be strengthened. This demonstrates that management is taking responsibility for assets and there would be no value-added in having the Treasurer involved in the process.

The auditor refers to \$38.7 million of "inventory balance" that should be reviewed and adequately managed. The \$38.7 million is the residual balance of the materials and supplies that were expensed during the year that are not within a major asset class nor did they go into the Stores inventory. These items relate to purchases made by the various departments in the delivery of their services and are not appropriate items for inclusion in inventory. The composition of these items was provided to the

auditor and includes such items as the purchase of fire equipment, office supplies, janitorial supplies, food and beverages for the long-term care facilities, medical supplies and various program-related materials.

Recommendation 2

That the City Treasurer ensures that the City is ready to comply with the PSAB rules for full accrual accounting for local governments, which come into effect January 1, 2009.

Management Response

Management agrees with this recommendation.

Management is of the opinion that the City will be ready to comply with the PSAB 1350 requirement that will come into effect 1 January 2009 for reporting on the 2009 financial statements in mid 2010. A readiness assessment was undertaken in 2007 by a third party experienced with the PSAB 1350 requirements, which stated that: "The City of Ottawa is well positioned to address PSAB requirements..." It should be noted that over 80% of the value of assets that will be reported as a result of the PSAB requirements will be for real property and linear assets, which were not within the scope of this audit. Various items contained within the audit scope (i.e., computers, artwork and trees) will likely be immaterial, or under PSAB 1350, will be excluded from the definition of a tangible capital asset and, therefore, will not be included in the values reported in the financial statement.

Recommendation 3

That the City ensure that:

- a) **A policy be developed that provides for a common methodology for the calculation of various inventory metrics such as turnover, etc., and that management review the inventory policy with respect to appropriate inventory metrics;**
- b) **A monthly report be developed for the Program Manager that analyzes anomalies in transactions to inventory by location, part and user ID, and detailed inventory turnover by user ID; and,**
- c) **Routine reports be developed for use by management, which specifically monitor items that have unusual transactions or status of the inventory.**

Management Response

a) Management agrees with this recommendation. Financial Services will review the system-defined metrics within SAP and industry best practices to ensure that common methodologies are in place for appropriate inventory metrics by Q1 2009.

b) Management agrees with this recommendation. These reports will require the development of additional capabilities within SAP. The IT intake process and a cost benefit analysis will have to be undertaken, following which, additional funding

requirements will be identified and requested in future budgets. This process will be initiated following the M5 conversion to SAP in Q1 2009.

c) Management agrees with this recommendation. Existing reports will be reviewed and improved to increase monitoring capabilities. The IT intake process and a cost benefit analysis will have to be undertaken, following which, additional funding requirements will be identified and requested in future budgets. This process will be initiated in Q4 2008.

Recommendation 4

That the City ensure that common systems, such as SAP, be developed to record, account for and track all City assets.

Management Response

Management agrees with this recommendation. The City is pursuing systems for various classes of assets based on their common requirements for management decision-making. The asset control module will be implemented as part of the project to address the PSAB reporting requirement. Systems are being evaluated for other assets and will leverage the existing SAP enterprise solution to create necessary linkages, however, it is not currently intended that all assets would be managed within SAP. City assets are accounted for and tracked according to their unique operational requirements.

Recommendation 5

That the City ensure that a Financial Services Branch staff be assigned to work with the FSUs in each of the branches to ensure that the financial transactions for assets and inventory and the status of inventory is reviewed in detail each month end to ensure that the data is correct.

Management Response

Management disagrees with this recommendation. Inventory is the responsibility of the Financial Services Branch (with the exception of salt and sand) and is reviewed in detail each month. Assets are the responsibility of each branch director. Financial Services, in conjunction with the SAP support centre, will work with client groups to ensure they have the necessary knowledge and training in SAP to identify exceptions in the underlying data and that they are in a position to assess the status of their assets on a regular basis, based on the existing toolset in SAP, by Q1 2009.

Recommendation 6

That the City ensure that routine periodic reconciliations of inventory balances and purchases to the financial statements be conducted.

Management Response

Management agrees with this recommendation. Management will ensure that routine periodic reconciliations of inventory balances and purchases are conducted for systems interfaced with SAP, by Q3 2008. For inventory managed in SAP, management will ensure that the underlying data is reviewed periodically for accuracy and completeness starting in Q3 2008. Management disagrees with the statement within the audit that: "one should look at the absolute values rather than the net of the adjustments" when assessing the accuracy of the inventory. One of the reasons cited for this statement is that positive and negative errors may not relate to the same items. In fact, many of the adjustments identified in the inventory adjustment tables 3 and 4 relate to the same item. Human error in coding of parts either on the issue or receipt side of a transaction is the major cause of variance. For example, the adjustments for the Loretta Ave. store (shown in Table 3) have a negative and a positive adjustment of \$1.2 million. A keying error for one material resulted in 4900.50 units being entered instead of 49.50 units. The error was found shortly after being entered and was corrected resulting in both a negative adjustment and a positive adjustment. Using the net variance instead of the absolute value of both positive and negative adjustments to total inventory for 2006, results in adjustments of 2.2% of value and not the reported 18% indicated in the audit.

Recommendation 7

That the City ensure that the entire current inventory database be examined for negative stock quantities as well as positive stock quantities with zero or negative values and that the inventory records be corrected.

Management Response

Management agrees with this recommendation. Periodic reconciliations will be undertaken in Supply Management operations starting in Q3 2008.

Recommendation 8

That the City ensure that all Stores take cycle counts of inventory:

- a) **By an independent person wherever possible;**
- b) **Where not possible, a routine sample of the inventory counts be verified by an independent person; and,**
- c) **Hand held scanners be used for the count to increase efficiency and accuracy.**

Management Response

a) Management agrees with this recommendation. This recommendation will be implemented where current staff levels permit, by Q1 2009, following the completion of the bar coding implementation.

b) Management agrees with this recommendation. The inventory control specialist position will be staffed by Q3 2008. This position will be part of the Controller's

Office and will conduct compliance reviews of various inventory processes and policies, including the periodic verification of inventory counts.

c) Management agrees with this recommendation. A project to implement bar coding in Transit Stores has been initiated and is scheduled to begin in Q1 2008. The inclusion of the remaining stores in General Stores and Municipal Fleet Stores may have to be addressed through a subsequent IT project, and follow the IT intake process and business case evaluation. Anticipated completion is Q4 2008.

Recommendation 9

That the City ensure that the obsolete inventory policy be reviewed and:

- a) **Consideration is given to charging the loss on disposed inventory to the operating departments as an encouragement to reduce obsolete inventory and reporting these to Committee and Council as would be done for write-offs of bad debts.**
- b) **Surplus or obsolete parts be identified earlier in the cycle so that they can be disposed of for a more reasonable value and be disposed of promptly in order to maximize the recovery from their sale. Municipal and Transit Fleet Maintenance be required to justify their decision to retain any items recommended for disposal.**
- c) **That the evaluation of inventory for disposal in M5 should not consider a purchase as a movement in determining whether it was used within the cut-off period.**
- d) **That an item rejected for disposal by the Fleet Maintenance staff be given a special code in M5 that would stop it from being reordered or the minimum inventory level be dropped drastically and a portion of the parts be considered for sell-off.**

Management Response

a) Management agrees with this recommendation. It is current practice to charge operating departments for the loss on disposed inventory. The existing policy is included in the Materials Management Policy manual, which was provided to the auditor at the outset of this audit. As with current reporting requirements for write-offs and bad debts, the loss on disposed inventory will be reported annually to the City Treasurer.

b) Management agrees with this recommendation. Surplus and obsolete parts are identified by reduced inventory turnover and will be disposed of as early as possible in the process. The process will be revised to include escalation of issue resolution to senior management, by Q4 2008.

The auditor commented that there were many items contained in formal stores that had unacceptably low movement rates. Management does not believe this is an accurate statement as items are kept to support the service standard objectives of the operating groups. For example, the inventory objective as related to Transit Stores is

to minimize the number of buses out of service due to the unavailability of parts. This, combined with the need to account for longer lead times to acquire parts, translates into a need for a longer turnover period. In addition, using a 6-month period to determine parts obsolescence is inadequate, as it does not take into account the complete maintenance cycle of the particular vehicle.

The turnover analysis also does not consider the industry best practice used by Municipal Fleet Stores of Just in Time (JIT) acquisition for over 50% of the materials. These parts are issued directly to work order (W/O) and are not placed in inventory, therefore, the items in inventory will be the items that can not be purchased using a JIT practice, so their turnover will be lower.

c) Management agrees with this recommendation. This recommendation will not be completed in M5 and will be implemented when the inventory for all stores is in SAP. The migration of M5 to SAP is expected to be complete in Q4 2008.

d) Management agrees with this recommendation. Maximum and safety levels will be adjusted accordingly when the inventory for all stores is in SAP. The migration of M5 to SAP is expected to be complete in Q4 2008.

Recommendation 10

That the City ensure that access permission in SAP and M5 not allow staff involved in the day to day operation of the Stores to make inventory adjusting entries.

Management Response

Management agrees with this recommendation. A review of staff permissions in M5 and SAP has been completed in Q1 2008.

Recommendation 11

That the City ensure that Fleet Maintenance and Stores staff make a greater effort to ensure that all transactions are recorded promptly, completely and accurately, thereby reducing the need for adjustments.

Management Response

Management agrees with this recommendation. This has been standard practice since amalgamation and has been reinforced to staff.

7.2 Non-Stores (Operations Controlled Inventory)

7.2.1 Traffic Operations

As at December 31, 2006 the inventory of 564 items consisting of Signs, Signals, Control Units and small parts under the control of Traffic Operations at Loretta was valued at \$1.48 million.

Traffic Operations orders small electronic parts (<\$20 in value each), which are delivered to and received by Stores, and then charged out to expense and retained in the working areas. The signs area retains aluminium extrusions required for signs in the operational area. In addition, the signs group charges out the blanks and vinyl from General Stores to manufacture signs, which are then stored as finished goods in the signs area outside the control of Stores. This is similar for the signal area. Control units which are defective, yet still of significant value as many are rebuilt by the City, are kept outside the control of Stores. Whether a newly manufactured or rebuilt item is stocked in Stores depends on whether they have the space for it in the Stores area. Irrespective of this the manufactured or rebuilt items will be entered into SAP, either in plant 0090 (Loretta General Stores) or plant 0320 (Operations controlled inventory).

There is no segregation between the issue, shipping, receiving, stocking and issuing of parts at Loretta.

There are new parts, rebuilt parts, defective parts (not rebuilt yet) and manufactured items at Loretta not under the physical control of Stores. Some of these parts are recorded in SAP, such as new parts and rebuilt parts. Manufactured signs at Loretta are issued to a WO by a specific person in Operations. However, other parts taken from the stock not controlled by Stores and are not issued by anyone in control of the stock. These are recorded on a WO by the Technician and signed off by the Supervisor after the job is completed. All these parts with the exception of, for example, control units taken off the street and rebuilt, are in SAP inventory. However, they are located in a number of places on the Loretta site some of which are not controlled and which are accessible from the yard. A gate controls access to the yard. However, there are vehicles coming and going all the time. The yard is locked at night and one gate has a camera.

7.2.1.1 Observations

1. A number of small and large parts and finished goods are issued out of the official stores plant 0090 to plant 0320, at Loretta, which is operationally controlled. This occurs due to a lack of space in Stores. Thus these goods, although not used, are no longer within Stores control.
2. There is no segregation between the issue, shipping, receiving, and stocking of parts at Loretta.
3. There is an extensive area of stock at Loretta, which is not segregated from the operational area and is not controlled. Since there are numerous vehicles entering and leaving the yard it would be possible for the unauthorized removal of stock to occur.
4. We took 60 random samples representing 1,567 items under Traffic Operations' control. Of those the physical count did not agree to the book records and was short

a net of 200 items or 13%. The records overstated some inventory items in our sample by \$3,600 and understated other inventory items by \$700.

5. It should be noted that the above variances exclude adjustments made to inventory during the year and year-end by staff as well as charges made to work orders made after the fact.

Recommendation 12

That the City ensure that, if possible, space be reassigned at Loretta so that all stock including rebuilds can be brought under the control of Stores except for low value high volume items such as fasteners etc. Alternatively, preventive, mitigating controls should be implemented.

Management Response

Management agrees with this recommendation. Additional preventative, mitigating controls are being implemented. Access card controls are being installed within the signal shop to ensure stock is secure. Some signal equipment and traffic controllers that were in an uncontrolled area are being relocated into the signal shop controlled area. There is minimal stock of value located in non-access controlled areas.

The control of stock, that has already been expensed to Traffic and Parking Operations (TPO) for use, would not be consistent with the role of Financial Services as discussed in response to recommendation #1. The majority of items contained within Plant 320 (TPO) consist of finished products that would be considered manufactured items, not rebuilds. Finished goods (signs, traffic signal controllers and traffic signal heads) are under the secure inventory control of TPO to facilitate 24/7 access. This is necessary to supply on-call crews and to manage vehicular accidents, incidents or emergencies. Bringing the inventory of manufactured goods under Stores control is also limited by the physical configuration of the Traffic Operations building at Loretta Ave.

The re-allocation of space within the existing stock areas and the area currently occupied by the sign making section has an initial cost estimate in the \$400K range, and is not considered to be cost effective by management.

7.2.2 Nursery (Surface Operations)

The nursery on Leitrim Road is on 150 acres of property of which 20 acres is used. The front is fenced and has two gates, which are opened when the facility is staffed and locked when it is closed. Some of the side fence is missing and a portion is broken. An empty house on the property used to be rented and the people there provided some assurance against theft of the inventory. Management have advised us that since our visit the house has been rented again.

City residents request trees or shrubs, which the forestry inspector records in his database system. This list, plus those which are to be planted on City property, are

used to develop a procurement plan. The trees and shrubs are ordered and then received from suppliers and counted by a clerk in Surface Operations, Forestry Division. During interviews, staff informed us that the same employee receives, stocks, issues, and ships trees and shrubs. The forestry inspector also examines the product and if not satisfied, will not accept them. Subsequently, management have indicated that a forestry crew leader and the nursery crew carry out shipping. Material is shipped out to the planting site where it is received by a forestry inspector who is checking the quality of the work done by the contractor. The clerk gives the packing slip for the received goods to the forestry inspector who enters it into the nursery's trees and shrubs database, keeps a copy of the packing slip and gives it to the FSU at Constellation who enters it into the SAP Materials Management module. The supplier sends the invoice to the forestry inspector who verifies it against the packing slip and forwards it to the FSU, who processes it for payment.

A supplier is given a contract for the planting of trees or shrubs. The supplier picks up trees or shrubs from the yard, which are, then, loaded by City staff from a WO made up by the forestry inspector. There is no packing slip or signature for the product from the contractor, who delivers the trees or shrubs to the location to be planted and plants them. The forestry inspector supervises the planting. If delivered and planted at a resident's home, trees or shrubs are not signed for by the resident. The forestry inspector provides every day an activity sheet, with the number of trees planted, to the operations clerk, Bloomfield Yard. He also provides the work order that is used for both residential and City planting. This information is inputted into SAP. The issues are also recorded in the Nursery's Trees and Shrubs database.

The forestry inspector picks up 25 bags of fertilizer at a time from the Bloomfield Yard and signs for it. The fertilizer is brought to the Leitrim Nursery where it is assigned to a WO and given to a contractor, who then fertilizes the new trees or shrubs. The contractor does not sign for the fertilizer. The WO activity sheet for the contractor is sent to the operations clerk, Bloomfield Yard who enters the WO into SAP and a copy is kept by the forestry inspector.

There are no surplus or obsolete trees or shrubs.

There are no transfers of trees or shrubs.

Fertilizer is received at Bloomfield Yard from the supplier, counted and stacked in a locked garage. The invoice is signed by the Zone Supervisor and given to the FSU for entry into SAP.

Access to fertilizer stock at Bloomfield Yard is protected from unauthorized access in a locked garage.

Supplies for Bloomfield Yard are either requisitioned from the Clyde Stores or purchased using a procurement card. They are kept in unlocked supply cabinets at Bloomfield. When supplies are required, the staff removes it without a requisition and records it on their timesheet, which is signed off by the supervisor and entered into SAP. Management informed us that supplies at Bloomfield Yard are kept in locked cabinets located in areas that are kept under lock and key, which is controlled by the small engine mechanics. However, at the time of our walkthrough, May 18, 2007, the cabinets were unlocked.

Other supplies either requisitioned from Clyde or bought on a procurement card are kept in unlocked cabinets and it is possible for staff to remove supplies when they are not authorized to do so.

There are no cameras on the Bloomfield Yard.

7.2.2.1 Observations

1. At the Leitrim Nursery, the same person receives, stocks, issues, and ships the trees and shrubs. The receipts and issues are recorded in a separate Trees and Shrubs database as well as SAP.
2. When, a contractor takes trees or shrubs, they are not signed for. Therefore, there is no assurance that the items were taken by the contractor.
3. When trees or shrubs are delivered and planted at a resident's home, the resident does not sign for them. There are no controls over the issue, and therefore there is no assurance that the item went to the resident.
4. The contractor who fertilizes the new trees and shrubs does not sign for the fertilizer from the Leitrim Nursery. Therefore, there is no assurance that the items were taken by the contractor.
5. Supplies are taken from cabinets at the Bloomfield Yard with no requisitions. The use is recorded on WOs. However, there is no assurance that all items taken are recorded on WOs. This leaves the City open to potential misuse of its supplies.
6. The side fence at the Nursery on Leitrim road is either not there or broken. An empty house on the property used to be rented and that person provided some security to the site. However, since it has been vacant, potted trees have gone missing. There is no camera on the Leitrim site.
7. A private car (PT Cruiser) was parked inside the garage at Bloomfield where the fertilizer supply is kept. This provides an opportunity for the unauthorized removal of goods.
8. Contractors' vehicles were parked within the fenced in area at Bloomfield, which could expose the City to a liability of which it is not aware. There are no cameras on the Bloomfield site.

Recommendation 13

That the City ensure that the control over nursery products be improved by:

- a) Goods being received and stocked by one person and issued and shipped by another;**
- b) Documenting the issue of trees, shrubs, fertilizer or supplies to a resident, a contractor or another employee by a second person and having the receiver sign for the item;**
- c) Keeping the Bloomfield Yard supplies locked and recording the items, quantities and who is taking the supplies by another person;**
- d) Not allowing personal vehicles to be parked in the fertilizer storage garage, nor contractors' vehicles to be parked on City property unless covered by a contract, which holds the City harmless for loss or damage; and,**
- e) Considering placing some cameras on the site.**

Management Response

a) Management agrees with this recommendation. Management has implemented a process that accommodates this recommendation. A forestry inspector verifies the quality/quantity shipped to the City nursery from the commercial nursery and the forestry crew leader operating the nursery prepares the shipments of material to the job site for installation by the crews.

b) Management agrees with this recommendation. Management has implemented a process that accommodates this recommendation. Each shipment is prepared by the forestry crew leader and signed by the truck operator. Once loaded at the nursery, it is then verified onsite by a forestry inspector once the tree is delivered to the job site and installed by the contractor to the satisfaction of the City.

c) Management agrees with this recommendation. Management has implemented a process that accommodates this recommendation. The site is secured using locked cupboards and rooms for storage of materials and supplies. Keys are only issued to supervisory staff and the small engine mechanics who operate the repair and storage areas.

d) Management agrees with this recommendation. Management has addressed this issue as it relates to the personal vehicle stored inside a City facility; this will no longer take place. Surface Operations branch has verified that the appropriate language is within existing contracts to address insurance for contractor's equipment stored on City property.

e) Management agrees with this recommendation. Management has addressed this issue in accordance with Council's approved Surface Operations Integrated Security and Inventory Controls Report (ACS2007-PWS-SOP-0005).

7.2.3 Surface Operations Branch

As at December 31, 2006, Surface Operations Branch had an inventory of 389 items with a total value of \$1.73 million.

When salt or gravel is received, for example, at Woodward or Metcalfe, it is dropped by the supplier's truck outside the dome and put in there with the front-end loader. The supplier's driver provides a load ticket from the supplier's weigh scale. The load is usually 40 tons or a full load. The City loader or someone in the yard office signs for load ticket. The City does not weigh the receipts at Metcalfe and Woodward, but staff believe that they can tell how much is delivered within 5%. Only City trucks are issued salt at Metcalfe. However, at Woodward, salt is also sold to the Ottawa Hospital. When salt is purchased from the City, the Receiver does not sign for it. To issue salt, they use a front-end loader and weigh a typical bucket once in the fall. They then count the number of loader buckets that go on each truck. This is recorded on the Truck Operator's beat sheet. At the end of the shift the Operator estimates, by "eyeball", the amount of salt left and subtracts it from his sheet. If it is the end of the storm the remainder will be dumped in the dome, otherwise it is left on the truck and added to the next Operator's beat sheet. A supervisor verifies neither this estimate nor the original load. Each truck has a "Compuspread" which measures the kilograms per lane kilometre and is downloaded from the truck computer to a computer.

Since the process of recording the receipt and issue of these items is inaccurate, the SAP inventory accounts are inaccurate. Twice a year an estimate of the inventory is taken and adjustments are made by a positive or negative issue transaction. In 2006, per the inventory records there was \$13.4 million purchased and \$13.8 million issued.

Surplus salt, gravel or similar items are retained for the next season.

There is no transfer of salt or gravel between locations.

The blue and black boxes used in the City's recycling program are stored in a fenced area at Swansea. The key is placed on a partition in an open office area for anyone who needs it and there are also a number of copies of the key. There are eight people who have access to and distribute the boxes. Therefore, although the boxes are in a fenced-in area, access to them is not controlled. When a shipment comes in from the supplier, the clerk, Solid Waste, Swansea counts the boxes which are unloaded into the fenced area and verifies it against the packing slip, which is given to the Contract Coordinator, Collections Operations Unit who enters it in an Excel spreadsheet. The invoice comes in from the supplier to the clerk, Solid Waste, Swansea. He signs the invoice and gives it to the Contract Coordinator, Collections Operations Unit who matches it to the packing slip and sends it to the FSU for processing of payment.

When boxes are issued or returned damaged, no one signs for them, however, the issue or return is entered into the Contract Coordinator Collections Operations Unit Excel database. Rona, for example, will invoice the City for the number of boxes they take or return damaged. If a City department or school requires boxes, they will provide an account number.

The boxes used in the City's recycling program are stored in a fenced area at Swansea and are controlled by an Operations person.

7.2.3.1 Observations

1. A supervisor (Woodward) acknowledged to us that the method of measuring the receipt of salt or gravel would not enable them to distinguish if a shipment was short 2-5 tons in a truckload. If staff's estimates are out by 5% this could amount to \$670,000 based on annual purchases in the order of \$13.4 million. This past winter staff did notice that a half of a load of salt was missing yet the delivery slip from the supplier indicated a full load. The controls for the receipt do not cover the possibility of: supplier error or fraud; fraud on the part of the delivery agent, who is different from the supplier; or for staff misuse.
2. There isn't a supervisor verification of the salt delivery amounts.
3. The process for receiving and issuing salt, gravel and similar materials is inaccurate, resulting in inaccurate inventory values and incorrect expenditures charged to cost centres.
4. We did not do a test sample of salt, sand, or gravel, etc.
5. The key to the recycle bin area is accessible to anyone who needs it and there are a number of copies of the key.
6. No signatures are obtained for issued recycling boxes or those returned damaged. This could lead to unauthorized issue of boxes.

Recommendation 14

That the City ensure that controls over salt, sand, gravel and similar products be improved by:

- a) **Not accepting the suppliers load sheet as proof of the shipment quantity and developing a more accurate method of measuring receipt, such as a weigh scale, be developed; and,**
- b) **Ensuring that entries made by Surface Operations Branch to SAP accurately reflects the City's inventory of items for which they are responsible.**

Management Response

- a) Management agrees with this recommendation. Management has implemented a number of procedures dealing with road salt. One procedure details the method by

which supervisory staff or management place bulk orders for road salt and the method by which they are received in the respective yards. A second procedure details the steps taken to perform a random weighing of a salt shipment and the method by which to adjust the weigh bill should the ticket weight not fall within tolerance or reject the shipment. Staff are currently adapting these procedures to function for other winter and summer materials.

b) Management agrees with this recommendation. Inventory management procedures, data entry QA/QC procedures, and management reporting have been reviewed and improved. In addition, the branch will review its annual physical inventory procedures. This will be complete by the end of Q4 2008.

Recommendation 15

That the City ensure that the key for the recycle bins storage area be kept in a secure location.

Management Response

Management agrees with this recommendation. The key is now kept in a lock box located onsite, which is currently used for spare office and vehicle keys.

7.2.4 Information Technology Services Branch

A total value of Information Technology Services (ITS) assets as at December 31, 2006, could not be provided as the list of IT equipment placed within the various branches is incomplete.

ITS purchases most of the general business purpose computers, terminals, printers, servers, and certain other electronic items such as palm pilots, cellular phones, PDAs, digital cameras, and in-line projectors, etc. In 2006 a total of \$12.6 million was expended for computer, peripherals, electronic equipment and software. It is either charged to ITS or the requestor's budget depending on the circumstances. They may be ordered in ITS by an ITS Buyer/Asset Specialist or the client, delivered to an ITS Buyer/Asset Specialist who does not purchase but does receive and check out the goods. Operating software is also purchased by ITS. If the item purchased is over \$10,000 then Supply Management Division is involved in the purchase. ITS have three different employees involved in the ordering, receiving and issuing of computer related equipment. ITS examine the item when received and they are installed by the Service Desk Analyst or the vendor. If it is installed by ITS, no signature is obtained from the client but the ITS Customer Order Tracking System will send them an email confirming the installation. If a supplier installs the item, a client signature is obtained. The incidence of IT equipment that needs to be returned to a supplier is not significant but when it does occur, it is tracked in the ITS incident management system (Support Magic).

MS-SMS is only used for a portion of IT assets; in particular, PCs connected to the network. Other items are recorded in a number of databases including spreadsheets, System Management Server (SMS), Active Directory and "SupportMagic." These databases include the general location (building matrix coordinates) of the item in the City and the last user ID to whom it was assigned. However, if a number of the same items, for example, monitors, are placed in an area then only one contact person's name is recorded in their database and the serial number of one unit is recorded against that person. The user to which the units have been assigned by ITS does not keep track of the individual units or to whom they have been assigned either.

If a piece of equipment is to be moved other than portable items such as laptops or in-line projectors, an ITS support request would be created and used to record the change in their database.

Specific electronic equipment such as the video system used by Traffic Operations Division is bought and controlled by Traffic and Parking Operations Branch.

Off the shelf software is ordered and paid for by the client.

Desktop computers are life-cycled at four years. Other IT equipment is identified as obsolete when it is broken and either cannot be repaired or the repairs exceed the replacement cost. The obsolete equipment is disposed of through Supply Management Division.

ITS does not do an annual inventory of IT equipment. However, every few years they call back the laptops to refresh them.

7.2.4.1 Observations

1. ITS installs items, which have been received for clients and no one signs for them. In addition ITS' records do not consistently record to whom a piece of equipment has been assigned. It was noted during the test sampling work that portable IT equipment and other equipment such as monitors were not always recorded against the correct user in the IT Database. The records for the location of IT equipment have numerous errors. For example, some locations do not exist (1887 St. Joseph). Some IT equipment is assigned in bulk to one person who is not able to identify to whom each unique IT piece of equipment was assigned. Some records are out of date. For example, the person to whom the equipment was assigned retired a couple of years ago or was relocated and the equipment given to another person without the IT record being updated. Some IT equipment does not have a City tag on the unit or in the data base or the serial number is incorrect. We found IT had replaced a Blackberry with a cellular phone a number of months ago and the Blackberry had not been returned to IT and the IT record had not been updated. An in-line projector

assigned to a particular fire station could not be located at that station and there was no record to which station it had been reassigned to.

2. Detailed listings with dollar values were created in response to the audit request for cameras, cellular phones, desktop and laptop computers, PDAs, printers, and in-line projectors totaling \$3.3 million for 2006. The remaining \$9.3 million was for 2006 purchases of servers, software, data communications equipment, telecommunications equipment, cables, scanners, etc., and purchases made outside of the Technology Infrastructure process. Detailed listings were subsequently provided for servers, telecommunications equipment, data communications and miscellaneous equipment, which were updated manually or through automated network management tools but these did not include the dollar values. Despite the fact that the computer assets are not depreciated, an up-to-date complete list of these assets and their value should be retained for control and insurance purposes. As dollar values were not provided the listings could not be reconciled to the total purchases of \$12.6 million for 2006. The IT database was therefore incomplete and inconsistent. For inventory management purposes a full listing of all items and dollar values should be maintained on an on-going basis.
3. In the case of laptops and desktops, we determined the existence of 46 items through the use of a look-up tool provided by ITS. This tool provides a report which indicates the date the computer last logged on to the network, the user, the location, and other information such as programs installed on the computer. We noted 4 computers, from the 46 verified through the look-up tool, with iPod and iTunes software installed and 6 computers that had not been logged on since May 22, 2007 (over 5 months as at the time of the audit). A further review of the complete network population showed that 742 computers had iPod/iTunes software installed. We manually reviewed a sample of 80 computer logs to determine if other non-work related software had been installed. Using keywords or titles identified from the logs, a search identified several examples of other non-work related titles including: "The Playa", "The Sims", "StarCraft", "Diablo", "Nancy Drew", Quicktax 2004 and "Free Internet Eraser". The use or frequency of use of the software was not assessed.

As recommended in the 2005 Audit of Internet Usage and Controls, ITS should be monitoring processes and systems including policy enforcement monitoring. The City should take immediate action to monitor computers and address cases of inappropriate or potentially illegal use.

4. We found many of the items very difficult to verify as 23% of the items we selected either contained insufficient or incorrect information. For example, a multiple number of scanners contained the same contact person in Fleet. The scanners were distributed to a number of people and neither these people or the ultimate locations of the scanners were entered in the ITS database or a Fleet database. The same situation was found with flat screen monitors and in-line projectors in the Fire Department.

5. The inventory of IT equipment is a recall of laptops every three years. There is no physical inventory verification of other items, e.g., desktops, monitors, printers, digital cameras, in-line projectors, etc.
6. Obsolete IT equipment is disposed of through Supply Management. However, IT was unable to provide additional details regarding the value of the equipment disposed of.

Recommendation 16

That the City ensure that:

- a) **ITS obtains a signature from the employee for whom they are purchasing and installing equipment and consistently record the name of the assigned employee against each piece of IT equipment installed, together with the equipment description, serial number as well as the City's asset tag number affixed to the equipment; and,**
- b) **Immediate action be taken to monitor computers to address cases of inappropriate or potentially illegal use.**

Management Response

a) Management agrees with this recommendation. Management proposes that the most effective way to track and maintain this information is through an electronic approach. Management will modify the electronic IT ordering form to clearly capture details of both the employee requesting the order and information regarding the employee receiving the equipment, by Q2 2008.

An integrated IT inventory and change tracking system is being implemented in 2008 to replace and consolidate the existing systems, which will result in improved reporting capabilities by Q1 2009.

b) Management disagrees with this recommendation. Putting additional technology on the City network to monitor would not be cost effective. The City of Ottawa Code of Conduct and Responsible Computing Policy clearly outline employee responsibilities and actions taken for non-compliance. In addition, there are a number of existing security measures already in place such as the lock-down computer desktop and Internet filter software, that prevent the majority of this type of activity. In accordance with approved protocols, IM/IT Security will investigate situations where IT services or assets may be involved in a suspected security breach or contravention of City policies, federal, provincial or municipal legislation.

It should be noted that some of the potential software noted by the auditor such as iPod / iTunes executables are bundled with the QuickTime software installation. QuickTime is a legitimate business tool used to view instructional digital video clips, training videos, and digital images.

7.2.5 Fleet Services Branch

All City owned vehicles and equipment, their assigned location and whom they are assigned to, are recorded within M5 by Fleet Services Branch. Management advised us that where a vehicle or equipment is not assigned to a specific employee, it is assigned to the supervisor of the operation it carries out.

The City provides its staff with vehicles and equipment to use in the conduct of the responsibilities of their position. When not in use, these assets are to be kept in the location from which the employee works or to which the asset is assigned. Management have advised us that for operational requirements vehicles are often reassigned to other locations. However, in our opinion, the vehicles' locations should be updated within M5.

According to current Fleet policy, when a unit has been approved for replacement, the old unit is to be flagged in M5 or SAP with a caution indicating that it was planned for replacement. This provides an opportunity to assess if repairs required on the unit should be performed given that the unit was planned for disposal. The next level, according to Fleet, is that the unit would be flagged for disposal. This process stops any work orders from being opened against a unit that is to be disposed of, in order to avoid unnecessary repairs being performed. However, by charging the repair to a cost center rather than to a work order, repairs can still be performed on a unit planned for disposal.

Management have advised us that M5 assets are assigned a preventive maintenance plan and have at least annual checks thus verifying the inventory. In addition, there is an annual review of all vehicles with zero value for maintenance cost which constitutes a physical inventory. There are also reports to clients for units that have low or no usage or no work orders which also helps verify the inventory. Our 2006 Audit of Fleet Management addressed deficiencies in these areas. We found that there is no routine physical inventory of the overall fleet equipment or vehicles.

There are major rebuilt transit parts located in the Boyd Building that are not recorded in SAP which are placed there and removed without being recorded.

7.2.5.1 Observations

1. We examined a small sample of units, which were slated for disposal, for repairs being undertaken prior to disposal. It appeared that a significant number of the sample units had significant repairs, which in our opinion may indicate that this is not properly managed and controlled. The results are given below:
 - The City disposed of 106 municipal fleet vehicles, 38 pieces of equipment and 68 buses in 2006. A sample of six, two and three, respectively, was taken and the work orders reviewed to determine if excessive work was performed on these

units prior to disposal. We found that a 2001 Ford ambulance, had a new axle assembly and major brake rework in the amount of \$4,797 on March 16, 2006 for a total work in 2006 of \$11,741 prior to disposal on October 20, 2006. A 2003 Chevrolet Transit Security car had a transmission replaced for \$2,659 on January 23, 2006 for a total work in 2006 of \$6,154 prior to disposal on June 1, 2006. Another 2003 Chevrolet Transit Security car also had a transmission replaced for \$2,597 on February 24, 2006 for a total work in 2006 of \$4,887 prior to disposal on June 1, 2006.

2. The major transit rebuilds that are located in the Boyd Building are not included in any records. This was mentioned in a prior audit.
3. When vehicles and equipment are not in use, these assets are to be kept in the location from which the employee works or to which the asset is assigned. In a sample that we took, we were unable to locate an SUV that was stationed on Moodie Drive. We learned that the person to who it was assigned was on vacation and they had left their vehicle at the Scrivens Road garage, which we were told was near their home. We did confirm the asset at the later location. Using City vehicles for personal purposes is contrary to City policy and vehicles may not be taken home unless the employee is "on call" and must be returned to its assigned location. Personal Use of Corporate Vehicles was also dealt with in the 2007 Annual Audit report.

Recommendation 17

- a) **That the City ensure that Fleet Services Branch maintains an accurate and up to date database of all the vehicles and equipment including a proper description of the item, the name of the user of the equipment.**
- b) **That Fleet Services Branch conducts a periodic physical inventory of its vehicles and equipment.**

Management Response

- a) Management agrees with this recommendation. This is the City's current practice and has been since implementation of M4 in 2001.
- b) Management agrees with this recommendation. It is the City's current practice that all vehicles and equipment are physically inspected and repaired annually. The database is searched and no cost/inactive units are identified. The Operational Support and Policy Division review this report annually.

Recommendation 18

That the City comply with its stated procedure of identifying vehicles and equipment in M5 that are slated for disposal so that only cost effective repairs will be done on them prior to disposal.

Management Response

Management agrees with this recommendation. Management has been following this practice since amalgamation. A procedure chart, illustrating the controls in place to continue with repairs on vehicles that are flagged for disposal, is in place. The three examples sited in the audit are example of vehicles with relatively short life spans due to heavy usage. In the case of the ambulance, the expenditure was 4% of the vehicle's value and extended its life by 8%. On the security cars sited, the expenditure was 8% of the vehicle's value, and extended its life by 16%.

Recommendation 19

That the City update the policy on Personal Use of City Vehicles as identified in the prior report and reminds employees of the policy and enforces it.

Management Response

Management agrees with this recommendation. The policy is being updated by staff and will be communicated to employees in Q1 2008.

7.2.6 City's Fine Art Collection

Management informed us that the City's insured (November 7, 2007) Fine Art Collection inventory containing 1,531 individual artworks. Per the database we received on July 5, 2007, this was made up of 2,609 separate itemized/serialized pieces, which, as at December 31, 2006 had an approximate value of \$8.1 million and the Firestone Collection of Canadian Art consisting of approximately 1,605 pieces with an approximate value of \$10.9 million.

The City's Fine Art Collection is broken down in three categories.

- a) Permanent art is paid for from funds allocated to major capital projects and is connected to large projects;
- b) Circulating Fine Art is acquired through a Council approved budget designated specifically for art. The Circulating Fine Art Collection can be located just about anywhere; and,
- c) The Firestone Collection of Canadian Art is managed by the Ottawa Art Gallery.

With the exclusion of the Firestone Collection of Canadian Art, the City requests submissions from artists for art acquisitions. A jury reviews the submissions and an artist is selected. In the case of permanent art, the artist is made aware of the amount of capital funds allocated for the project. The artist will make proposals, based on the budget, with prototypes, which are evaluated by the jury and selected. For the Circulating Fine Art Collection artists are asked to submit proposals that would either be sold or donated to the City.

In all cases when the art is acquired, it is photographed and documented. A file is set up on each piece and is entered into a Filemaker Pro database. There is an object file with its value when acquired, its latest appraised value, location, and an accession number is affixed to the piece.

The Circulating Fine Art Collection receives requests for art from time to time from City staff and elected officials. The Cultural Planner also reviews public areas to determine where artwork should go. The policy is that art should be placed in areas where it would be seen by the public. This includes the offices of elected officials, senior staff and various meeting rooms and halls where the public might go. The Cultural Planner receives, stocks, issues and records the issue of art in the database.

Art has been placed for the past two years under a four-year contract, which names a prime person responsible for the piece, and this person signs the contract. The prime person is to keep a reasonable outlook on the art. The Cultural Planner will return to view the piece after four years, or sooner for more valuable pieces, to ensure that they are still there and they are in good condition.

When an artwork is to be transferred from its current location, it is usually first brought back to the storage location where it is rejuvenated. Occasionally when artwork is being removed from one location, another person may notice it and request the piece immediately in which case it is relocated. The Cultural Planner will draw up a new contract, have it signed by the recipient and record the artwork's new location in the database.

The City hires a contractor to install artworks. Contractors are required to obtain a security clearance. The contractor is given a list of what is to be installed and they go to the art storage room themselves, pick out the pieces of art and load them on a truck. The Cultural Planner accompanies the contractor to the site where the artwork is installed. The Cultural Planner obtains the contractee's (City employee requesting the art) signature.

As at December 31, 2006, there were 633 pieces of art or 24% of the collection in the storage rooms totalling \$0.9 million. There are three doors, which enter the rooms, one main door to each room and a connecting door between that are all kept locked. Entry into the rooms is by electronic keypad. There are no cameras on or in the rooms. However, there is an alarm on the corridor going to the storage rooms. This alarm is on when staff is not at work.

General works of art that are installed throughout the City are locked to the walls and can only be removed with tools. During interviews we were informed that very valuable artwork, is displayed in more secure areas. If it were placed in a public area there would be special security. The Firestone Collection of Canadian Art is housed at

the Ottawa Art Gallery at Arts Court. A City staff does rounds and there is a security system in the building. There are cameras in the building. The City exhibits artworks at City Hall, the Karsh-Masson Gallery where there are cameras and a security guard doing rounds. The Karsh-Masson Gallery is protected by an alarm system when it is closed.

The insurance company is advised once a year of new acquisitions to the City's Fine Art Collection unless a piece of significant value is acquired during the year, in which case the insurance company is advised immediately. For example, when the Firestone Collection of Canadian Art was acquired, they were advised immediately. The acquisition cost of a piece of artwork is the initial insured value unless it was donated in which case it is appraised. At amalgamation there were a number of pieces of art for which there was no original value. These pieces were all appraised. Reappraisals are done for all pieces approximately every ten years, while the Firestone Collection of Canadian Art will be appraised every five years.

There is no formal physical inventory taken of artwork although some pieces are visited from time to time to ensure that they are still there. There are 114 items in the database the locations of which are unknown or blank.

There is no policy for the disposal of art. If a piece is damaged they contact the artist to determine if it can be repaired. If the artist says it cannot be repaired, then the art will be given back to the artist or trashed. If it was damaged due to vandalism the City will make a claim against the insurance policy. The Cultural Planner makes the decision as to whether an artwork is damaged beyond repair.

There is no surplus art.

7.2.6.1 Observations

1. Through the verification process, it was discovered that the City's collection was re-accessioned at amalgamation. This meant all pieces were re-numbered in the database and labelled with the new accession number. But in cases where the piece was on display and has not returned to the art storage, those labels were not updated.
2. The same person is responsible for the receipt, stock, issue and shipping of Circulating Fine Art Collection .
3. The contractor who installs the artwork obtains the required pieces from the art storage rooms unsupervised and does not sign for them. There are no cameras on or in the room. However, there is an alarm on the corridor going to the storage room. This alarm is on when staff is not at work. On average, 20%-25% of the City's Fine Art Collection may be in storage at one time. Although the contractors are to have

security clearance, it would be possible for the unauthorized removal of some artwork.

4. Excluding works related to the Firestone Collection of Canadian Art, Management advised that the City's insured artwork inventory contained 1,531 individual artworks as at November 7, 2007. Per the database we received on July 5, 2007, this was made up of 2,609 separate itemized/serialized pieces. Artworks can contain multiple parts that if removable are identified as a "child" of the "parent" artwork. A "parent" artwork may have more than one "child".
5. Management provided the OAG with the City's Fine Art Collection database on July 5, 2007. On December 21, 2007, during the fact validation process, Management indicated that when the data was originally transferred to the OAG, the collection database was in the process of being updated. As the OAG was not made aware of this until December 2007, our analysis of the database provided in July 2007 yielded the following information:
 - a) 55 pieces of artwork had blank location:
 - Of the 55, 14 had no value assigned to them; and,
 - 41 pieces with assigned values totaled \$131,150.
 - b) 59 pieces of artwork had an "unknown" location:
 - Of the 59, 7 had no value assigned to them (6 blanks and 1 zero value); and,
 - 52 items with assigned values totaled \$133,900.

We also found gaps in the sequential art assets numbers (accession numbers) in their database. On questioning, we were told that on assigning control numbers, some were missed by mistake. Missing numbers in an asset control database could be indicative of assets, which have been removed without authorization.

6. There is no routine inventory of the movable art. The Cultural Planner does visit some of the more valuable pieces during the year but there does not seem to be a regular process for this.
7. The Cultural Planner himself makes the decision as to whether a piece of art is damaged beyond repair. This is insufficient segregation of responsibility.

Recommendation 20

That the City ensure that internal control over the City's Art be improved by:

- a) **Placing an alarm and camera in the artwork storage room;**
- b) **Improving controls on the removal of artwork;**
- c) **Having Circulating Fine Art Collection pieces received and stocked by one employee and issued and where possible, shipped by another. Alternately, additional preventive mitigating controls should be implemented;**

- d) **Ensuring that when assigning asset numbers (accession numbers) to pieces of artwork, these are consecutive; and,**
- e) **Having an independent person confirm that an artwork is damaged beyond repair.**

Management Response

- a) Management agrees with this recommendation. Staff will work with Corporate Security and RPAM to develop an optimum approach by Q4 2008.
- b) Management agrees with this recommendation. Management will improve controls including signed documentation and database tracking by Q4 2008.
- c) Management agrees with this recommendation. An additional FTE is required to bring this function in-house. Existing operating funding and client charge-backs will be used to fund this position, however, the FTE will be requested during the 2009 budget process.
- d) Management agrees with this recommendation. Any removal of accessions will be tracked within the database and will be entered in the object file. Asset number accessioning will not skip numbers.
- e) Management agrees with this recommendation. Artwork that is beyond repair should be de-accessioned. A de-accession policy will be developed when the City's Visual Arts Policy is updated (scheduled for 2009, subject to budget approval). In the interim, documentation from the expert conservator will be noted and placed in the database and object file.

Recommendation 21

That the City instructs Cultural Services:

- a) **To locate all artwork with unknown locations (or blanks) or write them off;**
- b) **Have artwork with no value appraised by an independent person; and,**
- c) **Update the inventory database with the information accordingly.**

Management Response

- a) Management agrees with this recommendation. An inventory of these works is currently underway and will be completed by Q2 2008. Any works not located after the inventory is completed will be de-accessioned.
- b) Management agrees with this recommendation. An independent appraiser has been contracted to complete outstanding appraisals. All artworks that can be appraised will be given a value by Q1 2009.
- c) Management agrees with this recommendation. The database will be updated with this information by Q1 2009.

7.2.7 Gift Registry

The City has a Gift Registry which contains gifts that are given to various dignitaries who visit the City or which are taken by elected officials or senior staff, who are going on visits, to give to the person they are visiting.

The total value of the items in inventory as at December 31, 2006 was \$149,000. The most expensive item is a silver bowl valued at \$290.

They purchase no more than \$2,000 at one time and the goods are accepted in Receiving and brought to the Chief of Protocol who inspects them and adds them to the Gift Bank Master List, which is an Excel spreadsheet. If an item that is received is wrong, broken or an incorrect quantity, a letter is sent to the supplier requesting a correction of the problem.

The items in the Gift Registry are kept in a vault to which six employees have access. Some items are stored in another location that requires an electronic access card and which only Protocol Division staff have access.

Gift requests come from the Mayor's Office, the City Manager, his representative, or a Councillor. The Chief of Protocol chooses the gift and gets in touch with the requestor who picks it up. A Corporate Gift Bank Inventory form is completed for each gift issued and that is used to update the Excel database. There is no signature obtained from staff for the gift.

The Chief of Protocol physically counts the Gift Registry items annually. They start with the quantity that is supposed to be there and confirms it. They have not had any significant items missing.

There are no surplus gifts.

7.2.7.1 Observations

1. When gifts are taken from the Gift Registry by staff or politicians no one signs for them. If an unauthorized person removed items from the Gift Registry it would be difficult to determine who was responsible. However, the potential loss is minor.
2. The person doing the gift inventory count is involved with the receipt and issues of the items and knows what the quantity in stock should be. It would be more appropriate for an independent person to do the count.

Recommendation 22

That the City ensure that when gifts are taken from the Gift Registry, they are signed for on the current input form by the employee removing it.

Management Response

Management agrees with this recommendation. The Office of Protocol has implemented a procedure whereby anyone requesting a gift from the Protocol inventory is required to sign for it.

7.2.8 Other Assets

If a department requires furniture for example, an Accommodation Request is completed and Real Property Asset Management Branch (RPAM) arranges for a layout to be done, if required. A material list is prepared and the item(s) ordered from a standing offer. A different RPAM staff receives the goods, verifies them, and processes the release for payment. The individual areas order minor items, such as a chair.

There is no database that contains other assets owned, leased, or rented by the City such as furniture and various office equipment not mentioned above except for faxes and photocopiers, which are contained in an Excel spreadsheet.

7.2.8.1 Observations

1. RPAM did not have a database, which controlled assets that it purchased on behalf of its Clients.
2. Some databases, for example ITS', were either incomplete or contained incorrect information.
3. Although the majority of the City's assets are not contained in the balance sheet, Financial Services Branch should have developed and issued an overarching assets control policy which provides direction to all the departments in the City with respect to recording and controlling assets.

7.3 All Stores

The inventory that Supply has in its custody is recorded in the SAP Material Management Module for General and Transit Stores and in M5 for Municipal Stores. We understand that Supply is planning to convert all stores over to SAP in 2008.

When received, inventory under stores control is recorded either into inventory, or directly against a WO, unit or cost centre.

If an item is taken out of stores when a storekeeper is present, the issue, transfer or return is recorded immediately or, on a batch basis in the case of the General Store at ROPEC. If the Store is closed and a person takes a part, the records are temporarily incorrect. Normally, the person taking the part will leave a record of this on a Charge-out form or Material Requisition, which is entered into SAP or M5 when the Store reopens in the morning. An exception to this is at Manotick where a mechanic may also receive a part or go into stores and take a part when the storekeeper is there and record

the fact in his Requisition Book, which is given to the storekeeper once a day or the next day to record the issue.

7.3.1 Observations

Municipal Fleet Stores was unable, initially, to provide detailed information on the 2006 year, due to its conversion to M5. It appears that the conversion did not take into consideration the need to access prior year's M4 data. As well, certain management reports, which had been produced in M4 were not included in the initial conversion over to M5.

Management indicated that at all times, access to previous year data was available for staff. Initially the data was housed in the old M4 system, which remained available up to the point where M5 became operational. At that time M4 was turned off and M5 allowed access to previous year data. However, M5 handles certain transaction codes differently than M4, so in order to present comparable information staff accessed the old M4 data via Crystal reporting.

This explanation indicates that the previous years' data was not accessible as it was in M4 only which was "turned off" when M5 became operational and the only way to access it was through the preparation of a "crystal report" which took months to prepare for the auditor.

Recommendation 23

That the City ensure that new systems or new versions of existing systems not be implemented until all necessary reports and access to the prior year's data has been tested and are working.

Management Response

Management agrees with this recommendation. This is existing practice.

During the upgrade transition period from M4 to M5, at the agreed cut over date, new operational data was being entered into M5, while prior year information was only available in M4. During this time, the data set from M4 was being converted and tested for accuracy by Fleet Services. When completeness and accuracy of the data set was confirmed, data was transferred and made available in M5 as appropriate.

This audit was conducted during the transition period from M4 to M5. For a short period of time (one month), some legacy data only existed in the prior M4 application. This information was available, just temporarily from the older M4 application. This was done purposely to minimize downtime when moving users to the new M5 application. Shortly after the launch of M5, all legacy data was moved to M5, so all necessary reports and prior years data were available from the one location. The M4 application was then decommissioned.

In order to meet the OAG schedule, a custom Crystal Report was written that drew the required data from both M4 and M5. Now that all legacy data resides in M5, this custom report is no longer required and all reporting is available from M5.

7.4 General Stores

The inventory for General Stores as at December 31, 2006 consisted of 15,119 items with a value of \$11.72 million. Of this,

- 4,533 items valued at \$1.89 million were at ROPEC;
- 1,273 items valued at \$2.57 million were at Loretta; and,
- 389 items valued at \$1.73 million were in Surface Operations.

For ROPEC Stores, SAP generates a report, each night, which selects items below the minimum inventory level. In the morning the material management clerk does a material requirements planning run, which prints out the parts required and assigns a buyer code. The buyer codes are adjusted by the material management clerk who will do the ordering. Parts are combined for similar suppliers and purchase orders issued. The material management clerk also orders parts from suppliers for non-inventory. The stores coordinator has a procurement card and can use it to order goods under \$3,000 per transaction or up to \$20,000 per month.

ROPEC has a separate person assigned to receiving and shipping. The stocking function, however, is not well segregated. The employee that issues stock does the receiving and shipping when the receiver/shipper is not there.

A storekeeper assigned to the receiving function receives the parts. Goods are examined on receipt and incorrect or damaged goods are not accepted. The PO number is obtained from the packing slip that comes with the parts and the receipt is entered by the receiver into SAP on a batch basis once per day. The receiver places the goods on the shelf and sometimes the storekeeper will assist him. The invoice is sent directly to Accounts Payable, where it is paid based on the receipt that was entered into SAP by stores.

Goods that are not for inventory may be ordered by the FSU. These will usually not be for stores. In that case, the receiver will sign the packing slip for the receipt and send the goods and the packing slip to the FSU. The FSU will, in this case, enter the receipt in SAP. The invoices go directly to Accounts Payable where they are matched with the receipt prior to payment.

At ROPEC, if the supplier sends more goods than required by the PO, the receiver will contact the materials management clerk who will determine whether there is a use for the additional parts. If so, the materials management clerk will modify the PO and the receiver will receive all the goods. If the additional parts are not required he will contact

the supplier who will be asked to send in a modified packing slip. The additional parts will be returned to the supplier at their cost and the correct number of parts will be received once the updated packing slip is received.

If parts are determined to be defective immediately upon receipt then the supplier is called by the materials management clerk and asked to send in a replacement part. The receipt transaction is not processed until the defective part is exchanged for a good one.

If a part received from a supplier is defective, the same person that receives it at ROPEC or Loretta would ship it back to the supplier.

For ROPEC, preventative maintenance work, the Maintenance Management Support group (MMS) raises the WO and provides it to the supervisor. Otherwise a technician or supervisor will raise a WO for repair work, when he becomes aware of the need from the operations staff. The MMS group has built a bill of materials for the preventative maintenance work and is developing them for the repair work.

If a technician requires a part, material or supplies from Stores at ROPEC or Loretta, a Material Requisition (M.R.) is used. If a part is not inventoried the M.R. must be approved by the applicable maintenance supervisor prior to it being ordered at ROPEC. The technician will have called a supplier to find out if they have the part and get a price quote. If a part is inventoried and required for a WO or if the part is less than \$250, a supervisor's signature is not required on the M.R. The supervisor keeps the third part of the M.R. when he records the parts on the M.R. When the goods are issued by stores both the technician and the storekeeper sign the M.R. A copy of the M.R. is kept by stores and collected in a batch, which the storekeeper enters into SAP once a day. The second part is given to the technician who is to put it in a bin for the supervisor. For parts that have to be ordered the M.R. is attached to the PO and retained until the parts arrive. In that way the storekeeper knows which technician to call to come get the parts.

If there is a request for parts, which are not in stock and they are required quickly the storekeeper searches the SAP database for a plant that has the stock. He contacts the other Store and asks that they transfer the goods to his Store. The shipping Store prepares a Material Requisition for the parts, enters the transfer into SAP against the WO and ships the goods with the yellow copy of the M.R. The white copy of the M.R. is kept for the sending Store's records. Transferred goods are received by the ROPEC Store and there is no sign off for the receipt.

If a technician were to take out more parts than they required they would return the extra parts and there would be a credit against the M.R. when the parts are restocked.

When a WO is completed at ROPEC, it is reviewed by the supervisor and sent up to the MMS where it is entered into SAP and closed. Parts cannot be charged to a closed WO. To charge parts to a closed WO the FSU must reopen it. However, we understand that in many cases because it requires less effort, a new WO will be opened to charge a part that was not charged to an original WO. There is no report provided to the maintenance supervisor of closed WOs to which parts were charged.

On the rare occasion in General Stores when an installed part is identified as warranty, the maintenance supervisor will ask the storekeeper to return it to the supplier. A part return form is raised, the part is returned to the supplier and a 122 transaction type is inputted to SAP which identifies the part as being returned to the supplier. The supplier sends in a credit note, which is processed by A/P against that item.

When getting an item from stock, at ROPEC, if they notice that the quantity of parts on the shelf is different from that in SAP they would look at the un-entered receipts and M.R. for issued stock and if the inventory still did not balance, they would initiate an investigation.

The General Store at ROPEC operates 10/5 (10 hours per day, 5 days a week). The receiving door and issuing door are kept locked when the Store is staffed. When the Store is not staffed, the counter area is also locked. Entry is controlled by electronic access and technicians who require parts during non-staffed hours let themselves in. They are to record their entry including date, time and what they take in an entry record book. In addition, they are to complete a M.R. for the parts and leave it for the stores staff when they arrive in the morning. There is an extensive set of cameras on the doors and the aisles. However, if parts that were not authorized were removed it would be difficult to detect, as there is no formal cycle count of inventory.

For the first time in many years, the complete inventory at ROPEC was reviewed to determine if there were obsolete parts. Reviewing inventory at an elongated cycle such as this will most often result in identifying obsolete inventory which had been taking up shelf space for a long time and for which no value can, currently, be obtained on disposal.

A list was prepared, which was reviewed by technical supervisory staff who advise whether the item can be disposed of. From this review, a final list of \$140,000 book value was generated that the supervisory staff indicated were no longer required. These parts were then removed from the shelves in June 2007 and sent to Swansea in a batch for disposal. The parts will first be offered back to the supplier and any that they do not wish to buy back will be offered for bids on MERX. Supply Management would like to stop purchasing parts that were initially identified as surplus but not disposed of, but the Program Manager is uncertain that SAP has the capability of supporting that decision. There is now a process to keep track of the original requestor of a part and if it

is not used after a period of time, Supply would like to charge the original cost of the goods to be disposed of as an expense to that requestor. This process, if approved, has the potential to reduce the amount of unnecessary inventory that is stocked by the City.

At the Loretta Store, the operations staff use procurement cards for an order value of up to \$500. The goods are delivered to the stores area and then brought to the operations staff who check the contents, place the items on a shelf in the operations area, sign a packaging slip and send it off for payment. There is no segregation of responsibilities at Loretta Store between receiving, stocking, issuing and shipping. The same employee does all functions.

If a part is defective on receipt at General Stores at Loretta the same storekeeper will ship the part back to the supplier.

At Loretta Store when a certain type of installed part is defective, operations looks it up on an Excel spreadsheet by serial number to determine if it is a warranty item. If so, they will take it to the supplier for repair. There is no documentation raised.

Loretta Store issues inventory that they control against a WO. The supervisor signs the completed WO.

If more parts than required by Traffic are taken from inventory, they are returned to Stores and a credit to the WO is entered in SAP.

At Loretta control boxes and signals are rebuilt. They can be stored in an area controlled by Stores or within an operational area, which may or may not be controlled. The decision on where they are stored is apparently based on space availability. Control boxes can have a value in the order of \$10,000-\$30,000.

When parts are rebuilt, for example, a control box at Loretta, it is transferred back into inventory at a fixed price. When it is required for a job, it is requisitioned out of Stores and charged either to a capital account, a WO or to a developer.

An employee will take a part, install it on the street and fill out an internal requisition, which is signed by the Installation Technician and the Technician Traffic Control Units, Controller Shop. The requisition is entered into SAP by the Technician Traffic Control Units, Controller Shop, which takes it out of plant code 0320 Traffic Operations or 0090 Loretta General Store and charges it to an intersection.

At Loretta the storekeeper advised the auditor that when stocking a newly received part, the existing stock is checked to determine whether it matches what is in SAP. If there is a variation, an adjusting entry is made in SAP either to a general maintenance account if it was a supply or otherwise to a WO. If the difference is significant the

storekeeper will first seek approval, otherwise the adjustment will be done on the storekeeper's own accord.

Loretta does an inventory count annually in December and balances the inventory in Stores to that in SAP. The inventory is counted by the storekeepers and operational staff who give the count to another group for input to SAP. If there are large dollar variances they will do a second or third count. The counters do not know the quantity that is supposed to be on the shelf. Discrepancies are adjusted by the materials analyst.

We visited the General Stores at Swansea, ROPEC and Clyde. In all cases the front and back doors were locked and we had to identify ourselves to enter. There were no non-stores staff in the Store during our visit.

We were escorted by a Traffic Operations staff on a visit through the General Stores at Loretta and were able to enter through a Shipping/Receiving door unchallenged. There did not appear to be a storekeeper present at the time although it was normal working hours and we were able to walk through the "cold storage" area. We returned to the front entrance to Stores later and the front door was locked. We identified ourselves to the storekeeper in order to enter. There is an extensive area of stock at Loretta, which is not segregated from the Operations. There was a signal truck in the garage with its side storage areas unlocked that contained various small parts. The technical staff have access to material in the yards and leave an M.R. at Stores to record what they have taken.

At Loretta there are new parts that are in SAP but physically located not only in Stores but also in the operations areas. Rebuilt parts are in SAP but physically in the Operations area. Parts that are slated for but have not yet been rebuilt, and have a significant value are not in SAP and are in the Operations areas. Some inventory that is not controlled by stores is in an electronically controlled room to which six employees have access and manufactured signs are in a room controlled by Operations. Some materials from which signs are manufactured such as the aluminium extrusions are kept in Operations. New control boxes were located in an open garage. Many of these areas are accessible by a number of people. Vehicles are coming and going from the yard, making it extremely difficult to detect unauthorized removal of goods.

A list of slow moving parts at Loretta is given to Operations annually. In a number of cases, Operations will indicate that the part is obsolete but advise stores that they will keep it. For example, an obsolete Control unit will be charged to expense and then kept in the operational area and removed from the SAP inventory. Some parts are put in the scrap bin and sold for scrap. The storekeeper was uncertain who handled the disposal.

Other than min/max reports that are run daily to determine whether items should be reordered and an irregular process to flush out obsolete stock, there is a monthly report,

which is run irregularly (the last one was a couple of months prior to our visit) indicating the fluctuation in the inventory by item by location. The Program Manager General Stores holds meetings with the stores supervisors and coordinators every month and a half to examine inventory fluctuations. They analyze the volume of transactions per employee within each Store, as well as reviewing the minimum inventory levels. There is a monthly gross purchases and inventory on hand report by all locations. This report is not done by groupings. The groupings report is run two to three times per year. There is a routine report that looks at inventory turnover per employee, which is used to judge the staffing requirements for various stores.

7.4.1 Observations

1. At ROPEC the receiver puts the goods on the shelf with the assistance from time to time of the storekeeper. There is no handshake for the transfer of goods from the receiver into stock. This leaves the possibility open that the receiver could indicate that more goods were received than actually were received. The approved procedure should be followed.
2. The Receiving and Shipping functions in General Stores are not segregated, leaving open the possibility that goods received could be shipped out without authorization. The storekeeper will sometimes do the receiving.
3. The receipts and issues at the ROPEC Store are entered once a day on a batch basis rather than as received or issued. When a storekeeper gets a part off the shelf, if he notices that the physical and SAP inventory does not agree it is necessary, therefore, to go to the daily accumulation of receipts and issues to see if there have been any transactions for the part that have not been recorded. In addition, if another location is short a part that ROPEC may carry and is seeking another location with stock, the information presented by the system may be inaccurate.
4. The storekeeper at ROPEC assumes that a part is requested for a WO, when the WO number is written on the material requisition. However, the storekeeper does not see the WO and, therefore, does not know what parts may be required. There is no assurance therefore that the part is really required for the job indicated by the technician.
5. When there is a need to charge parts to a closed WO in the General Stores area, often a new WO will be opened (ROPEC), as it is less effort than getting the original WO reopened by the FSU. This may distort the costs on the original WO. The original WO should be reopened so that the part can be charged to it. Parts charged to a WO after it has been closed should have a unique transaction code and a report should be developed that captures and reports these transactions to the supervisor, Maintenance, or an independent person so they can be reviewed.
6. The Receiving and Shipping functions at Loretta are not segregated, leaving open the possibility that goods received could be shipped out without authorization.

7. There are many parts at Loretta that are tracked in SAP but are under the control of the operational area rather than Stores. It would appear that the decision as to whether a new, internally manufactured or rebuilt part is to go into Stores is based on whether there is space in Stores for it.
8. There was a defective street light fixture (Loretta) that was brought back into Stores and was being shipped back to the supplier with no internal paperwork. All items shipped back to a supplier should have a packing slip, a copy of which should go to the FSU if a credit is expected. This will ensure that the City receives the appropriate credit and that unauthorized use of parts does not occur.
9. Rebuilt control boxes or manufactured signs or signals are recorded in SAP at a fixed cost. This results in the City not knowing the true cost of the item. This information would be of value in the event the City would like to compare internal with outside costs for rebuilds or new units. In addition these items are charged to developers or sold to school boards, the NCC or the Province and the price may be inappropriate.
10. We visited the General Store at Loretta and were able to enter through a Shipping/Receiving door unchallenged and were able to walk through the "cold storage" area. There did not appear to be a storekeeper present at the time, although it was normal working hours.
11. There was a signal truck in an open garage at Loretta with its side storage areas unlocked that contained various small parts.
12. There are poles and spools of cable, which are stacked close to the fence in the upper yard at Loretta that can be removed.
13. The storekeeper makes adjustments to inventory at Loretta. This is a weakness in control as the storekeeper can make the inventory balance at any time and also put in a transaction for an unauthorized issue. The Store staff can make adjustments to inventory without authorization.
14. Some parts were identified as obsolete at the Loretta Store, but the client wanted them retained. They were then charged to Traffic Operations, removed from Stores and placed in the client's physical area. Their disposition from that point does not seem to be controlled.
15. A month end inventory valuation report is run irregularly (the last one was available two months prior to our visit).

Recommendation 24

That the City ensure that the Stores function be improved by:

- a) **Having the Receiving and Shipping functions handled by different employees where staffing levels permit. Alternatively, additional preventative mitigating controls should be implemented;**

- b) Where staffing levels permit, having the storekeeper confirm receipt of goods from the receiver and place them on the shelves. Alternatively, additional preventative mitigating controls should be implemented;
- c) Entering the receipt immediately instead of in a batch mode once a day;
- d) Requiring that the technicians at ROPEC show the storekeeper the WO against which they are requisitioning goods; and,
- e) Having the storekeeper enter the issue immediately, instead of once a day.

Management Response

- a) Management agrees with this recommendation. This recommendation will be implemented where staff levels permit, however, management believes full implementation would not be cost effective. The inventory control specialist position, which will be staffed by Q3 2008, will provide an added level of oversight by conducting reviews of: cycle counts, inventory reconciliations, negative balance adjustments and items with high turnover rates.
- b) Management agrees with this recommendation. This recommendation will be implemented where staff levels permit, however, management believes full implementation would not be cost effective. The inventory control specialist position, which will be staffed by Q3 2008, will provide an added level of oversight by conducting reviews of: cycle counts, inventory reconciliations, negative balance adjustments and high turnover rates. As well, the implementation of bar coding scheduled for Transit Material's stockroom by Q4 2008, will incorporate a process to record movement of material from the receiving location into its storage location.
- c) Management agrees with this recommendation. It is standard practice for goods receipt to be entered as soon as possible subject to client service priorities at the service counter. This approach has been reinforced with staff as a result of this audit.
- d) Management agrees with this recommendation. A procedure requiring the original work order to be produced when requisitioning goods will be implemented by Q3 2008. However, given the 24/7 by 365 day emergency response requirement at ROPEC, Supply/Materials Management staff are not always available. A procedure is in place that allows staff to remove the required materials in order to effect the necessary repairs. This procedure requires that a work order and parts allocation be reconciled immediately thereafter.
- e) Management agrees with this recommendation. It is standard practice for goods issue to be entered as soon as possible subject to client service priorities at the service counter. This approach has been reinforced with staff as a result of this audit.

Recommendation 25

That the City ensure that control over parts charged to a WO be improved by:

- a) Having the maintenance supervisor review the parts as well as the labour on the soft copy of the WO immediately prior to closing it; and,
- b) Developing a report that captures parts charged to a closed WO for review by the maintenance supervisor or an independent person.

Management Response

- a) Management agrees with this recommendation. The necessary steps are being taken to effect this change by Q2 2008.
- b) Management agrees with this recommendation. A report that captures parts charged to a closed work order is available. The Fleet Maintenance management group will provide this report to maintenance supervisors for their review on a quarterly basis.

Recommendation 26

That the City ensure that control of inventory at Loretta Store be improved by:

- a) Separating the Receiving, and Shipping functions where staffing levels permit. Alternatively, additional preventative mitigating controls should be implemented;
- b) Ensuring defective parts are not shipped or taken back to the supplier for repair without the appropriate parts return or packing slip document; and,
- c) Not selling parts identified as obsolete by Operations to them.

Management Response

- a) Management agrees with this recommendation. This recommendation will be implemented on those shifts where there is sufficient staff. The inventory control specialist position, which will be staffed by Q3 2008, will provide an added level of oversight by conducting reviews of: cycle counts, inventory reconciliations, negative balance adjustments and items with high turnover rates.
- b) Management agrees with this recommendation. This will be implemented by Q3 2008.
- c) Management agrees with this recommendation. The determination as to whether an item can be disposed lies with operational management. The process to identify obsolete parts will be revised to include escalation of issue resolution to senior management to ensure parts are not maintained in inventory longer than required. The Obsolete and Surplus Materials Policy will be revised by Q3 2008.

Recommendation 27

That the City ensure that all rebuilt parts be entered into SAP based on their actual or average cost.

Management Response

Management agrees with this recommendation. The determination of actual cost, including both parts and labour, would result in varying costs assigned to identical items. This in turn, would result in items being charged out to the client at different rates. Rebuilt parts will be entered into SAP at a fixed cost determined from actual average cost over time per unit, by Q4 2008.

Recommendation 28

That the City ensure that the following security improvements be made at the Loretta Store:

- a) **Doors to the Store to be kept locked;**
- b) **Easily moveable, outdoor stock not to be kept close to the fence; and,**
- c) **The parts storage bins in the signal trucks should be kept locked.**

Management Response

a) Management agrees with this recommendation. This is current practice and has been reinforced to staff as a result of this audit.

b) Management agrees with this recommendation. Space limitations and the securities in place (i.e., security camera systems) and yard access rights for staff are sufficient. The materials held adjacent to the fence are quite large and heavy (street light poles, channel posts, etc.) and would require a large access point to be made. The fence is surrounded with barbwire and there is no access to the side of the yard. An analysis of the options for installing motion activated cameras and lights will be investigated to enhance the ability to monitor off-hour activity, by Q4 2008.

c) Management agrees with this recommendation. TPO practice is to keep all vehicle storage areas locked when the vehicle is not in use. TPO has formalized this in an operational procedure. Staff have been reminded of the practice in writing and will be issued the policy upon completion, by Q4 2008.

7.5 Municipal Stores

As at December 31, 2006 Municipal Stores had an inventory consisting of 14,070 items with a value of \$2.68 million.

The Municipal Stores at locations such as Swansea (main store) provides 16/5 service while other stores provide 8/5 service. The mechanics at Clyde, Maple Grove, Manotick and Moodie Drive (satellite stores) work 24/5. The main store is staffed by a number of employees, whereas a satellite store will have only one purchasing/stores clerk; a mini store (Transit Stores – Belfast) is staffed by a storekeeper; and, a convenience store (Municipal Fleet – 1951 Cyrville) carries only minor supplies such as bulbs, blades, etc. does not have any dedicated stores staff. In the latter case there is a consignment

inventory. When an employee removes material, they record it on a charge-out sheet, which is sent to Swansea and leads to the replenishment of the inventory.

The stores supervisor runs a reorder report first thing in the morning and again in the evening, by location. This report is then sorted on supplier name. The supervisor reviews the suggested quantity and modifies it, as required, due to seasonality. He writes the supplier's name and a PO number against each item. If the purchase is greater than \$2,000, the supervisor obtains three quotes. The PO information is entered into M5 and the PO is then generated. The purchasing/stores clerks will order goods on standing offers or obtain three quotes. They receive the goods, stock the shelves, return goods to the supplier when required and also serve the counter. When a part is received from a supplier it will typically come in with an invoice and can be received by the same purchasing/stores clerk who raised the order. The purchasing/stores clerk has the ability to change the unit cost on the PO. Upon receipt of the goods, the packing slip and invoices are faxed from the other stores locations to Swansea where the receipt is input to the M5 system. Moodie Drive, Maple Grove, Clyde and Manotick, enter stock invoices into M5 themselves and fax the invoices to the Swansea accounts clerk. The accounts clerk at Swansea prints out a list of the entered invoices, reconciles the originals to the printouts, corrects any errors and processes them for payment. For non-stock items, the goods are received, the invoice signed and the original sent to Swansea where the purchasing store clerk enters them into M5 and gives them to the accounts clerk for payment processing.

When goods are received the part is checked and quantity verified and the mechanic determined from the WO in M5. If the part is for a job the mechanic is advised and he comes for the part. The purchasing store clerk receives the part in M5 by keying the PO number and then issues it by selecting the WO number and the system charges the part out. The purchasing/stores clerk stamps the invoice, records parts received, the vendor number, price, etc., and date received. He saves the input and verifies that it went to the WO. The invoice is filed in the invoice file, which then goes to the accounts clerk. If the part is for stock, everything is the same except that it is charged to inventory instead of a WO. The clerk stamps the invoice "Stock", prints out barcode labels with the bin and part number, affixes it to the part and the purchasing/stores clerk puts the part away on the shelf.

If the supplier ships less than was required they will accept the partial shipment. If the supplier ships more than required, they will check the usage of the part. If it is a slow mover, they will determine if the supervisor will approve a PO quantity increase. If it is a fast mover, the purchasing/stores clerk will increase the quantity on the PO without the supervisor's approval and accept the total shipment. For goods being returned, the supplier will be contacted, asked to send a credit note for the over-shipment and asked to come pick up the extra parts. The purchasing/stores clerk makes up a Parts Return

Sheet for the goods. The original invoice is processed immediately in order to allow the work order to be closed and to obtain the prompt payment discount. A copy is placed in the file until the credit note is received and processed.

Suppliers do not ship goods to the Stores when they are closed.

The accounts clerks verify tax calculations on the invoices. If correction by the supplier is required, a new invoice and a credit note will be issued for the old one.

For locations other than Swansea, Clyde and Manotick, when goods are received (notification of faxed invoice to supervisor), the Swansea supervisor generates bar codes for the parts if they are for inventory and sends them to the remote location. The invoice is coded by the supervisor and is sent to the accounts clerk at Swansea who receives the original invoice from the remote location, reconciles the two copies and uploads the invoices for payment.

If a part is to be returned as defective, a Returned Item form is prepared. A copy goes with the part and a copy goes in an alpha file awaiting the credit note from the supplier. When the credit note comes in, it is matched to the Returned Item form and if it was charged to a WO, then the expense is removed from the WO when the part is returned. The credit note is processed with the payables.

If the item is identified as a warranty return by the technician, with input from the purchasing/stores clerk, the purchasing/stores clerk contacts the supplier and advises them of the problem and identifies whether the supplier wants the part back. If so, a Warranty Return form is completed and a Parts Return form with a return goods authorization number from the supplier (if provided). The purchasing/stores clerk pulls the invoice, makes a copy of it and sends it with the part or faxes it to the supplier, if the goods are not being returned. The supplier's driver signs for the goods when he picks them up. A copy of the Warranty Return form goes in the bin to await the credit note from the supplier. When the credit note is received by the purchasing/stores clerk from the supplier, if the part had been charged to a WO, the WO is given a credit. Otherwise, inventory gets the credit. The credit note is given to the supervisor who sends it to the accounts clerk for processing.

Cores are returned either individually or in bulk, such as brake shoes. When they are to be returned individually, a "Core Label" is put on the box when the new part arrives. The label is completed with the supplier, part and invoice number. The mechanic puts the old part in the box and returns it to Stores. The purchasing/stores clerk makes up a "Core Return Sheet", places a copy on the shelf with the core and a copy in the file awaiting the core credit. Cores are not controlled in M5. When the credit note is received from the Supplier, the matching core return sheet is pulled from file and attached to the credit note. The credit note for the core is used to give the WO credit.

The purchasing/stores clerk follows up on returns that are in the bin for which credit notes have not been received.

A material requirements run, which looks for stock below minimum inventory level at each of the Store locations, is done each day by the stores supervisor, Swansea. The quantity that is to be supplied is transferred from Swansea and arrives at the satellite store with a delivery list containing the quantities of each part and labels. The goods are checked for quantity, placed on the shelf and the delivery list scrapped. No one signs for the goods and the entry for the transfer is made at Swansea.

All main and satellite stores order and receive their own goods that are not in inventory.

A section of Stores at Swansea is set up to mirror the inventory requirement at each Mini Store. When an item is used at a Mini Store they record it on a "Charge-out Sheet" which is sent to the stores supervisor at Swansea and who then sends the part out from the mirror inventory and charges it out of the Mini to the WO in M5.

If a purchasing/stores clerk requires a part for a WO quickly they will check M5 to see if the part is available at another location. If found they will email or phone the stores supervisor at the sending location to confirm the availability of the item. The transfer request will only be agreed to if it does not result in a low inventory situation at the sending location. If the transfer is agreed to the sending location will enter the transaction into M5 and the material packaged for shipment. A packing slip goes with the part, which is a copy of the computer transfer transaction made in M5. The part is delivered by City driver to the requesting location with a bar code for the part and the new bin location. The receiving location checks the quantity received but does not sign for the parts. When the part is received, the requesting location will then charge the part out to the WO for which it was requested. Alternately, some requesting purchasing/stores clerks will give the sending storekeeper the WO number and the sending storekeeper will charge the part directly to the WO and the part will be shipped out with no accompanying paperwork.

The Municipal Fleet job planner creates the work order from a defect card or the need to perform preventative maintenance on a vehicle or piece of equipment. The WO can either be for an MTO inspection (no detailed job lines), an initial inspection for non-MTO work (no detailed job lines) or specific repair work (detailed job lines). Once opened the WO is given to the fleet maintenance supervisor who is responsible for prioritizing the work based on client needs, equipment and resource availability and he then assigns it to a mechanic. If it is a repair inspection WO, the mechanic, after having checked the vehicle or equipment, will add whatever job lines are required in M5 on a terminal to which they have access.

Rebuilds in Municipal Stores are done directly for a WO for a unit and the rebuilt item is immediately put back on the unit. Any parts used are charged to the WO.

An employee can request a supply or material that is recorded on a unit/department issue form and it is sent to the fleet supervisor or delegate for authorization. A purchasing stores clerk enters it in M5 as a charge to a unit or cost centre.

When a mechanic requires a part they do not always bring a WO to the counter. The purchasing/stores clerk will look up the part in M5 to determine whether it is an inventory item or not. Fifty percent of the time the part will be in stock. Otherwise the purchasing/stores clerk will order it from the supplier. When the part is issued, it is entered as an issue in M5 by scanning the part, the WO number, and the job line number and quantity are entered into the system. The part is given to the mechanic who does not sign for it.

If a mechanic does not require all the parts, which were taken from a WO, then he will return them to Stores and they will be credited to the WO.

The municipal fleet maintenance supervisor orders their own parts at Belfast. In addition at Belfast, if a mechanic requires a part that is not inventoried, they may call the supplier and order the part directly giving the supplier the WO number. The supplier will deliver the part directly to the mechanic or to the fleet maintenance supervisor who signs for it.

In Municipal Fleet, when the mechanic has completed the work, the WO goes back to the supervisor, who will review the work and parts used, close the WO in M5 and throw away the hard copy, except for work on ambulances where the hard copy is filed. The job planner does not review past work.

If a municipal fleet storekeeper determines that a part was not charged to a WO, he can charge the part to a closed WO by using the terminals in stores that access M5 that are not typically used for stockroom counter entries.

If an operator requires a blade for a snow plow, he would advise one of the two fleet supervisors, a "Unit Issue Form" would be completed and approved and the truck would be taken to Industrial for the new blade with the old one going into the scrap bin. A supervisor may not have inspected the old blade.

Most stores operate 8/5 and some 16/5. When the stores are closed they lock the counter doors. If a mechanic requires a part when the stores are closed, they go into the store using their electronic access card and record what they take on an M5 "Down Requisition form", which is left in a binder for the purchasing/stores clerk to enter the

following morning. At Swansea there was no camera on the door of the Stores but there was one in the hallway.

They carry small quantities of flammable material, which is stored on the shelf.

We visited the Swansea Stores where all doors were locked and the auditor was required to identify himself in order to get in. No mechanics were seen in the stores.

The Manotick Stores were visited and in that location both the front and back doors of stores were open and non-stores personnel entered the stores, at will, several times during our visit.

During interviews, staff has informed us that throughout the year adjustments are made to the stock levels from time to time when a storekeeper goes to get a part and notices that the correct quantity is not on the shelf. They would email or verbally inform the supervisor. If the difference is small he will make an adjustment. Otherwise, he will run a parts journal to review the activity and look for an undercharge or over-issue to a WO to see whether parts were charged improperly and then charge them out appropriately. If the source can be determined he will consult with Fleet Services and adjust the charge to the WO. Stores can charge to a closed WO and Fleet Services would likely not be aware of this. If the source of the difference cannot be determined, the supervisor will make an adjustment to inventory and send an email to that effect to the program manager. The adjustment is a credit/debit to inventory and a debit/credit to the relevant cost centre. If adjustments are made they are supposed to advise the inventory analyst who would review the adjustment to determine if it looks unusual.

They do a physical inventory at year-end at Swansea. The stores clerks are given a count sheet with what they are to count and they record it on the count sheet. The supervisor, inventory or business analyst enters the data from the count into M5. A variance report is then run and another team does a secondary count if there are differences. The final variances are reviewed and adjustments are made to the inventory and a report, which goes into a file, is produced of the adjustments. During interviews, we were informed that the storekeeper at Manotick is given a number of items to count each month by the supervisor. If there is a big difference, the supervisor will look for the problem. Otherwise, he will simply adjust the inventory.

However, it is management's belief that the supervisor will always investigate prior to making an adjustment.

Municipal Stores plans to implement cycle counts.

It is the inventory analyst's responsibility to reconcile the Municipal Stores inventory. During interviews, we were informed that it does not reconcile. In 2006, the year-end inventory adjustment report was run by the stores supervisor not the inventory analyst.

Lead times for parts for specialized vehicles have an impact on the level of inventory and therefore the turnover. However parts for normal automobiles, vans, pick-up truck etc., are readily available and minimal inventory appears to be retained, as many parts are ordered in these cases, as needed.

Suppliers provide a list of fast moving parts but do not provide the lead-time for them. This has to be requested by individual item. Lead times vary by item from the same supplier.

Supply Management Division participates in a monthly meeting with Technical Services where they discuss upcoming disposals for up to a year and a half ahead. The disposal process is that any parts that can be returned to vendors for credit are returned. The balance of the items is gathered in one shelf area at Swansea and shrink wrapped. Then sealed bids are solicited and brought to Supply by interested parties. They do not post it on MERX. Payment is received from the successful bidder. They are taken out of the inventory by adjustment entries supported by notes. The final disposal list is prepared by the stores supervisor and signed off by the buyer when the client takes the parts.

The first formal review for obsolete inventory at Swansea was done in April 2007. They now intend to annually identify parts that have not moved in two years, whether they be for purchases or issues. The potentially obsolete parts are removed from their normal location to a separate area and the list is sent to fleet supervisors for review to determine if they are needed. Any that are still required are returned to their normal shelf location. Management indicated that potentially obsolete parts are not removed from their location until the list is approved. M5 has a field available in the system to record other unit types on which a part might be used. However, the feature is not being used. It should be noted that they are able to run a history report on a part to see if it has been used on another unit type. For the balance, the suppliers are contacted to see if they will take the parts back for credit. This occurs frequently as there is still a general public market for the items. There is no process to mark items, which had been selected for disposal by Supply and rejected by Fleet with a reorder caution. However, they may be identified when they reach the minimum stocking level. Sometimes the minimum stocking level is reduced as well on these items.

During interviews, we were advised that supervision and management staff do not run monthly or quarterly reports that assess the inventory and look for unique or anomalous conditions that might require further investigation. At the time of the audit,

the auditor was informed that in the past there had been additional analysis M4 reports but that these were not yet available in M5.

Other than min/max reports that are run daily to determine whether items should be reordered and an irregular process to flush out obsolete stock, the auditor was not made aware of any inventory turnover reports.

Fuel is inventoried at 27 sites, 15 manual dip measurement sites and 12 computerized/electronic dip tank sites, across the City for the Municipal Fleet. As at December 31, 2006 the fuel inventory had a value of \$0.41 million.

Each morning all locations read the meter on their pumps and record it on the Daily Fuel Product Inventory Sheet. Those that have an electronic fuel metering system obtain a printout from it showing the volume in the tanks. Otherwise, manual dip readings are provided. These are faxed to the inventory analyst at Swansea. Fuelling stations that are run by Fleet for the most part will not provide this information (according to the fuel inventory analyst). Fuel is ordered by the fuel inventory analyst at Swansea, based on the computerized/electronic dip tanks (12 sites) and manual dip measurements (15 sites) and fuel pump readings received from the various locations stocking fuel. The fuel supplier either has the keys for the fuel tanks or comes in to get them. The fuel is dropped and the driver produces a load sheet, which he asks someone in Stores to sign. At Swansea, if the facility is closed, a driver calling Corporate Security from the gate can deliver fuel after hours. The driver has the keys for the tank fillers and leaves a drop sheet in the mailbox. The facility has an electronic measuring system, which could tell how much fuel was delivered, but the system is not always working. At locations where there is fuel and no stores clerk, anyone is asked to sign the load sheet. These load sheets are sent to the fuel inventory analyst at the Swansea Stores.

Fuel is self-serve at all sites. Staff uses their employee and vehicle electronic cards where the computerized equipment is available. The computerized system will only dispense the type of fuel that the vehicle whose electronic card is entered can use and will also limit the amount of fuel to the capacity of that vehicle's tank. Where there is no computer system, staff record the vehicle number, number of litres and mileage, but do not record their employee number or sign for it.

Some electronically controlled fuelling islands are located in uncontrolled areas. These islands (e.g., Industrial) do not have any cameras on them and so it would be possible for someone at night to fuel an unauthorized vehicle if the staff person had a vehicle identity card. Manual fuel pumps (e.g., Metcalfe) are left unlocked during operational times. It may be possible for a staff person to fuel an unauthorized vehicle.

When bulk fluids are required they are taken by the mechanic, (e.g., Manotick) and written on the WO. The storekeeper balances the bulk fluid once per month and indicated they are usually out by about 10%.

7.5.1 Observations

1. There are too many functions such as ordering, receiving, issuing, transfers, core and warranty returns vested in the same job function with no segregation of duties. The purchasing stores clerk can also increase a quantity or change a price on a PO without the approval of the supervisor. This lack of segregation is poor internal control and can lead to the use of parts or materials for a benefit other than the City's.
2. During interviews, we were informed that credit notes for supplier corrections for sales tax errors (e.g., parts for ambulances) could not be input into M5 due to an implementation problem with the system. In the meantime, the credit notes are being accumulated and the costs charged to the WO will have to be corrected. This will require a stock returned transaction for the incorrect entry and an issue transaction for the correct amount.
3. If a part is required for another location the sending location may transfer it into the other locations inventory or charge it to the WO number. The part is sent out with no paperwork. No confirming transaction or signature is obtained when it is received at the other end.
4. The municipal fleet maintenance supervisor at Belfast can order their own parts. The maintenance supervisor or mechanic may receive the parts directly from the supplier. Parts, materials and supplies expensed through Belfast in 2006 was approximately \$0.3 million. There is inadequate segregation of responsibility to provide controls over the use of parts.
5. The mechanic does not always bring his WO with him when obtaining parts. In addition, the storekeeper will give parts to a mechanic even though the job line for that part is not on the WO. Showing the WO and the fact that a job line for the part is on the WO is a form of control to ensure that the parts are being used for the benefit of the City. Therefore, the purchasing stores clerk has no way of verifying the need for the part. This could result in parts being used for the benefit of other than the City.
6. The storekeeper enters his employee number when he enters the parts issued. However, the system will allow him to enter anyone's employee number. A password or badge scan should be required. The system should be able to accurately report who dispensed the parts.
7. The mechanic and storekeeper do not sign for parts issued. A "handshake" (e.g., badge scan) on both sides of the transaction firms up the responsibilities for the issue.

8. There is no requirement for the mechanic to bring the removed parts back to the Municipal Stores. They are placed in bins in the garage. Bringing the removed parts back to Stores can be an effective means of ensuring that only parts that are replaced are taken from Stores. However, some parts may be too big to bring back to Stores and this process may take additional time. The storekeeper would verify that he has received them and put them in a core, scrap, or warranty location, as appropriate and with the correct documentation.
9. Sometimes there is difficulty identifying a warranty item, as part serial numbers are not input into M5. This may result in a defective part, which should be claimed under warranty being replaced at the cost of the City.
10. Credits for warranty returns go back to the same person who initiates the return. There should be segregation of responsibility here for better control.
11. During interviews, we were informed that municipal fleet mechanics could add job lines to a work order. If the maintenance supervisor reviews the WO for the repair and parts used after it has been completed then there is sufficient control. However, we found evidence that this is not done at least from the point of view of parts. In reviewing some WOs, we found one example, (on work order, #99091) where 47 litres of oil was charged to an automobile.
12. A municipal fleet job planner (Swansea) advised us that most often he does not look at the prior history on a vehicle when preparing the WO. This misses another opportunity to review the parts that were charged to a WO to determine whether goods are being diverted from the benefit of the City.
13. During interviews with staff, it was identified that in some cases parts could be charged to work orders that have already been closed in M5. For example, the purchasing/stores clerk has the ability to charge to a closed work order, unit or cost centre using a terminal in the Stores. Management have indicated that M5 possesses reporting capabilities which would enable them to review charges made to closed WO, the date the change was made, the username processing the change, as well as the reason for the change. However, at the time of the audit, we were not made aware of any reports that are produced from M5, which would indicate that charges had been made to a closed work order or cost centre. Producing such a report would provide an opportunity for the supervisor or an independent person to review and ensure that there were no unauthorized parts charged by Stores. We attempted to quantify the extent to which this was occurring by reviewing the parts issue between January 1, 2006 and March 30, 2007. During this period, there were parts issued against 22,500 work orders, with a total value of \$6.1 million. We noted over 5,400 instances, with a net value of \$89,000 where parts were issued (\$311,000) or adjustments (\$222,000) made against a closed work order. Engine oil appeared to be the item most often charged against a closed work order. Almost 900 litres of 10W30 and 15W40 were charged to work orders after they had been closed. Belfast garage

was the area where a charge to closed work orders occurred most often, in 1,976 or 36% of the instances that were found. The net value of all charges at Belfast garage amounted to over \$145,000.

14. We found that when a new blade is required for a snowplow, the supervisors do not verify that the old one was no longer good nor does anyone sign for the new one.
15. We found the entry to most stores were controlled except at Manotick, Rideau Valley Drive, where the front door and receiving door to the stores were left open and non-stores people were entering the stores; and, at Moodie Drive, where we were able to access the stores after hours (no one on duty) by simply entering the garage. We observed that when the Manotick storekeeper was on the phone, a mechanic came in and took some parts from the shelf and left. When we questioned the storekeeper, he indicated that the mechanic would be writing the part in his requisition book, which he would give to the storekeeper at the end of the day for entry into M5. The information written in the book is the mechanic number, work order, unit and part numbers and no date.
16. When a part arrives at Manotick that has been ordered for a specific WO, it is put on a shelf by the open door and the mechanic retrieves it and does not sign for it.
17. The storekeeper at Moodie Drive Stores indicated that mechanics are taking parts from stores after hours or parts that are located in a non-stores controlled area without them being recorded at that time and, at times, they are not recorded at all.
18. Correcting entries for stock items are done by the supervisor and can be done for any site. The position performing correcting entries should be segregated from the position reviewing those entries.
19. Suppliers do not provide a list of lead times for parts and this could lead to overstocking of new parts.
20. Fuelling stations that are run by Fleet Maintenance, at times will not provide fuel issue and balance information to the inventory analyst. This makes it difficult to order the appropriate amount of fuel and impossible to reconcile, thereby weakening controls.
21. The electronic system that measures the fuel does not work all the time. The totals on the pumps at many locations do not match what the electronic measuring system indicates. The supplier frequently changes the mechanical device that feeds the computer. Therefore, the controls are either incorrect or ineffective.
22. Fuel is delivered to Swansea when the facility is closed. There is no means to properly verify the receipt.
23. Some City pumps track temperature-adjusted volume and others do not. Therefore temperature cannot be taken into account when reconciling fuel and it is the temperature-adjusted volume that the fuel company charges.

24. We witnessed unlocked pumps during times when the facility was staffed where there was no computerized fuel system, staff was taking fuel, recording the vehicle number, number of litres and mileage but did not record their employee number or sign for it.
25. Total fuel issued in 2006 was approximately 177,000 litres or 3% less than the total fuel consumed of 6.7 million litres based on the volume for which the City paid.
26. An analysis of the movements in the Municipal Stores could not be done with the database provided.

Recommendation 29

That the City ensure, when staffing levels permit, that the purchasing/stores clerk function at the main stores at Swansea be segregated into different functions in order to provide improved internal control. Alternatively, additional preventative mitigating controls should be implemented.

Management Response

Management agrees with this recommendation. A re-evaluation of business processes, including the segregation of the purchasing and stores clerk functions where staff levels permit, will be undertaken as part of the migration to SAP. The inventory control specialist position, which will be staffed by Q3 2008, will provide an additional level of oversight by conducting reviews of: cycle counts, inventory reconciliations, negative balance adjustments and items with high turnover rates. The business process implementation will be completed in Q1 2009.

Recommendation 30

That the City ensure that only the function issuing POs be provided the authority to alter the quantity or unit cost and that function be separated from the Receiving function.

Management Response

Management agrees with this recommendation. The process will be changed to require either the function issuing POs, or the supervisor, to make all changes to a PO, by Q2 2008.

Recommendation 31

That the City ensure that M5 functionality is used to process, on a timely basis, credit notes.

Management Response

Management agrees with this recommendation. This is current practice. The instance noted by the auditor was a result of the recent migration to M5 and is not indicative of normal operations.

Recommendation 32

That the City ensure that controls over transfers be improved by:

- a) Allowing transfers only through clearing accounts;
- b) Ensuring the goods are accompanied with documentation; and,
- c) Having the goods signed for on the receiving end.

Management Response

- a) Management agrees with this recommendation. Since M5 does not allow the use of a clearing account, this will be investigated as part of the migration to SAP to be complete by Q4 2008.
- b) Management agrees with this recommendation. This recommendation has been implemented.
- c) Management agrees with this recommendation. There will be an electronic receipt done within SAP following implementation of SAP by Q1 2009.

Recommendation 33

That the City ensure that Fleet Maintenance staff not be allowed to order or receive their own parts directly from the supplier.

Management Response

Management disagrees with this recommendation. Stores staff are not present at all fleet locations and on all shifts. Fleet staff order materials through standing offer agreements and approved purchasing processes. Financial Services performs systems receipt and provides oversight by verifying compliance to the Purchasing By-law. The additional FTEs required to comply with this recommendation would not be cost effective.

Recommendation 34

That the City ensure that:

- a) Mechanics be required to bring their WO with them when requisitioning a part from Stores;
- b) The part be recorded immediately on the WO soft copy; and,
- c) Both parties be required to have their employee ID cards scanned as confirmation of the issuer and receiver of the parts.

Management Response

- a) Management agrees with this recommendation. This practice has been consistently applied through Municipal Fleet stores as a result of this audit.
- b) Management agrees with this recommendation. It has always been our practice that parts are recorded as soon as possible on the electronic work order subject to client service priorities at the service counter.

c) Management agrees with this recommendation. Initial discussions with Corporate Security have identified the potential for the employee ID card to be used. This solution will require further analysis to determine feasibility and will require completion of the IT intake process, including the development of a business case, in order to proceed. The feasibility study will be initiated by Q4 2008 and the funding requirement will be identified and requested in the 2010 budget.

Recommendation 35

That the City give consideration to the pros and cons of having the mechanics return the removed parts to the storekeeper immediately on completing a job.

Management Response

Management agrees with this recommendation. An evaluation of the pros and cons will be undertaken by Q4 2008.

Recommendation 36

That the City ensure that warranty returns be tracked in M5 and credit notes for warranty returns be sent to the accounts clerk who would match it with the warranty return form on file.

Management Response

Management agrees with this recommendation. This is current practice, however, it will need to be reviewed for implementation during the migration from M5 to SAP by Q4 2008.

Recommendation 37

That the City ensure that the maintenance supervisor reviews the parts as well as labour on a WO prior to closing it.

Management Response

Management agrees with this recommendation. This is current practice.

As noted within the report, the auditor is correct in identifying an error on work order #99091. The 47 litre entry on this work order was an error made by the technician as he touched the #4 and the #7 key directly above on the keyboard, at the same time, when attempting to enter a quantity of 4 litres, not 47 litres.

Recommendation 38

That the City ensure that a distinct transaction code be used when parts are charged to a closed WO.

Management Response

Management agrees with this recommendation. The existing transaction codes are coupled with a unique identifier that establishes that the transaction is against a closed work order, therefore, it is not necessary for distinct transaction codes to be

created for closed work orders. The system generates reports, which clearly identify any closed work orders where part charges were applied. The interface between SAP and M5 may need custom development to implement a seamless process and, therefore, will require completion of the IT intake process, including a cost benefit analysis. This review will be initiated by Q3 2008, following which, additional funding requirements may be identified and requested in the 2010 budget.

Recommendation 39

That the City ensure that the doors to the stores at Manotick be kept locked.

Management Response

Management agrees with this recommendation. This is current practice and has been reinforced to staff as a result of the audit.

Recommendation 40

That the City ensure that the parts at Moodie Drive that are not within the custody of stores should be moved into stores.

Management Response

Management agrees with this recommendation. The issue of bringing the remaining parts into the custody of stores is limited by the physical configuration and space availability. To implement this recommendation would require the re-allocation of space within the existing building footprint. Financial Services is investigating the potential of reconfiguring space including acquiring portable units to contain these parts. Enhanced security such as motion-activated security cameras will be investigated by Q4 2008. Funding requirements will be identified in future budgets.

Recommendation 41

That Municipal Stores proceed with their plan to implement cycle counts.

Management Response

Management agrees with this recommendation. This recommendation will be implemented where current staff levels permit, by Q1 2009, following the migration to SAP and the completion of bar coding implementation.

Recommendation 42

That the City ensure that a list of spare parts required for specialized vehicles with the lead-times for each part be required from the supplier as part of the Request for Tender process.

Management Response

Management agrees with this recommendation. Fleet Services already includes the requirement for a list of spare parts in the tender specification. The addition of lead-time as a requirement has been implemented.

Recommendation 43

That the City ensure that:

- a) The fuel suppliers load sheet not be accepted as proof of delivery; and,
- b) Manual fuelling stations be kept locked and staff taking fuel should be required to record their employee number and sign for the key and fuel.

Management Response

a) Management agrees with this recommendation. The delivery slip is not accepted as proof of delivery. Our own orders, tank dips and meter readings are used to verify receipt of product (three-way matching). We compare our information to the suppliers load sheet and challenge the supplier when a difference approaching 0.5% is noted, as this is the industry accepted device accuracy tolerance for measuring volume, according to Measurements Canada.

b) Management agrees with this recommendation. This has been City practice since amalgamation. When staff use these manual sites, they are required to fill out a form indicating the date, vehicle number, quantity and type of fuel used as well as their name.

Currently only two manual fuel stations remain in the system. One is a KeyTroll (tm) system at the John Shaw location. The other is fully manual at the Scrivens Rd location. The KeyTroll system is essentially locked in that a special key (issued to a specific vehicle) is required to activate the pumps. Surface Operations branch personnel shut off the power to the manual station when the last person leaves, effectively disabling the system when unattended. Both these sites are scheduled for upgrades in 2008, and at that time, will be automated and added into the existing electronic (Coencorp) control system. New fencing and electronic access gates are in the Corporate Security work plan.

7.6 Transit Stores

As at December 31, 2006 Transit Stores had an inventory consisting of 27,342 items with a value of \$15.34 million.

Stores service is provided during the entire period that maintenance operates.

Stores are locked when they are not open for business. Receiving at St. Laurent closes at 16:30 and the doors are locked. There is no camera covering the Receiving area.

We visited the Pinecrest Store on the night shift. All doors were locked and the auditor had to identify himself to the storekeeper in order to get in. We visited the St. Laurent South and Belfast Stores during the day shift. The front door was locked and we were required to identify ourselves in order to get in. The receiving door at St. Laurent South was opened and when we entered staff challenged us. We visited the Boyd Building Stores after 16:00 and were able to enter even though there was no storekeeper there.

During that visit we noticed a maintenance person enter by the shipping/receiving door and remove a transmission.

Suppliers only ship when the stores are open.

The St. Laurent South Stores is the only one that receives goods directly from suppliers. There is a separate receiver and shipper function there. The stocking of the shelves is not well segregated. The issuing function is separate from receiving and shipping.

At the other Transit Stores there is no segregation between the functions. However, the only goods that are received or shipped in the other locations are internal transfers.

Goods are received with a packing slip from the supplier. If there is no packing slip, the receiver will contact the supplier to obtain one. The PO number is obtained from the packing slip and that is entered into SAP and a description of the part and quantity ordered is obtained. The receiver confirms that the part and quantity is correct. He enters the receipt into SAP, stamps the packing slip, records the SAP document number, and date received on it. He then posts the receipt in SAP, which allows the invoice to be paid when received. The packing slips are sent to Accounts Payable (A/P) the following day. Labels are printed out of SAP and placed on the parts.

If the receiver were to select the wrong items for the receipt there would be a mismatch between the packing slip and the invoice when it comes in and A/P would contact him to resolve the discrepancy.

If the goods were over-shipped he would contact the buyer/expeditor who may decide to retain the extra parts (if usage volume merits it), in which case the buyer/expeditor alters the quantity on the PO and instructs the receiver to receive the goods. Otherwise he will instruct him not to receive the excess goods, in which case the receiver will receive the total and immediately create a transfer document for the additional quantity so that they are not shown as available in stock. Then a packing slip is created to ship the extras out and they are returned to the supplier. The transfer document and packing slip are attached and await the credit note, which the buyer/ expeditor has arranged for the supplier to send.

The received material is placed in baskets on a trolley, which is taken into the store by the receiver and placed on the shelves either by him or a storekeeper. There is no sign off for the goods received into the stores by the storekeeper. The receiver records the receipt of the goods in their stockroom shelf location.

Supply or asset items can also be received which are not charged into inventory. If these goods arrive for the office, they are sent to the front door to be received by an RPAM

employee who verifies them against the packing slip and PO and forwards them to the requisitioner.

There is a separate shipping function at the St. Laurent stores.

If parts are received damaged from a supplier, the buyer/expeditor is advised. He contacts the supplier and arranges for a replacement part to be shipped and a credit note issued by the supplier for the defective part. The packing slip is held until the replacement part and credit note is received.

Shipments are either the result of a receipt, which has just occurred, in which there were excess or defective parts, or they come from the office in which case a packing slip would be generated authorizing goods to be shipped out. The packing slip is distributed to the originator, to the shipper, to Accounting and a copy goes with the goods. The packing slip indicates who is to come to pick up the goods, and who pays for the shipping. The shipper prepares the item for shipment, labels the skid or package, makes the arrangements, gives the carrier a call tag number, writes the tracking number on the packing slip, prepares the waybill and writes the tracking number on it.

Before the goods are shipped out, if the shipper did not package the goods the box is opened and the contents are verified.

When the carrier arrives for the goods, they give the shipper the call tag number and the shipper locates and gives the carrier the goods and has them sign the packing slip as a receipt of the goods. UPS does not sign for the goods but gives the shipper a call number, which is recorded on the shipper's copy of the packing slip as proof of the pick-up.

A report is run in SAP each night that examines the inventory level of parts in each Store in relation to the minimum inventory. The system assumes that the quantity of parts required to bring the inventory back to the maximum level will be provided by St. Laurent South, the supplying stockroom. This is then accounted for in St. Laurent South's stock to determine which items have reached the minimum inventory level and require ordering. A list is run in the morning at St. Laurent South stores. One of the storekeepers at St. Laurent Stores is assigned the responsibility for transfers. The storekeeper, transfers reviews the recommended parts to be transferred to the other stores from St. Laurent South and finalizes the list. A transport order is prepared on which he writes the bin number from SAP and the quantity of each part that is being sent out. The document is used as a pick list. The parts are put in a coloured bin, identifying each of the receiving Stores, with a copy of the transport list. The sending storekeeper, transfers enters the transfer (transaction type 351) and files a copy of the transport list. If the sending storekeeper, transfers wants to send more than the quantity specified, he has to do so with another SAP transaction type (301) as the transport list

will not allow an excess quantity. When the goods are received the receiving storekeeper enters the receipt, which is a confirming transaction code that clears it from the clearing account. The 301 transaction type does not use the clearing account and does not require a confirming receipt.

Transfers are also made by an email request to the storekeeper, transfers. In this case, he will receive an email requesting a specific quantity of a certain part. He determines if there is sufficient quantity to do the transfer and if so will pick the part, charge it to the other Store with a 301 transaction code, or may alternatively charge it directly to the WO. The part is put in the transfer bin with a copy of the transfer form and the parts are taken to the requesting garage by the Transit parts truck. When goods are transferred from one Store to another in this manner, there is no handshake by the receiving Store. If the part being received is incorrect and it is not stocked in the receiving Store, it will not be entered by them and will be returned to the sending Store.

Transfer requests are also made from one storekeeper directly to another storekeeper. In this case, the sending storekeeper will either transfer it directly into the other Store's inventory (301) or charge it directly to the WO. When the part is physically transferred, a copy of the print screen of the entry is sent with the part on the Transit parts truck or the requesting garage will send a garage attendant to pick up the part if there is an urgent need. If the garage attendant is picking it up, he will have a copy of the WO or email with him. There is no confirming SAP transaction and no one signs for the part.

If dangerous goods are being transferred a transportation of dangerous goods packing slip is prepared and is placed on the carton and a dangerous goods report is prepared which is sent with the goods.

The Transit Fleet job planner creates the WO from a defect card or the need to perform preventative maintenance on a vehicle. The WO can either be for an MTO inspection (no detailed job lines), an initial inspection for non-MTO work (no detailed job lines) or specific repair work (detailed job lines). If the WO is for an initial inspection, then the mechanic will record their findings on the WO and bring it back to the Supervisor for review, approval and entry of the job lines. If it is for specific repair work, then the job lines will be input on the WO by the job planner before it is given to the Transit maintenance supervisor. The SAP part number may be put on the WO when it is created. For an MTO inspection, the mechanic will prepare an MTO Inspection Deficit Sheet. During interviews, we were informed that often the list of work required on an MTO inspection is quite extensive and so the job planner on the night shift will enter the job lines after the work has been completed. When preparing a WO, the job planner has an opportunity to review the prior work history on that vehicle by WO.

Once the job planner has opened the WO, it is given to the fleet maintenance supervisor who is responsible for prioritizing the work based on client needs, equipment and

resource availability, and he then assigns it to a mechanic. If it is a repair inspection the mechanic brings the WO back to the supervisor after he has inspected the vehicle, with a description of the work required. If the supervisor has confidence in the mechanic, he will not inspect the job and will enter the job lines on the WO in SAP and give the WO back to the mechanic. Otherwise he may first inspect the repair work.

When the mechanic comes to the stores for a part, if the part number is not on the WO, the storekeeper will look it up on SAP and determine its shelf location. He will get the part, select the job line on the WO in SAP and record the part number, the quantity issued, the mechanic's employee number and then post it. The mechanic does not sign for the parts.

When parts are taken from Stores on a WO, if the mechanic does not need all of them, he will return them to the Store for credit on the WO unless he thinks he may need the parts the next day (mechanic Pinecrest). We did not see an excess of parts lying around the shop floor or mechanics' tables, other than items such as low cost, high volume fasteners, etc. The storekeeper examines the part to make sure it is not damaged, scans or types in the part number and reverses it against the WO. If it is damaged or no good, the storekeeper will tag it as damaged have the Transit Fleet maintenance supervisor signs the tag, reverse the issue against the WO and assign it to a special location code "1301" which is for unusable inventory. The part is then put in a special bin, which ultimately goes to a special area in shipping at St. Laurent South. If it is a warranty issue, it will be set up against a different code in SAP, have a different tag and be sent to another location in shipping.

The mechanic would not know if the part removed was a warranty issue unless it was from a new bus. For older buses, it would be necessary for Fleet Maintenance to examine the history of the repairs on the bus to see if the defective unit was replaced recently. When Fleet Maintenance determines that an item is a warranty return, they place a special coloured tag on it. They are accumulated in a bin and sent over to the Boyd Building where they are sorted into supplier groupings. They are then itemized on a packing slip and sent to the supplier for a credit note. There is no SAP entry for these returns. However, Stores follows-up with the FSU to ensure that the credit note is received. Cores also receive a credit note from the supplier.

For new buses (less than one year old), Fleet Maintenance identifies items that are warranty, packages them for return to the supplier and provides them to Stores to ship out.

Cores and tire casings are collected on the shop floor and then transferred to the Shipping area at St. Laurent South. When transferring from other garages, they do not come with paperwork. They are not examined by the Shipper and are taken over to the Boyd Building. The Cores are sorted by the Boyd storekeeper by supplier and

packaged. Twice a month the list of the cores is sent to the buyer/expeditor, who contacts the supplier to determine what they will take back. At times the supplier will not take back all the cores that Stores has. The buyer/expeditor will mark up the list with the quantity that should be shipped back to the supplier, prepare a packing slip and send it to the Boyd Building storekeeper. When the supplier arrives to pick up the cores, they sign the packing slip.

Transit Fleet controls the cores and they currently have no value assigned to them in SAP. There is, also, no value assigned to tire casings and none is included in the inventory system. However, they are retained in a controlled area.

When the work is completed, the mechanic returns the WO to the supervisor who reviews the work done on the WO and the time it took. He does not review the parts used. He then passes the WO on to the job planner. The job planner enters the mechanics number, the date the work was done and closes the WO, after which no parts can be charged to the WO. The job planner will not look at the WO after it has been closed.

If a Transit Fleet storekeeper determines that a part was not charged to a WO and it is closed, the job planner is asked to reopen the WO. He then charges the parts to the WO and advises the job planner he is complete, after which the job planner will close the WO. The job planner does not check to see what the storekeeper charged to the WO. The Transit Fleet storekeeper cannot make inventory adjustments in SAP. It requires specific system permission to do this.

SAP does not have one report for disposals. To arrive at the preliminary disposal list several reports are run. They first look at the last issue date of an item. A cut off date is obtained from the program manager Transit Stores. This is then used to produce a list by stocking location, and then material type and group are added.

The list is broken into groupings, which is circulated to the Transit Fleet maintenance supervisors for review and to determine whether the parts can be disposed. The report is updated with Fleet's response. The shortened list is then circulated to other departments to see if they can use them. No one has ever been interested in the parts. The items that are proposed for disposal get an immediate "ND" (do not reorder) in the system. The list is then given to the manufacturers to see if they will buy them back. Some have been bought back at 25% of the original cost. During interviews, we were informed that other transit systems authorities are not asked if they are interested, because in the past, by the time the parts were ready to be disposed of, no one else was interested. The remaining list goes to procurement who prepare a MERX posting. When a buyer is identified and they have paid, the parts to be disposed are gathered from the shelves. If some were used in the meantime, the buyer pays the same price.

If an item is rejected for disposal, they do not stop the ordering of the part, nor do they reduce the minimum inventory quantity. It may, however, still be identified for non-reorder when the materials requirement planning person gets a unit proposed for reorder by the system.

There is a long-term planning process for bus disposals, but this could be better integrated with stores, which would allow for better inventory planning.

SAP does not have a field for an assembly in which a part may be used on other bus types that may require the part. This feature would be of assistance if one bus becomes obsolete so as to identify parts that may still be required for another series of bus.

In February 2007 a potential disposal list of 3,200 items was produced which at the time of our visit had been partially reviewed by Stores staff and reduced to 1,389 parts for St. Laurent South Stores only. The last disposal process in 2006 resulted in only 713 parts out of an original list of 2,366 being approved for disposal. The book value of the disposed inventory was approximately \$0.26 million and was sold to the department and transferred from inventory for approximately \$8,000.

When defective items are removed from a bus they are accumulated in a collection bin. The mechanic would not know if the part removed was a warranty issue unless it was from a new bus. For older buses, it would be necessary for Fleet Maintenance to examine the history of the repairs on the bus to see if the defective unit was replaced recently. When Fleet Maintenance determines that an item is a warranty return, they place a special coloured tag on it. They are accumulated in a bin and sent over to the Boyd Building where they are sorted into supplier groupings. They are then itemized on a packing slip and sent to the supplier for a credit note. There is no SAP entry for these returns. However, Stores follow-up with the FSU to ensure that the credit note is received. Cores also receive a credit note from the supplier.

When new or recapped tires are received from the supplier they are delivered to the Boyd Building where they are counted by the stores clerk who signs for them. The packing slip is given to the stores clerk at the Boyd Building who is responsible for tires and who inputs it into SAP inventory. The serial number of the tire is not entered into SAP. There are two part numbers for new tires and two for recap. Tires recaps are recorded into inventory at the recap cost. No value is assigned to the casing. If any of the tire casings that had been sent to the supplier for recapping could not be recapped they are returned to the stores clerk who marks them scrap and records the tire serial number and reason for scrapping on the tire scrapping sheet and gives it to the stores clerk.

When tires are required for service they are issued against a general WO and then a separate WO is raised when they are mounted on a bus.

If new tires or recaps are required from the Boyd Building Stores, the tire mechanic arrives with a WO indicating the number of tires required. The storekeeper gives him the tires and enters a 261 transaction (goods issued to order) in SAP. When the tires are mounted on a bus they are charged to the bus WO. Tires are also transferred directly to the tire shops at other garages.

Major rebuilds such as engines, transmissions and differentials are stored at the Boyd Building. However, they are not entered into SAP and no paperwork comes with them when they are brought to the Boyd Building. When major rebuilds are removed from the Boyd Building, Fleet Maintenance comes to get the part with no paperwork. After hours they are supposed to bring a storekeeper with them. Minor rebuilds are sent to the Shipping area at St. Laurent South with a WO. They are verified by the shipper and then sent over to the Boyd Building. The storekeeper verifies the quantity, racks them, and gives the forms to the Stores clerk, rebuilds, who enters them into SAP. These rebuilt units are arbitrarily evaluated at 65% of the cost of a new unit.

If a minor rebuild or a new part is required that is located at Boyd Building an email is sent to the Boyd Building storekeeper who records which location it is being sent to and a fork lift operator takes it over with a copy of the email. No one signs for the part. The requesting storekeeper records the issue in SAP.

At the beginning of each year a list is prepared of the quantity and value of each part in inventory. This is sorted by total dollar value and cycle counts for the year are drawn from this list starting from the largest dollar value item. The senior stores clerk, cycle counts, selects 30 part numbers that are to be counted each week at each location by each storekeeper. The list is emailed to each storekeeper (receivers are excluded), who are to email the quantity counted for each part back to the senior stores clerk on a daily basis. The senior stores clerk, cycle counts enters this into SAP, which calculates the difference in quantity and dollar value. If there is a difference between the physical and book inventory of \$50 or 50%, prior adjustments or movements, they are reviewed to identify whether a recount is required. If so the storekeeper in charge or supervisor is requested to do the recount. This approach results in 160 items being counted each day. Each item is counted a minimum of once a year with higher value items being counted twice yearly.

In March 2007 there was a variance between book and physical inventory in 26% of the items counted. This dropped to 11% in April. Caution should be exercised when reading these numbers as the persons who are counting the items also have access to the book records. If their count matches the book record, there is no further investigation.

If a storekeeper, when filling an order, notices a difference between the physical and book inventory, an email is raised with a stock adjustment request, which is sent to staff at St. Laurent who will investigate it and/or make an adjustment.

Lead-times play the most significant part of setting the inventory levels, as most manufacturers do not provide volume discounts. However, lot or package size do impact the quantities ordered. Items bought from bus manufacturers take 6-8 weeks to receive. Management have indicated that bus suppliers do provide lead-times for various parts. Lead-times vary for different parts within the same supplier. When a new bus is purchased, maintenance reviews the spare parts requirements list recommended by the supplier and decide what to carry.

The senior stores clerk, responsible for inventory levels is advised less than one year ahead of time as to when buses will be retired. When he knows the bus will be retired he cuts inventory level in half.

A senior stores clerk is assigned the responsibility to identify and handle the process of preparation for disposal, which is carried out annually. A report is run in SAP, which looks for the last issue date of items in inventory. Parts for new buses, which have not been used yet, are eliminated from the list. The report is sorted by date and then a cut off date, normally two years, is received from the Program Manager Stores. All items issued before that date are dropped from the report and then the location, description, material type and group is added and a new report produced. The report is then circulated to various maintenance supervisors to approve the disposal. Those that are approved for disposal have an "ND" placed on their SAP inventory record, which stops any further reordering. The parts are offered to the suppliers who buy some back at 25% of their original cost. The remaining list goes to Supply who posts them for sale on MERX. When a buyer is identified and has paid, the parts are removed from the shelves. If some are used in the meantime, the buyer pays the same price.

As at December 31 2006, the fuel inventory for the Transit Fleet was valued at \$2.7 million.

Fuel is received at St. Laurent South from a company that delivers for the fuel supplier. The driver has the keys for the fuel tanks. On arrival, he takes a manual dip of the in-ground tank and obtains a volume reading from the electronic fuel tank measuring system. He then dumps the fuel, takes another manual dip and electronic fuel tank measuring system reading and records these on his delivery slip. The driver then brings the delivery slip into the stores and obtains a storekeeper's signature for the receipt. A copy of the delivery slip is left with the storekeeper who sends it to the stores clerk, located at the Boyd Building, and who is responsible for fuel. The stores clerk is responsible for entering the delivery slips for all garages into SAP as inventory. He also maintains a separate Excel spreadsheet for each garage. He uses the information on

issues from the prior day to determine the fuel requirement for the day's delivery and calls it into the fuel supplier.

Fuel is paid for based on what the supplier says was loaded onto the fuel truck adjusted to 15 degrees Celsius. This volume is different from the manual dips, which differ from what the electronic fuel tank measuring system says was delivered. The auditor witnessed a fuel delivery at St. Laurent South garage and noted that there were differences in all the numbers.

The countdown attendants record fuel issues on a terminal by keying in the bus number and the amount of litres from the meter on the pump. The meter is reset after each bus is filled. The sum of these entries is one of the items used by the stores clerk to determine the size of the next fuel shipment.

A metered truck delivers bulk fluids and lubes at each garage. These are entered into SAP by the specific garage. Most bulk fluid tanks have a volume gauge, which gives a rough idea of the balance in the tank and thereby how much is required is not accurate. A few tanks have electronic meters.

When parts are taken from Stores on a WO, if the mechanic does not need all of them, he will return them to the Store for credit on the WO unless he thinks he may need the parts the next day (mechanic Pinecrest). The auditor did not see an excess of parts lying around the shop floor or mechanics' tables, other than items such as low cost, high volume fasteners, etc.

Other than min/max reports that are run daily to determine whether items should be reordered and an annual process to flush out obsolete stock, we were not made aware of any inventory turnover reports.

Supervision and management staff run routine reports on buses that are "dead" and awaiting parts. There is also a routine report that looks at the volume of parts on a particular bus series.

7.6.1 Observations

1. The received material is placed in baskets on a trolley and are taken into the store by the receiver and placed on the shelves by him or a storekeeper. There is no "handshake" or receipt acknowledgement control between receiving and stores. This leaves the possibility open that the receiver could indicate that more goods were received than actually were.
2. When the part is physically transferred, a copy of the print screen of the entry is sent with the part on the Transit parts truck or the requesting garage will send a garage attendant to pick it up, if it is an urgent requirement. If the garage attendant is

picking it up, he will have a copy of the WO or email with him. Neither the truck driver nor the receiving storekeeper signs for the part.

3. Some transfers are done from one store location right into the inventory of another store or directly into a WO at another garage with no receiving “handshake”.
4. Rebuilt engines, transmissions and differentials are stored at the Boyd Building. However, they are not entered into SAP and no paperwork comes with them.
5. When rebuilds are removed from the Boyd Building Fleet Maintenance comes to get the part with no paperwork.
6. After hours Fleet Services staff are supposed to bring a storekeeper with them, however, the auditor witnessed the removal of a transmission after hours by one person.
7. If a minor rebuild or a new part is required that is located at Boyd Building an email is sent to the Boyd Building storekeeper who records which location it is being sent to and a fork lift operator takes it over there with a copy of the email. No one signs for the part.
8. Some stores (e.g., Pinecrest) do not send any paperwork with their transfer out.
9. The Transit Fleet job planner indicated that if a vehicle comes in with a “check engine light” or was changed off on the street, a job history would be run and the job lines reviewed, but not the parts used. Otherwise, the prior history is not usually reviewed. This is a missed opportunity to review the parts that were charged to a work order to determine whether goods are being diverted from the benefit of the City. Management have indicated that a documented process exists within Transit Fleet Maintenance for charging parts to work orders.
10. A Transit Fleet stores clerk will give parts to a mechanic and charge it to the WO even though the job line for that part is not on the WO. This occurs only for an inspection WO and the part has to relate to the item being inspected. The fact that a job line is on a WO is a form of control for the parts being requested by the mechanic and can control the misuse of parts.
11. There is no requirement for the mechanic to bring the removed parts back to the Transit Stores. They are placed in bins in the garage. Bringing the removed parts back to stores can be an effective means of ensuring that only parts that are replaced are taken from Stores. The storekeeper would verify that he has received them and put them in a core, scrap, or warranty location, as appropriate and with the correct documentation. However, some parts may be too big to bring back to stores and this may take additional time.
12. For warranty returns on buses older than one year they are sent out on a packing slip but no entry is made into SAP. Stores follow-up with the FSU on the receipt of

the credit notes. Control could be improved if SAP were set up to keep track of warranty returns.

13. For new buses (less than one year old), Fleet Services identifies items that are warranty, packages them for return to the supplier and provides them to stores to ship out. The shipper does not check the contents of the packages. This could result in unauthorized goods being shipped out.
14. When the WO is completed the supervisor reviews the work, but not the parts issued. The review of the WO by the supervisor or job planner on completion of a job is a form of control over parts charged to the job. When a storekeeper has to charge a part to a closed WO in the Transit Fleet, the job planner is asked to reopen the WO. The storekeeper will charge the part to the WO and then tell the job planner he is finished. The job planner will close the WO without reviewing what was charged to it. The lack of a review at this point can result in parts being used for the benefit of other than the City. We were not made aware of any reports produced from SAP which would indicate what charges had been made to a closed WO. Such a report would allow the supervisor or an independent person to ensure that there were no unauthorized parts charged by Stores. We planned to do a similar analysis of the charges to closed WOs for Transit Fleet as we did for the Municipal Fleet but were unable to conduct the analysis of the SAP WOs due to insufficient data.
15. When a new bus is purchased, maintenance reviews the spare parts requirements list recommended by the supplier and decide what to carry. Typically the inventory levels suggested are too high and are manually adjusted and reviewed by materials as time goes on, based on history.
16. There is a long term planning cycle for disposal of buses but this is not integrated with stores or stores staff are not advised soon enough to be able to reduce the inventory of parts early enough to obtain a reasonable value for them.
17. It is our opinion that items are held in inventory in excessive quantities when buses get to an age where retirement is not far off. Based on interviews, staff have indicated that they have not been advised early enough of the bus disposal plan. For this reason, frequently, the City is left with a significant amount of inventory for which there is little or no market and therefore the items are disposed of for 10% or less of their original value.
18. The electronic system that measures the fuel does not work all the time. The totals on the pumps at many locations do not match with what the electronic measuring system indicates. The supplier changes the mechanical device that feeds the computer frequently. Therefore the controls are insufficient or ineffective.
19. Fuel is paid for based on what the supplier says was loaded onto the fuel truck adjusted to 15 degrees Celsius. This volume is different from what the manual dials and the electronic fuel tank measuring system indicate were delivered. Every value

is different. The auditor witnessed a fuel delivery at St. Laurent South and noted the difference in the numbers.

20. The meter on the fuel pumps in countdown are reset after each bus is filled with fuel. There is no ability to validate the attendant's entry.
21. The total fuel used in 2006 was 573,000 litres or 1.5% less than the total fuel consumed of 38.2 million litres based on what was paid for and year-end balances.
22. There is no report listing all adjustments so that management can review them.
23. The actual 2005 year end transit inventory included in SAP was \$14,278,373 which is derived as follows:

TABLE 11

INVENTORY RECONCILIATION – 2005

General Ledger accounts 101001 TO 101005

(Source: Financial Services)

	(BA 002) St. Laurent Garage <u>Plant 0010</u>	(BA 002) Pinecrest Garage <u>Plant 0030</u>	(BA 002) Merivale Garage <u>Plant 0040</u>	(BA 002) Baseline Garage <u>Plant 0060</u>	<u>TOTAL</u>
2005 Beginning	\$10,114,055	\$844,412	\$1,565,791	\$257,138	\$12,781,395
Receipts	37,956,388	4,166,485	6,379,287	545,037	49,047,196
Issues 1	-18,430,566	-4,144,341	-6,209,160	-547,496	-29,331,563
Issues 2	- 19,447,536				-19,447,536
A/C doc	970,179	119,423	141,408	-2,129	1,228,880
2005 Transactions	1,048,465	141,566	311,535	-4,588	1,496,978
2005 Ending	\$11,162,520	\$985,978	\$1,877,326	\$252,550	\$14,278,373
G/L - 2005 Ending	\$11,162,520	\$985,978	\$1,877,326	\$252,550	\$14,278,373

Notes:

1. Plant 0010 only - Period 1 to 6
2. Plant 0010 only - Period 7 to 12

The 2005 year end inventory totaling \$13,610,033 provided by Financial Services for the Fleet Audit Report of September 2006 was the sum of the total volume in stock by part number at 2005 year end times the year end average price of the part. However, any parts that were in inventory on December 31, 2005 but not in

inventory in March 2006 when the report was run were excluded from the data. This created a difference of \$668,340.

24. During our 2005 Audit of Fleet Services, we found that Fleet Services Branch reported annual spending on Transit parts of \$18.4 million but Supply Management Division reported issues of \$37.8 million, a variance of \$19.4 million. Management had indicated in their 2005 audit response that they had completed a reconciliation in mid-April 2007. The Mayor and the City Manager further questioned this difference. The Office of the Auditor General requested their reconciliation and was provided a document with some of the explanations and components of the difference, conducted a subsequent interview and further analyzed the various components of the difference. On October 31, 2007, Financial Services provided us with a reconciliation as detailed below, which we examined to confirm their explanation. We were able to confirm all but \$4.1 million. This number was a balancing item used by Financial Services and explained by them as the difference caused by price fluctuations on issued transactions. There was no supporting documentation for this balancing item. In order to validate their explanation would have required the computation of the difference between the 2005 issue price and the price used by Financial Services for each part when presented to us for the September 2006 Fleet Audit report. The main cause of the \$19 million difference was the counting of \$14.9 million of transfers of inventory between plants and their inclusion as issues.

In January 2008, Management have identified and reviewed some of the higher dollar items forming part of the \$4.1 million. They have indicated that the total of the individual issues compared to the total cost of issues using the 2006 audit's year-end average prices equalled \$3.3 million involving 3,072 transactions out of 317,000. The balance of \$0.8 million is within the approximate 314,000 remaining low value transactions. This \$0.8 million becomes the new balancing item used by Financial Services. We have not audited this new, additional information.

Management had previously used this total including transfers for their calculation of inventory turnover analysis. This is not how inventory turnover would be calculated. Management needs to understand the accounting and management of inventory including how inventory turnover should be calculated.

TABLE 12

Reconciliation of Transactional Issues Calculated for Inventory Turnover to SAP Material Management Issues

For the year ended December 31, 2005

(Source: Financial Services)

		In thousands (\$ 000's)	
Inventory issues for inventory turnover analysis	1	37,608	
Less: Transactions associated with inventory transfers and adjustments	2		
movement type 351 (transfers)		-9,660	
movement type 551 (disposal)		-477	
movement type 702 (inventory adjustment)		-1,613	-11,750
Subtotal			25,858
Variance due to price valuation on issued transactions	3		-4,140
Issues valued at average cost	4		21,718
Less issues related to non-fleet cost centres and orders			-2,526
Less other issues related to fleet	5		-807
As previously analyzed and submitted to OAG office			18,385

1. Excludes fuel, as previously provided to OAG office

2. Represents totals per movement type as summarized in appendix D

3. Represents the difference between transactional issues valued at weighted average cost and inventory turnover based issues valued at end of year prices.

4. Represents the difference between total material management transactional issues to cost centres and work orders and fuel transactions (\$49,778K - \$28,060K)

5. Represents the difference between amounts expensed to fleet cost centres and amounts expensed to pars within fleet cost centres as previously analyzed and submitted to OAG (\$1,407K - \$600K)

Recommendation 44

That the City ensure that the storekeeper confirm receipt of goods from the receiver and place them on the shelves.

Management Response

Management agrees with this recommendation. Transit Material's project to implement bar coding in its stockrooms by Q4 2008, will incorporate a process to record the movement of material from the receiving location into its storage location.

Recommendation 45

That the City ensure that when parts are transferred between stores, they be:

- a) Transferred into the other Store's inventory through a clearing account;
- b) Accompanied with documentation; and,
- c) Signed for at the receiving end.

Management Response

a) Management agrees with this recommendation. The majority of transfers are initiated through Material Requirements Planning (MRP) and use the equivalent to a clearing account in that staff at the receiving facility confirm goods receipt through an electronic "handshake", as suggested by the auditor throughout the report. Financial Services will undertake a review to determine a method using a clearing account for the remainder of transfers in Transit, by Q4 2008. Following which, additional funding requirements may be identified and requested in future budgets.

b) Management agrees with this recommendation. This has been City practice since amalgamation.

c) Management agrees with this recommendation. There will be an electronic receipt done within SAP. Financial Services will undertake a review and establish a method for an electronic receipt by Q4 2008. Following which, additional funding requirements may be identified and requested in future budgets.

Recommendation 46

That the City ensure that staff be reminded to follow the policy of requiring a storekeeper, at the Boyd Building, to be present any time it is accessed.

Management Response

Management agrees with this recommendation. It continues to be standard procedure for a storekeeper to be present for all entries to the Boyd building. Management has issued a memo to staff to reinforce this requirement. The assumption of responsibility by Materials for rebuild cores, rebuilt engines, differentials and transmissions has resulted in process changes in 2008 that have eliminated the need for Fleet staff to share this area of the Boyd location. Fleet Services no longer stores, obtains, or moves any items in this area.

Recommendation 47

That the City ensure that when a WO is completed, a maintenance supervisor reviews the parts as well as the labour used on the soft copy immediately prior to closing it.

Management Response

Management agrees with this recommendation. This is current practice and has been reinforced with staff as a result of this audit.

Recommendation 48

That the City ensure that:

- a) Mechanics be required to bring the WO with them when requisitioning a part from Stores;
- b) The parts be recorded immediately on the soft copy; and,
- c) Both parties have their employee identification cards scanned as confirmation of the issuer and receiver of the parts.

Management Response

a) Management agrees with this recommendation. This is current practice and has been reinforced with staff as a result of this audit.

b) Management agrees with this recommendation. This practice was implemented across Transit Stores operations in Q1 2008.

c) Management agrees with this recommendation. Initial discussions with Corporate Security have identified the potential for the employee ID card to be used. This solution will require further analysis to determine feasibility and will require completion of the ITS intake process, including the development of a business case, in order to proceed. The feasibility study will be initiated by Q4 2008 and the funding requirement will be identified and requested in the 2010 budget.

Recommendation 49

That the City considers the pros and cons of having the mechanics return the removed parts to the storekeeper immediately on completing a job.

Management Response

Management agrees with this recommendation. An evaluation of the pros and cons will be undertaken by Q4 2008.

Recommendation 50

That the City ensure that warranty returns be recorded in and controlled through SAP.

Management Response

Management agrees with this recommendation. This is current practice. Defective part returns are recorded and controlled through SAP. Warranty returns are managed by Fleet and recorded in M5.

Recommendation 51

That the City ensure that Financial Services are involved in the tracking and control of warranty return items.

Management Response

Management agrees with this recommendation. Pending implementation of M5 and the benefits this system offers, the value of outstanding warranty claims will continue to be accrued by the Financial Support Unit (FSU) within SAP each month. Warranty receipts will continue to be matched against outstanding warranty claims by the FSU. The current segregation of duties will also be maintained such that Fleet Services are responsible for developing warranty claims, FSU staff are responsible for recognizing all outstanding warranty receivables within SAP and separate FSU staff are responsible for receiving and depositing warranty receipts.

Recommendation 52

That the City ensure that when a part has not been charged to a closed WO, the WO be reopened, the part charged to it using a unique transaction code and then the WO closed.

Management Response

Management agrees with this recommendation. The existing transaction codes are coupled with a unique identifier that establishes that the transaction is against a closed work order, therefore, it is not necessary for distinct transaction codes to be created for closed work orders. The system generates reports, which clearly identify any closed work orders where part charges were applied. The interface between SAP and M5 may need custom development to implement a seamless process and, therefore, will require completion of the IT intake process, including a cost benefit analysis. This review will be initiated by Q3 2008, following which, additional funding requirements may be identified and requested in the 2010 budget.

Recommendation 53

That the City ensure that cores be recorded and given a value in SAP.

Management Response

Management agrees with this recommendation. Core values will be recorded in SAP by Q4 2008.

Recommendation 54

That the City ensure that when employees send out tire casings for recapping, they obtain a copy of the packing slip that is signed by the recapper's driver.

Management Response

Management agrees with this recommendation. Currently a copy of the packing slip covering the tire being sent out for recapping is signed by the supplier and is forwarded to the stores clerk for retention against the purchase order for recapping.

Recommendation 55

That the City ensure that a list of spare parts required for specialized vehicles with the lead-times for each part be required from the supplier as part of the Request for Tender process.

Management Response

Management agrees with this recommendation. Fleet Services already includes the requirement for a list of spare parts in the tender specification. The addition of lead-time as a requirement has been implemented.

Recommendation 56

That the City develop a process in SAP that allows mapping of parts common to more than one unit type, yet carrying a different part number so that inventory can be reduced.

Management Response

Management agrees with this recommendation. A process to compare known vendor and manufacturer part numbers for matches will be developed and implemented by Q1 2009.

Recommendation 57

That the City ensure that the fuel suppliers' load sheet not be accepted as proof of delivery.

Management Response

Management agrees with this recommendation. The delivery slip is not accepted as proof of delivery. Our own orders, tank dips and meter readings are used to verify receipt of product (three-way matching).

The audit makes reference to a difference between fuel delivery and fuel consumption. In June 2007, Supply Management engaged an independent consultant to undertake a review of the Transit fuel system reconciliation process and identify opportunities for improvement. The final report dated November 27, 2007 provides a comprehensive review of the entire process and specific recommendations. The current process sees about 800 buses being fuelled each 24 hours, with a focus on

getting through the “countdown” process in three minutes. During the “countdown” process buses are lined up and roll through the countdown lanes for maintenance including:

- being cleaned
- having the fare box emptied of change
- checking some routine fluid levels, like oil or antifreeze
- filling the gas tank with diesel, using a “posilock” pump attachment to the bus

At this point, the fuel dispensed into the bus is manually entered by the “jockey” into an Oracle system, volumes are not rounded up, and the pump meter is reset for the next bus, with no cumulative totalizer reading. Without a totalizer there is no easy way to determine if the values entered by the fuel jockey for each bus add up to the total dispensed from the storage tank.

The consultant made a number of observations and recommendations currently being acted upon by staff in Supply Management, RPAM, and Fleet. The findings from the consultant indicate that:

- theft is an unlikely source of significant loss
- leakage is a very unlikely source of loss
- poorly calibrated equipment and temperature adjustment (or lack of same) is a very likely source of reconciliation variance (temperature correction equipment on all pumps can in itself correct volume variances by 1.25% between 0 and 15 degrees Celsius).
- manual data entry processes contribute to the reconciliation variance for fuel usage in the bus fleet and staff should install totalizers on the pumps.

Observation # 22 under the “Transit Stores” heading suggests that Supply Management procured and paid for 38.3M litres of diesel fuel in 2006, and that the “fuel used” or recorded as dispensed into transit vehicles, mainly buses, was lower than that amount by 573,000 litres, leaving a reconciliation error of 1.5%. The industry accepted device accuracy tolerance for measuring volume, according to Measurements Canada is actually 0.5%. Based on the work of the consultant, the remaining variance would be the result of manual data entry errors and poorly calibrated equipment. Management is confident that implementing the several relatively low cost options recommended in the final consultant’s report, will ensure that transit fuel reconciliation will be brought well within the industry accepted range.

Management will identify the preferred options, areas of responsibility, and costs. Where possible, immediate fixes will be implemented, and where additional funds

are required for the recommendations, such funds will be requested through the 2009 operating and / or capital budget.

Recommendation 58

That the City ensure that transfers between plants not be counted as part of inventory turnover calculations.

Management Response

Management agrees with this recommendation. Financial Services will review the system-defined metrics within SAP and industry best practices to ensure that common methodologies are in place for appropriate inventory metrics including inventory turnover by Q1 2009.

8 CONCLUSION

There is no function within the City with overall responsibility for developing and issuing overarching City policy, systems and procedures on control of City assets and inventory. Our findings would indicate that the City is not currently ready for the implementation of the new PSAB rules covering municipal accounting for assets proposed for implementation starting in fiscal year 2009. The control and recording of City assets that are not within the responsibility of Stores is either non-existent or incomplete and requires significant improvement. There is City inventory that is not controlled by Stores that should be contained within Stores and in either SAP or M5.

9 ACKNOWLEDGEMENT

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.