



Office of the Auditor General / Bureau du vérificateur général

**FOLLOW-UP TO THE 2007 AUDIT OF THE COSTS RELATED TO THE
PROPOSED CONTRACTING-OUT OF
LUBE, OIL AND FILTER WORK**

2009

**SUIVI DE LA VÉRIFICATION DES COÛTS DE LA PROPOSITION
VISANT À CONFIER EN SOUS-TRAITANCE
LES TRAVAUX DE VIDANGE D'HUILE, DE LUBRIFICATION
ET DE CHANGEMENT DE FILTRE DE 2007**

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EXECUTIVE SUMMARY

Introduction

The Follow-up to the 2007 Audit of the Costs Related to the Proposed Contracting-out of Lube, Oil and Filter Work was included in the Auditor General’s 2009 Audit Plan.

The key findings of the original 2007 audit included:

- The information provided to the Union supporting the City’s plan to outsource lube, oil, and filter work in 2007 contained unrelated costs.
- The City followed the appropriate process in its plan to outsource the oil, lube, and filter work currently done internally, however, the cost information provided to the Union was inaccurate.
- There were errors in the work orders for this work and these errors were not identified by the Maintenance Supervisors.
- Staff could be charging costs to work orders after they have been reviewed and closed by the Supervisors and the information system has inadequate internal controls to prevent this.
- In total, the audit makes six recommendations, four of which were agreed with by management.

Summary of the Level of Completion

The table below outlines our assessment of the level of completion of each recommendation as of Fall 2009.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
LITTLE OR NO ACTION	0 – 24	3, 6	2	33%
ACTION INITIATED	25 – 49	-	-	-
PARTIALLY COMPLETE	50 – 74	5	1	17%
SUBSTANTIALLY COMPLETE	75 – 99	1, 2, 4	3	50%
COMPLETE	100	-	-	-
TOTAL			6	100%

Conclusion

Progress has been made in implementing the majority of recommendations, although none are fully complete. Management has implemented reporting and review procedures to help to ensure accurate and appropriate charges are recorded. However, the review procedures lack important elements such as a signature or

initial of the reviewer to enhance accountability, the date of the review to demonstrate timeliness, and in some cases evidence of what was reviewed.

Management disagreed that the practice of charging break time to work orders should be changed, but has not pursued the matter at a Council Audit Working Group (CAWG). The practice results in inflated reporting of labour hours.

In one case, recommendation 6, management has indicated implementation is 100% complete, but did not provide any evidence to support this claim. In the absence of investigating the inaccuracies in recording of oil usage, the resulting impact, and determining whether a new process is necessary, the risk of inappropriate reporting of costs has not been addressed.

Acknowledgement

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

RÉSUMÉ

Le Suivi de la vérification des coûts de la proposition visant à confier en sous-traitance les travaux de vidange d'huile, de lubrification et de changement de filtre de 2007 était prévu dans le Plan de vérification du Bureau du vérificateur général de 2009.

Les constatations principales de la vérification initiale de 2007 sont les suivantes :

- Les renseignements transmis au syndicat appuyant le projet de sous-traitance des travaux de vidange d'huile, de lubrification et de changement de filtre en 2007 comprenaient des coûts non apparentés aux travaux.
- La Ville a suivi le processus approprié pour son projet visant à confier en sous-traitance les travaux de vidange d'huile, de lubrification et de changement de filtre actuellement effectués à l'interne; toutefois, les renseignements transmis au syndicat concernant les coûts étaient inexacts.
- Les bons de travail pour ces travaux comportaient des erreurs qui n'ont pas été relevées par les superviseurs de l'entretien.
- Le personnel pouvait ajouter des coûts aux bons de travail même après que ces derniers ont été examinés et clos par les superviseurs, le système informatique ne disposant pas des fonctions de contrôle interne adéquates pour l'empêcher.
- En tout, six recommandations ont été formulées dans la vérification, la direction étant d'accord avec quatre.

Sommaire du degré d'achèvement

Le tableau ci-dessous présente notre évaluation du degré d'achèvement de chaque recommandation à l'automne 2009 :

CATÉGORIE	POURCENTAGE COMPLÉTÉ	RECOMMANDATIONS	NOMBRE DE RECOMMANDATIONS	POURCENTAGE DU TOTAL DES RECOMMANDATIONS
PEU OU PAS DE MESURES PRISES	0 - 24	3, 6	2	33 %
ACTION AMORCÉE	25 - 49	-	-	-
COMPLÉTÉE EN PARTIE	50 - 74	5	1	17 %
PRATIQUEMENT COMPLÉTÉE	75 - 99	1, 2, 4	3	50 %
COMPLÉTÉE	100	-	-	-
TOTAL			6	100 %

Conclusion

Des progrès ont été réalisés dans la mise en œuvre de la plupart des recommandations, bien qu'aucune ne soit complètement achevée. La direction a mis en place des procédures d'examen et d'établissement de rapports afin d'aider à

assurer que les coûts exacts et pertinents sont consignés. Cependant, des éléments importants manquent aux procédures d'examen comme la signature ou le paraphe de l'examineur afin d'accroître la responsabilisation, la date de l'examen afin d'en démontrer le caractère opportun et, dans certains cas, la preuve de ce qui a été revu.

La direction n'est pas d'accord que la pratique permettant l'imputation des pauses aux bons de travail devrait être changée, mais elle n'a pas fouillé la question à la réunion du Groupe de travail sur la vérification du Conseil (GTVC). La pratique a pour effet le signalement excessif d'heures de travail.

Dans un cas, la recommandation 6, la direction a indiqué une mise en œuvre totale, mais n'a fourni aucune preuve en vue d'appuyer cette déclaration. En l'absence d'une enquête sur les erreurs dans la consignation de l'utilisation d'huile, les incidences qui en découlent et la nécessité d'établir un nouveau processus, la question du risque de déclarations abusives des coûts n'a pas été réglée.

Remerciements

Nous tenons à remercier la direction pour la coopération et l'assistance accordées à l'équipe de vérification.

1 INTRODUCTION

The Follow-up to the 2007 Audit of the Costs Related to the Proposed Contracting Out of Lube, Oil and Filter Work was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2007 audit included:

- The information provided to the Union supporting the City's plan to outsource lube, oil, and filter work in 2007 contained unrelated costs.
- The City followed the appropriate process in its plan to outsource the oil, lube, and filter work currently done internally, however, the cost information provided to the Union was inaccurate.
- There were errors in the work orders for this work and these errors were not identified by the Maintenance Supervisors.
- Staff could be charging costs to work orders after they have been reviewed and closed by the Supervisors and the information system has inadequate internal controls to prevent this.
- In total, the audit makes six recommendations, four of which were agreed with by management.

2 KEY FINDINGS OF THE ORIGINAL 2007 AUDIT OF THE COSTS RELATED TO THE PROPOSED CONTRACTING OUT OF LUBE, OIL, AND FILTER WORK

1. The City followed the appropriate process in its plan to outsource the oil, lube, and filter work currently done internally.
2. The information provided to the Union supporting the City's plan to outsource the work contained unrelated costs.
3. There were errors in the work orders for the above work which maintenance supervisors did not discover. Consequently, staff could be charging costs to work orders after the supervisors have reviewed them and the M5 system has inadequate internal controls to prevent this.
4. There does not appear to be a consistent review done when excessive time is charged to a work order, as there were multiple examples of this in the sample reviewed.

3 STATUS OF IMPLEMENTATION OF 2007 AUDIT RECOMMENDATIONS

2007 Recommendation 1

That management ensure that information used to make decisions and to inform the Union is applicable and accurate.

2007 Management Response

Management agrees with this recommendation.

Review and correction of data commented on by the Auditor did not result in material change to the cost of oil, lube and filter work. Therefore, the cost for oil, lube and filter work submitted by the City has fulfilled the obligation under the Collective Agreement to supply the Union with meaningful data for them to construct an alternate proposal to be submitted to the Director. Management will continue to provide meaningful data to the Union.

Management Representation of the Status of Implementation of Recommendation 1 at December 31, 2008

Implementation of this recommendation is considered 100% complete.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 1

Management has implemented several review procedures to address this recommendation, but the risk of reporting inaccurate data remains unaddressed in the area of oil inventory. The supervisor reviews the charges on the work order for reasonableness prior to closing the work order; additions to work orders subsequent to close are reviewed each month; and quarterly reports are reviewed for unusual variances in costs including repair costs. However, although Management is aware that variances exist between actual and recorded oil inventory, the variances are not regularly analyzed, monitored, or reported.

Management should consider reviewing the variances between actual and inventoried oil usage on a regular basis in order to maintain control over the inventory, and to improve the accuracy of reporting. Analyzing the trend in variances by shop would determine the magnitude of the variances, which shops are causing higher variances, whether the variances are getting worse or better over time, and whether additional control procedures should be implemented in certain areas based on the risks identified in the analysis. Tracking variances would provide management with the data needed to report on oil inventory more accurately.

OAG: % complete **80%**

Management Representation of Status of Implementation of Recommendation 1 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

The variances between actual and inventoried oil usage are reviewed once a week by the Inventory Analyst Auto Stores. In addition, management regularly monitors trends in variances by location and over time. Reports are reviewed by the Program Manager on a regular basis and action is taken if variances are found to be out of the ordinary.

An alternative approach has been considered and would not be appropriate because the process cannot become overly cumbersome as to discourage the top up of oil in vehicles as this could result in costly damage.

Management considers implementation of this recommendation to be complete.

Management: % complete *100%*

2007 Recommendation 2

That Fleet Services instruct maintenance supervisors to review all work orders thoroughly prior to closing them.

2007 Management Response

Management agrees with this recommendation.

The sample reviewed by the Auditor showed an acceptable error rate of 0.2%, which represents less than 0.7% of Municipal Fleet Maintenance division's annual business. Supervisors are presently following the procedure recommended by the Auditor. Fleet Services also provides additional processes that would catch any significant errors such as monthly billing reports and quarterly reports to clients.

Management Representation of the Status of Implementation of Recommendation 2 at December 31, 2008

Implementation of this recommendation is considered 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 2

Management indicated that actual hours charged to the work order are reviewed against standards that are automatically populated to the job in the M5 system, and appear on the work order screen. Parts charged are listed on the screen as well, and are reviewed by the supervisor for reasonableness prior to closing the work order. However, reliance is placed on the assumption that by closing the work order, the supervisor is indicating review and approval. There is no specific evidence of what the supervisor reviewed, or that it was authorized (For example, there is no

checkbox indicating review and approval of labour hours, or of parts charged; there is no document that is signed and dated by the supervisor).

Management's comments in the audit report indicate that the error rate observed was acceptable. Management should consider setting a pre-determined acceptable error rate based on risk, and industry standards, and documenting it in policies and procedures in order to provide guidelines when reviewing and monitoring for accuracy.

OAG: % complete *80%*

Management Representation of Status of Implementation of Recommendation 2 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that this recommendation is only substantially complete.

The original recommendation was "That Fleet Services instruct maintenance supervisors to review all work orders thoroughly prior to closing them." This was done. Management will, however, develop a policy setting an error rate at 1% by the end of Q2 2010.

Management considers implementation of this recommendation to be complete.

Management: % complete *100%*

2007 Recommendation 3

That Fleet Services instruct mechanics to charge work to a line item on a work order that only pertains to that line item and to charge break time to a non-productive time account rather than a line number on a work order.

2007 Management Response

Management agrees that work charged to a line time should only pertain to that line item. On-going education and training of technicians continues to reinforce that process.

Management disagrees that break times should be charged to a non-productive time account rather than a line number on a work order. This issue was reviewed at amalgamation and it was determined to be a best practice to charge break time to the work in progress as opposed to the extra work of signing off and back on to the job.

Management Representation of the Status of Implementation of Recommendation 3 at December 31, 2008

Implementation of this recommendation has not yet begun. Ongoing education and training of technicians continues to reinforce that work charged to a line item should only pertain to that line item. The remainder of this recommendation will be scheduled for discussion at an upcoming CAWG meeting.

Management: % complete *0%*

OAG's Follow-up Audit Findings regarding Recommendation 3

Management has indicated that ongoing training reinforces that work charged to a line item should only pertain to that line item. However specific evidence of training that addresses this recommendation was not available. A procedures manual that would include this instruction has not yet been created.

Management indicated the intention of discussing the recommendation to charge break time to a non-productive time account at an upcoming CAWG meeting. However such a meeting has yet to take place.

OAG: % complete *0%*

Management Representation of Status of Implementation of Recommendation 3 as of Winter 2010

This recommendation requires resolution.

2007 recommendations requiring resolution were included on the Council Audit Working Group (CAWG) workplan, and further to agreed upon protocol, meetings were being scheduled to deal with the disputed items. Several items from the workplan were dealt with in 2008 however, with the formation of the Audit, Budget and Finance Committee (ABFC) at Mid-term Governance Review, the CAWG was dissolved. Their mandate to receive and report quarterly on the status of implementation of audit recommendations and provide input into the recommendations requiring resolution was assumed by the ABFC. Discussions regarding disputed items on the CAWG workplan were temporarily suspended until a new process with respect to reporting and resolution of disputed items is confirmed.

Management: % complete *0%*

2007 Recommendation 4

That Fleet Services ensure that if excessive time is taken to do certain work, maintenance supervisors discuss the problem with the applicable mechanic.

2007 Management Response

Management agrees with this recommendation.

This is part of the current process and will be more closely monitored in the future.

Management Representation of the Status of Implementation of Recommendation 4 at December 31, 2008

Implementation of this recommendation is considered 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 4

Management has implemented review and monitoring procedures to address this recommendation. M5 automatically populates standard labour times for common jobs based on historical data. The supervisor is expected to review actual time to standards prior to closing the work order.

Additional processes subsequent to December 31, 2008: An efficiency report detailing actual time against standard, and percent productivity for each job provides this data by mechanic, for all mechanics under each supervisor, and by location. Management indicated that the report is reviewed by the supervisor and by management. However the report is not signed, initialed or dated to evidence review. Further, there is no evidence of follow up with employees identified to have low efficiency.

Management should require the report to be initialed and dated by those who reviewed it to evidence the review. Management should consider indicating whether the productivity reviewed in the report is considered acceptable by:

- a) Having a pre-established minimum productivity for mechanics, for total mechanics under each supervisor, and for location;
- b) Indicating acceptance by each total, or on a cover page; or,
- c) Using the report to review and analyze trends by looking at the lowest and highest efficiency figures regularly.

For those employees, supervisors, or locations found to have unacceptable productivity, Management should document follow up measures taken, and/or explanations for the low productivity.

OAG: % complete **95%**

Management Representation of Status of Implementation of Recommendation 4 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

The management response to the original recommendation has been satisfied. It is not cost efficient to document productivity for each job. The City of Ottawa compares favourably with other Ontario and Canadian municipalities as demonstrated through benchmarking (i.e., the Ontario Municipal Benchmarking Initiative (OMBI) and the Canadian Association of Municipal Fleet Managers (CAMFM)).

Management considers implementation of this recommendation to be complete.

Management: % complete **100%**

2007 Recommendation 5

That the City consider modifying the M5 system so that if a work order has been modified after it is closed, it is automatically forwarded to the maintenance supervisor for review and approval.

2007 Management Response

Management disagrees with this recommendation.

All access to M5 is password protected, once a work order is closed it is impossible to change any of the original information. Currently, additions can be made for parts, labour, and external repairs. When additions take place, M5 provides an auditing function, which forces the user to provide the reason for the addition which M5 records. Further, the M5 will also record the date and the user's name.

Fleet Services Branch will run this audit report monthly and will submit the results to the appropriate manager for scrutiny and follow-up. The M5 system has been modified so that labour additions can only be made by a supervisor; thus removing the risk. With respect to external repairs, additions occur very rarely.

Staff also consulted with Maximus Asset Solutions, the City's M5 supplier. The supplier indicated that this is not a common practice in the industry and was the first time that this request had been made in North America. Therefore, costs would be required to engage Maximus in providing a quotation on the required work for the system. Given the current built in protections in the M5 system, no further costing has been explored.

Management Representation of the Status of Implementation of Recommendation 5 at December 31, 2008

Implementation of this recommendation has not yet begun. This recommendation will be scheduled for discussion at an upcoming CAWG meeting.

Management: % complete *0%*

OAG's Follow-up Audit Findings regarding Recommendation 5

Management disagrees with this recommendation citing the high cost of implementing an automated routing for approval. Management has provided evidence of consideration of compensating controls to address the risk of unapproved changes to closed work orders.

Each month, a report indicating all charges added to closed work orders, along with who made the addition(s) is reviewed and signed by the Program Manager. Although the report is signed to indicate review, it is not dated to evidence that the review was timely.

As well, management intends to implement an access restriction that would only allow employees at the supervisor level and above to make changes to closed work orders. However, the list of access permissions provided by Management demonstrates that access is not currently restricted as intended.

Management should require that the Program Manager indicate the date of review of the Closed Work Order Report to ensure that it was timely. Given that access is not restricted as intended, Management should consider whether the monthly review of changes to closed work orders is frequent enough to detect and correct inaccurate or unauthorized charges.

OAG: % complete *50%*

Management Representation of Status of Implementation of Recommendation 5 as of Winter 2010

This recommendation requires resolution.

Management: % complete *0%*

2007 Recommendation 6

That Fleet Services Branch review the inaccuracy of the recording of oil usage to determine how broad it is and what its impact is on lubricant balances and reconciliations and determine whether an alternate approach would be more accurate.

2007 Management Response

Management agrees with this recommendation.

Municipal Fleet Maintenance and Automotive Stores will review the recording of oil usage and the reconciliation process and will determine the appropriate approach to ensure adequate balance and reconciliation before the end of Q1 2008.

Management Representation of the Status of Implementation of Recommendation 6 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 6

Although management is aware of the variances between actual oil inventory and recorded oil inventory, a more accurate, alternate approach has not been considered. Management does not regularly monitor trends in variances by location and over time to identify problems in a timely manner. See additional recommendation suggested in 2007 Audit Recommendation 1.

OAG: % complete *0%*

Management Representation of Status of Implementation of Recommendation 6 as of Winter 2010

Management disagrees with the OAG’s follow-up audit finding that there has been little or no action taken to implement this recommendation.

Management regularly monitors trends in variances by location and over time. Reports are reviewed by the Program Manager on a regular basis and action is taken if variances are found to be out of the ordinary.

An alternative approach has been considered and would not be appropriate because the process cannot be overly cumbersome as to discourage the top up of oil in vehicles as this could result in costly damage.

Management considers implementation of this recommendation to be complete.

Management: % complete **100%**

4 SUMMARY OF THE LEVEL OF COMPLETION

The table below outlines our assessment of the level of completion of each recommendation as of Fall 2009.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
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COMPLETE	100	-	-	-
TOTAL			6	100%

5 CONCLUSION

Progress has been made in implementing the majority of recommendations, although none are fully complete. Management has implemented reporting, and review procedures to help to ensure accurate and appropriate charges are recorded. However, the review procedures lack important elements such as a signature or initial of the reviewer to enhance accountability, the date of the review to demonstrate timeliness, and in some cases evidence of what was reviewed.

Management disagreed that the practice of charging break time to work orders should be changed, but has not pursued the matter at a CAWG meeting. The practice results in inflated reporting of labour hours.

In one case, recommendation 6, management has indicated implementation is 100% complete, but did not provide any evidence to support this claim. In the absence of investigating the inaccuracies in recording of oil usage, the resulting impact, and determining whether a new process is necessary, the risk of inappropriate reporting of costs has not been addressed.

6 ACKNOWLEDGEMENT

We wish to express appreciation to the staff and management for their cooperation and assistance throughout the audit process.