



*Office of the Auditor General / Bureau du vérificateur général*

**FOLLOW-UP TO THE 2007 AUDIT OF THE DISPOSAL OF  
PAVEMENT LINE MARKER EQUIPMENT**

**2009**

**SUIVI DE LA VÉRIFICATION DE L'ALIÉNATION D'UNE TRACEUSE  
DE LIGNES DE CIRCULATION DE 2007**



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## EXECUTIVE SUMMARY

### ***Introduction***

The Follow-up to the 2007 Audit of the Disposal of Pavement Line Marker Equipment was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2007 audit included:

- The City spent more than \$40,000 to maintain a pavement marker vehicle it had already replaced.
- In October 2000, the City purchased a replacement vehicle. However, rather than being disposed of, the old vehicle was kept until August 2003.
- During this time, more than \$40,000 was spent on maintenance of the old vehicle that was later sold at auction.
- The City should prepare a business case for retaining units that are slated for disposal and for spending additional resources on these units.

### ***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	-	-	-
ACTION INITIATED	25 – 49	3	1	33%
PARTIALLY COMPLETE	50 – 74	1	1	33%
SUBSTANTIALLY COMPLETE	75 – 99	-	-	-
COMPLETE	100	2	1	33%
TOTAL			3	100%

### ***Conclusion***

Management has initiated implementation of all recommendations, but significant gaps exist in the extent to which the implementations address the risks that were identified in the audit. Management has introduced monitoring procedures including reporting, review, analysis, and reconciliation that will help to ensure the information retained in the department's system is accurate, that charges are authorized, and that resources are used effectively. However, gaps remain in the following areas:

1. Timeliness of the review to ensure charges to closed work orders are authorized and accurate;

2. Operating effectiveness of the access restriction to ensure only supervisors can make changes to closed work orders; and,
3. Operating effectiveness of the variance analysis that includes analysis of departmental charges to ensure those that should be charged to work orders were not charged to departmental expense.

### ***Acknowledgement***

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

## RÉSUMÉ

### *Introduction*

Le Suivi de la vérification relative à une traceuse de lignes de circulation 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 :

- La Ville a dépensé plus de 40 000 \$ en vue de l'entretien d'une traceuse de lignes de circulation qu'elle avait déjà remplacée.
- En octobre 2000, la Ville a acheté un véhicule de remplacement. Toutefois, plutôt que de s'en débarrasser, la Ville a gardé le véhicule jusqu'en août 2003.
- Pendant ce temps, plus de 40 000 \$ ont été dépensés pour l'entretien du vieux véhicule qui ensuite a été vendu aux enchères.
- La Ville devrait préparer une analyse de rentabilisation sur la conservation de véhicules destinés à l'aliénation et la dépense de ressources additionnelles sur ces véhicules.

### *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	-	-	-
ACTION AMORCÉE	25 - 49	3	1	33 %
COMPLÉTÉE EN PARTIE	50 - 74	1	1	33 %
PRATIQUEMENT COMPLÉTÉE	75 - 99	-	-	-
COMPLÉTÉE	100	2	1	33 %
TOTAL			3	100 %

### *Conclusion*

La direction a commencé la mise en œuvre de toutes les recommandations, mais il existe encore des écarts importants dans la mesure selon laquelle les mises en œuvre règlent les risques décelés par la vérification. La direction a mis en place des procédures de contrôle, y compris la production de rapports, un examen, une analyse et un rapprochement qui aideront à assurer que les renseignements conservés dans le système du service sont exacts, que les frais imputés sont autorisés et que les ressources sont utilisées de façon efficace. Toutefois, des écarts demeurent dans les secteurs suivants :

1. Le fait d'effectuer l'examen en temps opportun afin d'assurer que les frais imputés à des bons de travail fermés sont autorisés et exacts;
2. L'efficacité opérationnelle de la restriction d'accès afin d'assurer que seuls les superviseurs peuvent effectuer des changements à des bons de travail fermés;
3. L'efficacité opérationnelle de l'analyse des écarts qui comprend une analyse des frais des services afin d'assurer que ceux qui devraient être imputés à des bons de travail ne l'ont pas été au compte de dépenses du service.

### **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 Disposal of Pavement Line Marker Equipment was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2007 audit included:

- The City spent more than \$40,000 to maintain a pavement marker vehicle it had already replaced.
- In October 2000, the City purchased a replacement vehicle. However, rather than being disposed of, the old vehicle was kept until August 2003.
- During this time, more than \$40,000 was spent on maintenance of the old vehicle that was later sold at auction.
- The City should prepare a business case for retaining units that are slated for disposal and for spending additional resources on these units

## 2 KEY FINDINGS OF THE ORIGINAL 2007 AUDIT OF THE DISPOSAL OF PAVEMENT LINE MARKER EQUIPMENT

1. The City owned a pavement line marker vehicle, unit 34-2926, which had an original book value and residual value in the City's M4 capital asset system of \$327,228 and \$22,906, respectively. According to Supply Management records, the unit was advertised on MERX and two bids were received. The minimum acceptable price was \$20,000 and the unit was sold for \$32,100 to Western Signs & Line Painting, a company that at the time received and continues to receive contract pavement line marker work from the City.
2. The replacement unit, no. 34-2925, was delivered to the City in October 2000 at a total cost of \$454,528, which was erroneously recorded in the M5 system at a cost of \$322,994. The error was recorded in the former municipality's records, however, the current incorrect information is being carried in M5 and should be corrected. Data in the master file for units should be examined to ensure that it is correct, as the City will likely use this information when they implement the new Public Sector Accounting Board (PSAB) standard for accounting of assets.
3. The old unit was retained until August 2003 instead of being disposed of within a reasonable period after the new unit was purchased. Management has indicated that the unit was retained pending an operational review; however, this was not highlighted when the replacement was requested.
4. Commercial costs ranging between approximately \$40,000 and \$51,000 were charged to the operating department during 2000, and approximately \$11,000 in 2001 for outside work that could have been for the old pavement line marker.

5. The City now prepares a business case for retaining units that are slated for disposal and the investment of additional City resources into a unit, which the City is expecting to dispose of.

### **3 STATUS OF IMPLEMENTATION OF 2007 AUDIT RECOMMENDATIONS**

#### **2007 Recommendation 1**

**That the City ensure that whenever charges are made to a closed work order, the work order should automatically be presented to the Supervisor, Fleet Services for review and approval. His approval should be indicated by a password provided for the 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 only 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. This information is documented in the system along with the date and the user's name.

Fleet Services will run the 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 1 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 1**

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. 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. 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 1 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 2**

**That the City assign a person with the responsibility to reconcile the capital projects to the charges in SAP to ensure that they are in balance.**

**2007 Management Response**

Management agrees with this recommendation.

The Financial Support Unit (FSU) is responsible for acquisitions currently reconciled in SAP. The FSU records planned acquisitions by creating SAP reservations based on the detailed replacement plan, creates funded requisitions once a vendor has been selected creating a commitment in SAP and processes a goods receipt that transfers the commitment to an actual expense. As SAP does not track annual expense plans as they are aggregated, annual reconciliation against each years' allocation is also performed by the FSU.

**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%**

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**OAG's Follow-up Audit Findings regarding Recommendation 2**

Each month, the Finance Coordinator reconciles capital projects to SAP. The report titled "2009 Capital Master Tracking Fleet" demonstrates a review of line items including commitments and requisitions, as well as a reconciliation of the balance to the balance in SAP. Although the date of review is indicated on the worksheet, it is not signed or initialled.

*OAG: Response % complete* **100%**

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**2007 Recommendation 3**

**That the City assign a person the responsibility to scrutinize maintenance charges to operating departments to ensure that items have adequate explanations to provide clarity to the charges and that costs that should be charged to a work order are in fact charged to it.**

**2007 Management Response**

Management agrees with this recommendation.

The supervisor is responsible to ensure that charges to a work order are legitimate and applicable. In addition, a high-level trend analysis is performed to capture any major deviations. This is done on a monthly basis by the Operational Support and Policy unit at monthly billing, and by the Fleet Services management team in the three customer reports per year provided in April (3 months), August (7 months) and January (12 months).

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

Implementation of this recommendation is considered 100% complete.

*Management: % complete* **100%**

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**OAG's Follow-up Audit Findings regarding Recommendation 3**

Maintenance charges to operating departments are not adequately scrutinized.

Department charges are included on the quarterly report. The report compares costs to the prior year, and compares projections to budget. Explanations are provided for large increases. The report provided shows an increase of 82% in department charges in the first quarter of 2009 compared to the same quarter in the prior year. As well, the 2009 budget for department charges is \$0 while the projection is \$2,508. These variances are not explained on the report.

The majority of costs are allocated to expense types such as license, management fees, fuel, and repairs and maintenance. Department charges make up less than 0.01% of these costs. Similarly the variances in departmental charges make up less than 0.05% of the variances. The report examines increases in dollar value rather than % increases. Although the dollar value is immaterial, an 82% increase may be an indication of misallocation of charges.

Management explained that departmental charges are now entered in SAP and not in M5 while work order costs continue to be charged in M5. However, without reviewing department charges in SAP, the risk remains that some charges that should be on a work order are charged to the departmental expense.

Variances on repair costs are analysed, including scrutiny of high costs, low usage, and any costs for vehicles slated to be replaced. The analysis is provided to the client with a recommendation (sometimes implied) to review high costs. This analysis will help to ensure accuracy and authorization of charges, as well as effective use of resources. However, it does not address this recommendation. Furthermore, accountability is placed on the client to follow up on unexplained high costs.

***OAG: Response % complete*** ***30%***

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

Management disagrees with the OAG's follow-up audit finding that action has been initiated to implement this recommendation but it is not yet considered complete.

Management believes charges to operating departments are adequately scrutinized.

The supervisor is responsible to ensure that charges and costs that should be charged to a work order are in fact charged to it. The supervisor is also responsible for ensuring that items have adequate explanations to provide clarity to the charges and costs charged to a work order. In addition, a high-level trend analysis is performed to capture any major deviations. This is done on a monthly basis by the Operational Support and Policy unit at monthly billing and by the Fleet Services management team in the three customer reports per year provided in April (3 months), August (7 months) and January (12 months).

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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## 5 CONCLUSION

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## 6 ACKNOWLEDGEMENT

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