



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

**FOLLOW-UP TO THE 2007 AUDIT OF THE INVENTORY AND ASSET  
MANAGEMENT PROCESSES**

**2009**

**SUIVI DE LA VÉRIFICATION DES PROCESSUS DE GESTION DES  
STOCKS ET DES BIENS DE 2007**



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## EXECUTIVE SUMMARY

### *Introduction*

The Follow-up to the 2007 Audit of the Inventory and Asset Management Processes was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2007 audit included:

- Insufficient controls of inventory management make it difficult to ensure inventory is being used only for the City's benefit.
- There are no City-wide policies on inventory or systems and procedures to control the City of Ottawa's assets and inventory. Control and recording of some City assets is either non-existent or incomplete.
- City assets and inventories should be recorded within the Corporate accounting systems.
- The audit recommended that the City Treasurer assign a function with the overall responsibility for all City assets. This function would be responsible for developing and issuing overarching policies, systems, controls and procedures on City assets and inventory. Management disagreed with this recommendation.

### *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     | 1, 5, 8a, 16b, 17b, 20c, 24a, 24b, 25b, 33, 47, 52  | 12                        | 13%                                 |
| ACTION INITIATED       | 25 – 49    | 3b, 3c, 14a, 14b, 16a, 22, 30, 35, 44, 49   | 10                        | 10%                                 |
| PARTIALLY COMPLETE     | 50 – 74    | 2, 3a, 4, 7, 8c, 25a, 26a, 26b, 28c, 29, 32a, 37, 42, 48c, 53, 55   | 16                        | 17%                                 |
| SUBSTANTIALLY COMPLETE | 75 – 99    | 6, 8b, 17a, 20a, 20d, 20e, 24c, 24e, 31, 36, 58   | 11                        | 11%                                 |
| COMPLETE               | 100        | 9a, 9b, 9c, 9d, 10, 11, 12, 13a, 13b, 13c, 13d, 13e, 15, 18, 19, 20b, 21a, 21b, 21c, 23, 24d, 26c, 27, 28a, 28b, 32b, 32c, 34a, 34b, 34c, 38, 39, 40, 41, 43a, 43b, 45a, 45b, 45c, 46, 48a, 48b, 50, 51, 54, 56, 57 | 47                        | 49%                                 |
| TOTAL                  |            |   | 96                        | 100%                                |

## ***Conclusion***

Overall, there has been significant progress on the recommendations of the initial audit. Including those recommendations with multiple issues there are more than 96 unique items to assess. Of those, 58 are substantially met or better and 38 are partially met or less. The introduction of hand-held scanners, which is currently underway, will further address some recommendations which are currently not fully met.

Some inventory remains which is not under the control of Supply Management but additional controls have been introduced with the recent implementation of SAP and the intent of the initial recommendations has been achieved while meeting operational requirements.

There has been a significant change since the original audit was conducted. SAP has been introduced to manage all inventories and M5 is now used only for the maintenance aspect of vehicles.

There remain some issues related to segregation of duties which management believes are directly linked to staffing levels. Additionally, the tracking of information technology (IT) related equipment remains deficient.

## ***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 des processus de gestion des stocks et des biens 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 gestion des stocks de la Ville d'Ottawa n'est pas suffisamment contrôlée, si bien qu'il est difficile de s'assurer que les stocks servent exclusivement aux besoins de la Ville.
- Les politiques générales régissant l'inventaire et les systèmes de gestion des stocks sont absentes et il n'existe pas de procédures générales de contrôle des biens et des stocks de la Ville. Le contrôle et la consignation de certains stocks de la Ville sont ou bien inexistantes ou bien incomplets.
- Les stocks municipaux devraient être consignés dans les systèmes de comptabilité de la Ville.
- Le rapport recommande que la trésorière municipale désigne un responsable général des stocks de la Ville, qui aura pour rôle d'élaborer et d'établir des politiques, des systèmes, des contrôles et des procédures généraux relativement aux biens et aux stocks de la Ville, mesure à laquelle s'oppose la direction.

### 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               | 1, 5, 8a, 16b, 17b, 20c, 24a, 24b, 25b, 33, 47, 52  | 12                        | 13 %                                     |
| ACTION AMORCÉE               | 25 - 49              | 3b, 3c, 14a, 14b, 16a, 22, 30, 35, 44, 49   | 10                        | 10 %                                     |
| COMPLÉTÉE EN PARTIE          | 50 - 74              | 2, 3a, 4, 7, 8c, 25a, 26a, 26b, 28c, 29, 32a, 37, 42, 48c, 53, 55   | 16                        | 17 %                                     |
| PRATIQUEMENT COMPLÉTÉE       | 75 - 99              | 6, 8b, 17a, 20a, 20d, 20e, 24c, 24e, 31, 36, 58   | 11                        | 11 %                                     |
| COMPLÉTÉE                    | 100                  | 9a, 9b, 9c, 9d, 10, 11, 12, 13a, 13b, 13c, 13d, 13e, 15, 18, 19, 20b, 21a, 21b, 21c, 23, 24d, 26c, 27, 28a, 28b, 32b, 32c, 34a, 34b, 34c, 38, 39, 40, 41, 43a, 43b, 45a, 45b, 45c, 46, 48a, 48b, 50, 51, 54, 56, 57 | 47                        | 49 %                                     |
| TOTAL                        |                      |   | 96                        | 100 %                                    |

## **Conclusion**

Dans l'ensemble, des progrès importants ont été réalisés en ce qui a trait aux recommandations de la vérification initiale. Plus de 96 points uniques devaient être évalués, y compris les recommandations portant sur des questions multiples. De cet ensemble, 58 ont été traités en grande partie, 38 l'ont été de façon partielle ou moindre. L'instauration de scanners à main, qui est en cours actuellement, permettra de répondre davantage à certaines recommandations qui n'ont pas encore été complètement mises en œuvre.

Certains stocks ne relèvent toujours pas de la Gestion de l'approvisionnement, mais des contrôles supplémentaires ont été adoptés avec la récente mise en place de SAP, et donc l'objectif des recommandations initiales a été atteint tout en satisfaisant aux exigences opérationnelles.

Un changement important a été apporté depuis que la vérification originale a été effectuée. SAP a été mis en place en vue de gérer tous les stocks et M5 n'est maintenant utilisé que pour l'entretien des véhicules.

Des questions relativement à la répartition des tâches demeurent qui, selon la direction, sont directement liées aux niveaux de dotation. De plus, le suivi du matériel relatif à la technologie de l'information (TI) reste insuffisant.

## **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 Inventory and Asset Management Processes was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2007 audit included:

- Insufficient controls of inventory management make it difficult to ensure inventory is being used only for the City's benefit.
- There are no City-wide policies on inventory or systems and procedures to control the City of Ottawa's assets and inventory. Control and recording of some City assets is either non-existent or incomplete.
- City assets and inventories should be recorded within the Corporate accounting systems.
- The audit recommended that the City Treasurer assign a function with the overall responsibility for all City assets. This function would be responsible for developing and issuing overarching policies, systems, controls and procedures on City assets and inventory. Management disagreed with this recommendation.

## 2 KEY FINDINGS OF THE ORIGINAL 2007 AUDIT OF THE INVENTORY AND ASSET MANAGEMENT PROCESSES

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:
  - Inventory records whether controlled by the official stores or other areas had error rates that were too high;
  - There were excessive adjustments to inventory in SAP and M5;

- There were many items contained in formal stores that had unacceptably low movement rates; and,
  - Items no longer required in stores were disposed of too late in their cycle 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.

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

#### **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.**

#### **2007 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.

**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**

While management disagrees with the above recommendation, they have taken steps to ensure the controls governing the City's assets and inventory management system have been enhanced in order to ensure its proper safeguarding. Enhancements implemented include a Tangible Capital Assets Policy which addresses capitalization thresholds and depreciation rates, a written declaration that the year-end asset listing is complete and accurate, continuous adherence to procedures and purchasing by-laws, centralized transactional and payment processing in SAP, the addition of an inventory systems analyst, as well as the general strengthening of asset and inventory controls resulting from this original audit.

Management disagreed with the recommendation.

*OAG: % complete* *0%*

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

*Management: % complete* *0%*

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**2007 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.**

**2007 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.

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

Implementation of this recommendation is 25% complete. The PSAB implementation project is progressing on schedule. The process and IT solution is

100% developed and four out of twenty-eight asset groups (14%) have been converted.

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*Management: % complete* *25%*

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

The City's PSAB implementation project appears to be progressing on schedule and in line with their established timeline to implement the requirements. In the event the City continues to progress in accordance with the anticipated timelines, it appears likely they would be in compliance with PSAB s3150 in time for the external audit of the 2009 financial results. It is critical that the City continues to be diligent in this implementation as timelines are tight and time is of the essence.

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*OAG: % complete* *50%*

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

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete. The selection and implementation of a technical solution, identification and valuation of TCA eligible assets, and loading 2008 assets into RIVA and SAP are complete. The development of end state business processes is substantially complete. 2009 asset transactions have been received and are in the process of being loaded into the systems and analysed. This requirement will be completed with the finalization of the 2009 financial statements.

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*Management: % complete* *80%*

### **2007 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.

### **2007 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.

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

Implementation of recommendation 3a) is 75% complete. The Policy & Compliance Unit developed a draft Inventory Turnover policy in Q4 2008. It is currently under review in Supply Management and is expected to be finalized in Q1 2009.

Implementation of recommendation 3b) is 40% complete. SAP capability has been reviewed and requires access in SAP Production for Queries, in SQVI, in order to develop a process to analyze anomalies. Access was requested in October 2008. This is on target for completion in Q3 2009.

Implementation of recommendation 3c) is 40% complete. SAP capability has been reviewed and assisted in the creation of report ZCYCLECNT to address anomalies in inventory adjustments and cycle counting statistics. This is on target for completion in Q3 2009.

|                                   |            |
|-----------------------------------|------------|
| <i>Management: % complete (a)</i> | <i>75%</i> |
| <i>Management: % complete (b)</i> | <i>40%</i> |
| <i>Management: % complete (c)</i> | <i>40%</i> |

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

- a) The City's has drafted a policy providing for a common methodology for the calculation of various inventory metrics. The policy, however, has not yet been finalized.
- b) The City has developed various informative monthly reports to analyze anomalies in transactions to inventory. We have reviewed a sample of the reports provided and appear to be in-line with the spirit of the audit

recommendation. The reports, however, have not yet been implemented as part of the managers' responsibilities. As such, the frequency of the utilization of the reports could not be assessed nor could an assessment be derived from the methodology utilized in applying the management action plans.

c) See (b) above.

|                            |            |
|----------------------------|------------|
| <i>OAG: % complete (a)</i> | <b>50%</b> |
| <i>OAG: % complete (b)</i> | <b>40%</b> |
| <i>OAG: % complete (c)</i> | <b>40%</b> |

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

- a) Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete. The Inventory Turnover - Corporate Policy was approved by the City Treasurer in February 2010. Management considers implementation of this item to be complete.
- b) Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete. As observed by the OAG, the reports in question have been developed. Management considers implementation of this item to be complete.
- c) Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete. As observed by the OAG, the reports in question have been developed. Management considers implementation of this item to be complete.

|                                   |             |
|-----------------------------------|-------------|
| <i>Management: % complete (a)</i> | <b>100%</b> |
| <i>Management: % complete (b)</i> | <b>100%</b> |
| <i>Management: % complete (c)</i> | <b>100%</b> |

**2007 Recommendation 4**

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

**2007 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.

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

Implementation of this recommendation is 100% complete.

*Management: % complete* *100%*

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**OAG's Follow-up Audit Findings regarding Recommendation 4**

The City's implementation of RIVA to record, account for and track all the City assets appears to be progressing on schedule and in line with their established timeline to implement the common system requirements. In the event the City continues to progress with the implementation of the RIVA, the common system, in accordance with the anticipated timelines, it appears likely they would have a functional system to track the City assets in time for the external audit of the 2009 financial results. The successful implementation of RIVA is a critical part of the requirement to be in compliance with PSAB s3150 (refer to audit Recommendation 2). It is critical that the City continues to be diligent in this implementation as timelines are tight and time is of the essence.

*OAG: % complete* *65%*

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**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 partially complete. At December 31, 2008, the RIVA application had been acquired, installed, piloted, and accepted according to the design blueprint. Refinements to the system were made during 2009 and will continue as opportunities arise to provide the best overall solution on a go-forward basis. Management considers implementation of this recommendation to be complete.

*Management: % complete* *100%*

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**2007 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.**

**2007 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.

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

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

*Management: % complete* *0%*

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**OAG's Follow-up Audit Findings regarding Recommendation 5**

While management disagrees with the above recommendation, they have included the training referred to in their original management response in their Tangible Capital Asset Project. The development of the training plan and materials is scheduled for completion between December 2009 and January 2010, with actual training to commence shortly thereafter. In addition, policies and SAP management exception reports have been developed to enhance the controls on the City's inventories; these are in the process of being finalized.

Management disagreed with the recommendation.

*OAG: % complete* *10%*

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

*Management: % complete* *0%*

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**2007 Recommendation 6**

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

**2007 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.

**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**

The City currently performs routine (quarterly) periodic reconciliations of inventory balances and purchases to the financial statements. It is recommended however that the quarterly reconciliations be reviewed and approved as part of the quarterly financial reporting close process in accordance with the "Financial Services Branch - Reconciling Inventory Records-Corporate Procedures" (draft procedures).

*OAG: % complete* 80%

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

Management agrees with the OAG's follow-up audit finding. The procedures will be finalized by the end of Q1 2010.

*Management: % complete* 80%

**2007 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.**

**2007 Management Response**

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

**Management Representation of the Status of Implementation of Recommendation 7 at December 31, 2008**

Implementation of this recommendation is 50% complete. Significant progress has been made on the issue, based on SAP functionality that can ensure compliance. Regular follow-up with Surface Operations on specific plant locations confirms that sequencing issues continue to challenge long-term solutions. Finance will oversee an increased focus on resolution in Q1/Q2 2009.

*Management: % complete* *50%*

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**OAG's Follow-up Audit Findings regarding Recommendation 7**

The City has established a process whereby an examination of the inventory database records is undertaken to identify and resolve negative balance issues on a weekly basis (as well as positive stock quantities with a nil or negative value). This review is facilitated by the creation of a report to monitor negative stock balances across the City's inventory accounts which is reviewed weekly and distributed promptly when a finding requires immediate attention. The inventory records, however, have not been fully corrected to resolve the negative stock quantities in the inventory accounts (refer to audit Recommendation 14).

*OAG: % complete* *50%*

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**Management Representation of Status of Implementation of Recommendation 7 as of Winter 2010**

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete. Implementation of measures to minimize negative stock balances on a continuing basis has been completed.

These measures include:

- Timely recording of receipt of goods by front-line administrative staff, remedying the great majority of negative inventory balances.
- Blocking of obsolete/historical stock codes to prevent their inadvertent use.
- Other minor sources of negative balances have either been addressed or are closely monitored and corrected on a routine basis.
- Throughout the winter, an on-hand quantities salt report is regularly circulated to management staff for confirmation of on-hand inventory.
- A weekly inventory movements report is now provided to supervisors responsible for inventory for review and confirmation.

As a result of these initiatives and improvements, negative balances in the system have been reduced from approximately \$700K to about \$50K on a \$30 M + annual inventory value, with continuing measures being taken to further reduce remaining

discrepancies. Management considers implementation of this recommendation to be complete.

*Management: % complete* *100%*

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### **2007 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.**

### **2007 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.

### **Management Representation of the Status of Implementation of Recommendation 8 at December 31, 2008**

Implementation of recommendation 8a) has not yet begun. Materials Management Transit stores continue to use cycle counts of inventory, and Materials Management Fleet stores intend to start using cycle counts in 2009, subsequent to implementation of the SAP inventory management application. Materials Management General stores propose to continue with annual inventory counts as being preferable for a number of reasons, and a briefing note has been prepared for future discussion at the Council Audit Working Group.

Implementation of recommendation 8b) is 50% complete. A compliance review will be undertaken in Q1 2009.

Implementation of recommendation 8c) is 25% complete. Wireless bar coding has been implemented at the Pinecrest Garage (Transit Stores). Implementation to all of

Transit will be complete by Q3 2009. Certain stores sites for Fleet Stores and General Stores will also be implemented in 2009. However, funding of the additional budget requirement of \$225K is uncertain based on deletion of the IT Service Excellence portion from the 2009 Operating budget.

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| <i>Management: % complete (a)</i> | <i>0%</i>  |
| <i>Management: % complete (b)</i> | <i>50%</i> |
| <i>Management: % complete (c)</i> | <i>25%</i> |

**OAG’s Follow-up Audit Findings regarding Recommendation 8**

The City has implemented cycle counts processes as part of Municipal Fleet and the Transit group. The complexity of the counts is heightened due to the 24/7 operations and the inability to shut down the operations in order to perform a full count. As such, count procedures have been developed to ensure the counts are performed quickly and effectively keeping tabs of any movement during the count. Cycle counts are an on-going process throughout the year. Independent counters are utilized to increase the efficiency and effectiveness of the control. The Materials Management General Stores unit, however, do not perform cyclical counts due to the fact that management believes that an annual count provides a more controlled, secure and definitive picture of inventory on hand at a given time. Each warehouse takes a full day to count, during which the operations are closed for the day. It is our opinion that this deviation from the audit recommendation is acceptable given the Materials Management General Stores’ operations.

The implementation of a wireless barcode solution that permits inventory staff to perform various functions via a handheld barcode device is expected to be fully implemented during the 4<sup>th</sup> quarter of 2009.

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| <i>OAG: % complete (a)</i> | <i>0%</i>  |
| <i>OAG: % complete (b)</i> | <i>80%</i> |
| <i>OAG: % complete (c)</i> | <i>50%</i> |

**Management Representation of Status of Implementation of Recommendation 8 as of Winter 2010**

- a) Management disagrees with the OAG’s follow-up audit finding that there has been little or no action taken to implement this recommendation. As stated by the OAG above, management’s “deviation from the audit recommendation is acceptable given the Materials Management General Stores’ operations”. Materials Management General Stores proposes to continue with annual inventory counts which are preferable for a number of reasons. A briefing note has been prepared for future discussion at the Audit, Budget and Finance Committee. Management considers implementation of this item to be complete.

- b) Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete. Routine samples of inventory counts are verified by an independent person. Management considers implementation of this item to be complete.
- c) Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete. Wireless bar coding has been fully implemented in all locations except for Manotick which was delayed due to road construction. This is expected to be complete by the end of Q3 2010. Management considers implementation of this item to be substantially complete.

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| <i>Management: % complete (a)</i> | <i>100%</i> |
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| <i>Management: % complete (b)</i> | <i>100%</i> |
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| <i>Management: % complete (c)</i> | <i>95%</i> |
|-----------------------------------|------------|

### **2007 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.**

### **2007 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 cannot 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.

**Management Representation of the Status of Implementation of Recommendation 9 at December 31, 2008**

Implementation of these recommendations is 100% complete.

***Management: % complete (a) (b) (c) (d)*** **100%**

**OAG's Follow-up Audit Findings regarding Recommendation 9**

The Obsolete and Surplus Materials Inventory Policy of July 23, 2008 states: *"The net cost associated with disposal of surplus and obsolete inventory will be charged to the originating department and reported annually to the City Treasurer."* Program areas are charged for the disposal of obsolete items.

The Obsolete Materials Policy further states: *"Timely identification of surplus and obsolete material is essential to an effective disposition program. Delay in the identification and disposal ties up capital, resulting in higher carrying costs and further deterioration of items."* Review of inventory for slow moving items is now done annually rather than every two years. Program areas are consulted and required to justify the



retention of slow-moving items. Additionally, annual report to the City Treasurer identifies all items declared surplus as of October 7, 2009.

SAP has, imbedded in the system, a standard feature that monitors issues which are included and/or counted as a movement for MRP threshold purposes.

A standard feature of SAP ensures the procurement aspect of MRP is “blocked” so items flagged as ‘rejected’ by the program area requires an Inventory Analyst’s approval before additional stock can be purchased.

***OAG: % complete (a) (b) (c) (d)*** ***100%***

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### **2007 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.**

#### **2007 Management Response**

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

#### **Management Representation of the Status of Implementation of Recommendation 10 at December 31, 2008**

Implementation of this recommendation is 100% complete

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

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#### **OAG’s Follow-up Audit Findings regarding Recommendation 10**

M5 is no longer used for the managing of inventories. All inventories are now managed through SAP. While SAP access has not yet been segregated for staff involved in the different functions of raising PO, issuing and receiving, it has been for Inventory Adjustments, where now only the four supervisory positions can make adjustments as they are not involved in day-to-day operations of stores.

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

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### **2007 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.**

#### **2007 Management Response**

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

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**Management Representation of the Status of Implementation of Recommendation 11 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

**OAG's Follow-up Audit Findings regarding Recommendation 11**

SAP contains a reporting feature that provides timelines for the reception and inventorying of stock items. Hand held scanners are used to record transactions related to the receipt and issuance of inventory at Municipal Fleet Stores at Swansea location and at General Stores locations. In both cases they were recorded promptly and at the Fleet Stores the accuracy was enhanced by the use of bar codes. Additionally, the introduction of the hand held (mobile) scanners and bar coding process at all locations later in 2009 will further improve promptness and accuracy, as posting will be instantaneous.

Additionally SAP reports demonstrate that there are minimal delays in the process currently and that transactions are processed throughout the day with no evident "batching" of transactions.

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

**2007 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.**

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 12 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

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**OAG's Follow-up Audit Findings regarding Recommendation 12**

The initial audit raised an issue related to control boxes, "that can have a value in the order of \$10,000 to \$30,000". Traffic have changed their methods and supplier for signal boxes and no longer have rebuilds or partial builds in inventory. They now purchase virtually ready to install boxes so no longer require partial builds in order to meet short turnaround times. Consequently when boxes are drawn from Supply Management inventory they go to a work order and are immediately built for installation purposes. The sign and signal shops maintain a working inventory of "blanks" and other consumable items, as well as a relatively small number of commonly used signage for immediate replacement of damaged units, and traffic lights which range in price from \$300 to \$6,600, with roughly 75% being at about \$700. All these items are in SAP.

Additional controls in place are: annually Supply Management aids in conducting a physical inventory and additional "controlled access" card readers have been installed to mitigate the risk associated with "vehicles coming and going all the time". It is noted that 24/7 access to some storage space is required by City staff to immediately replace lights and critical signage however there is no access to other inventories.

Appropriate steps have been taken to meet the intent of the recommendation while allowing for practical operating procedures, therefore the steps taken to meet the audit recommendation has been deemed 100% acceptable.

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

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**2007 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.

**2007 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).

**Management Representation of the Status of Implementation of Recommendation 13 at December 31, 2008**

Implementation of this recommendation is 100% complete

**Management: % complete (a) (b) (c) (d) (e)** **100%**

**OAG's Follow-up Audit Findings regarding Recommendation 13**

- a) There is an adequate amount of segregation of duties in the receiving/stocking and issuing/shipping functions at the Leitrim Nursery. Duties are shared

between the Forestry Inspector and the Forestry Crew Leader and a logbook is used for the goods received in and shipped out of the Nursery. The logs are reconciled to the Forestry operational system on a periodic basis.

- b) All goods issued from the Nursery are logged, compared against the City of Ottawa Service Request (SAP generated document) provided by the independent contractor, and signed by the receiver. Residents receiving trees (or similar products planted by the City on the resident's lot) do not sign for the tree upon finalization of the installation. Residents, however, formally agree to a contact indicating they are requesting a tree and are knowledgeable of the terms and conditions, which go along with receiving a tree from the City. The risk of non-delivery is mitigated by the fact the resident is likely to call the City and inquire about a missing, but expected, tree. Furthermore, the benefits of obtaining a resident signature upon receipt of the tree planting services are offset by the high cost and administrative complexity in obtaining the signature from the resident. If suspicions arise, site visits can be done anytime to determine if a City tree is present at its specific location.
- c) Supplies at the Bloomfield Yard are kept under lock and key. The use of the supplies is controlled by the storekeeper using an inventory-tracking sheet. The supplies are items required by workers in order to perform their duties and are of low monetary value. These supplies are expensed upon purchase and are not tracked in the City's inventory accounts.
- d) During our site visit we observed that no personal vehicles were located inside the garages. Management indicated that employees are aware of the policy not to use the garages for personal vehicles. It is recommended however that this policy be posted in a visible location to remind the employees that the activity is not tolerated; alternatively, all employees could acknowledge and sign that they have read and understood the policy.
- e) Cameras were installed at the Bloomfield Yard. The installation of cameras was considered for the Leitrim Nursery, however, in light of their imminent move out of the current leased location to new location in the West End (Moodie Drive), no cameras were installed at the Leitrim Nursery. The use of cameras will be considered for the new site before the end of the year.

**OAG: % complete (a) (b) (c) (d) (e)**

**100%**

#### **2007 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.**

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 14 at December 31, 2008**

Implementation of this recommendation is 25% complete. Surface Operations have developed and implemented new procedures with respect to ordering and receiving. Recommendations will be addressed by Q2 2009.

*Management: % complete (a) (b)* 25%

**OAG's Follow-up Audit Findings regarding Recommendation 14**

- a) The City has implemented the random use of a portable scale to assist it in verifying that the salt shipments received from the suppliers accurately match the load sheets. The suppliers have all been notified that the City has adopted this control but the suppliers are not told when the scale will be used. During the 2008/09 winter season, 15 weigh-ins were performed with satisfactory results. The number of weigh-ins performed are quite low in comparison to the total number of (salt) shipments (6,059) received at the City in the winter 08/09. As such, the City should consider expanding the use of the scale to, statistically speaking, provide them with the ability to extrapolate the sample results onto the general population (total annual salt shipments) and conclude on the assurance provided from the weigh-ins. Currently, too few tests are done to have the ability to extrapolate the results. Moreover, it is recommended that the portable scale be utilized for all types of material received by the City, and not just the salt shipments. It is recommended that the procedure "SALT - Deliveries to Maintenance Yards Procedure (RDS-001)" be revised to include a comprehensive section of the accepted methodology when accepting shipments in the approved yards. Furthermore, RDS-001 only deals with the salt

shipments. The City is encouraged to document the process of receiving shipments for all other materials it receives (such as clear aggregates, asphalt, sand, grit, etc.). While some positive steps have been initiated processes need to be further elaborated and applied.

- b) The City is in the process of an Inventory Management Enhancement Implementation project. The project will change the recordkeeping process whereby the receipts and distribution of the granular materials (which includes salt, sand, gravel, etc.) are recorded by representatives at the yard on a timely basis. The expected implementation date is October 12, 2009; as such, this could not be assessed at the time the fieldwork was completed. Inventory counts and how they are undertaken have been implemented for both winter and summer materials. An inventory count methodology has been drafted and is currently used. It is recommended that the inventory count procedures be reviewed, formalized, and subsequently approved by the appropriate officials.

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| <i>OAG: % complete (a)</i> | <i>25%</i> |
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| <i>OAG: % complete (b)</i> | <i>25%</i> |
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**Management Representation of Status of Implementation of Recommendation 14 as of Winter 2010**

- a) 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 partially complete.

A number of additional enhancements have been made since the follow-up audit, including:

- Random weighing of salt deliveries increased this winter season to a total of 31. Additional random weighing is anticipated prior to the end of the season. If necessary due to errors or field staff observations, frequency of random weighing may be increased in the future, as required.
- Hot mix asphalt is weighed on a certified scale in the presence of City staff at the point of pickup at the asphalt plant.
- The existing documented receiving procedures for all bulk materials have been improved as recommended.
- Receiving staff is to perform a visual inspection of delivered materials prior to receipt to confirm delivered quantity matches quantity on load sheets.
- Deliveries are to be rejected if the visual inspection fails.
- Field staff may also make advance requests to their Area Manager, for random weighing of bulk deliveries if they feel it is warranted.

- After careful review and assessment, it has been determined that random weigh ins will not be performed as a routine procedure for bulk materials other than salt. Rather, the enhanced receiving procedures described above (specifically, visual inspections by receiving staff with the ability to reject loads or to call for ad hoc weigh ins, as required) adequately mitigates risks for the following reasons:
  - The **delivered** cost per tonne of gravel, sand, grit, and sand is \$10.65, \$11.97, \$20.07, and \$17.55; respectively with a significant portion of this cost for transportation. Since the value of the material is low, financially significant discrepancies of delivered quantities vs. load sheet totals will be visibly obvious.
  - The cost of statistically random weigh in of these low value materials, that may be delivered to work locations throughout the City, would result in a requirement for additional staff and funding and is not felt to be justifiable at this time. All other enhanced receiving procedures described above, however, will be applied to all bulk materials – specifically, visual inspections and ability to call for a weigh in if deemed warranted for any reason.

With the above-noted enhancements, management believes the intent of this audit recommendation has been fully satisfied. Management considers implementation of this recommendation to be complete.

- b) 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 partially complete.

Improvements to inventory transaction processing and management controls have resulted in full compliance with the audit recommendations. Specifically:

- Data entry responsibility for bulk goods receipts has been transferred from Finance staff to Administrative Services staff. As a result, goods receipts are entered into the system prior to processing of inventory issue transactions, eliminating a major source of negative inventory balances in the system.
- Other minor sources of negative balances have either been addressed or are closely monitored and corrected on a routine basis.
- Throughout the winter, an on-hand quantities salt report is regularly circulated to management staff for confirmation of on-hand inventory.
- A weekly inventory movements report is now provided to supervisors responsible for inventory for review and confirmation.
- Annual inventory count procedures have been reviewed and approved.

As a result of these initiatives and improvements, negative balances in the system have been reduced from approximately \$700K to about \$50K on a \$30M + annual inventory value, with continuing measures being taken to further reduce remaining



discrepancies. Management considers implementation of this recommendation to be complete.

*Management: % complete (a)* 100%

*Management: % complete (b)* 100%

### **2007 Recommendation 15**

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

#### **2007 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.

#### **Management Representation of the Status of Implementation of Recommendation 15 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* 100%

#### **OAG's Follow-up Audit Findings regarding Recommendation 15**

Through a site visit it was confirmed that the key for the recycle bins storage area is now kept in a secure location.

*OAG: % complete* 100%

### **2007 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.

#### **2007 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.

**Management Representation of the Status of Implementation of Recommendation 16 at December 31, 2008**

Implementation of recommendation 16a) is 25% complete. The new electronic ordering form was developed in 2008. The implementation of the integrated IT inventory and change-tracking system will now occur by Q3 2009. At the same time, a new automated ordering form will be launched that clearly captures the required amount of details to ensure that the inventory information is accurate.

Implementation of recommendation 16b) has not yet begun and will be scheduled for discussion at an upcoming CAWG meeting.

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| <i>Management: % complete (b)</i> | <i>0%</i> |
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**OAG’s Follow-up Audit Findings regarding Recommendation 16**

- a) The City of Ottawa is implementing a multi-phased Service Management Tool (Marval) over the next four years. Phase 1 has been implemented giving ITS the ability to, going forward, consistently record the name of the assigned employee against each piece of IT equipment installed. Full asset management and continuous tracking of assets is available as another module to the Marval ERP tool. In 2010, ITS will begin evaluation of asset tracking requirements with a view to capture requested asset information from an on-line order system that would feed into an eventual asset management database. An IT Asset Management Policy will be developed in 2010 as a first step towards ongoing asset management. Although ITS has the ability to record the name of the

assigned employee to the IT equipment, no clean-up activities have been undertaken to validate the accuracy of the current ITS asset master listing.

b) Management disagrees with this recommendation.

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| <i>OAG: % complete (a)</i> | <i>25%</i> |
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| <i>OAG: % complete (b)</i> | <i>0%</i> |
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### **Management Representation of Status of Implementation of Recommendation 16 as of Winter 2010**

a) Management agrees with the OAG's follow-up audit finding. The electronic approach leveraging the Marval IT Service Management (ITSM) Tool is the most effective way to track and maintain this information rather than obtaining a physical signature from the employee who is purchasing the IT equipment. When fully deployed, the Marval tool will provide a consolidated system to track each piece of installed equipment together with equipment description, serial number as well as the City's asset tag number. The ITS department is not planning to undertake a clean-up exercise of the historical ITS asset master listing due to the associated cost. ITS is focusing on the development of an IT Asset Management Policy with a view to capturing the requested asset information from an online order system that will eventually feed into an asset management database.

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| <i>Management: % complete (a)</i> | <i>25%</i> |
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| <i>Management: % complete (b)</i> | <i>0%</i> |
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### **2007 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.

### **2007 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.

**Management Representation of the Status of Implementation of Recommendation 17 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

**OAG's Follow-up Audit Findings regarding Recommendation 17**

- a) Fleet Services Branch maintains an accurate and up-to-date database of the vehicles and equipment operated by the Branch. However, it was noted that there are several instances of "unknown model numbers" and "unknown locations". It is recommended that the City ensure the listing is updated to reflect the make and model for each item as well as the asset locations.
- b) Fleet Services Branch does not conduct periodic physical inventories of its vehicles and equipment.

**OAG: % complete (a)** **75%**

**OAG: % complete (b)** **0%**

**Management Representation of Status of Implementation of Recommendation 17 as of Winter 2010**

- a) Management disagrees with the OAG's follow-up finding that implementation of this recommendation is only substantially complete. The units showing model as "unknown model numbers" were coded as such because they were legacy equipment that arrived prior to the implementation of M5. Fleet will now record their respective models as "legacy". The units showing "unknown locations" were mainly attachments and are also being updated with the applicable location. Management considers implementation of this item to be complete.
- b) Management disagrees with the OAG's follow-up finding that there has been little or no action taken to implement this recommendation. We are unaware of any organization with a fleet the size of the City of Ottawa's that is capable of a full, comprehensive vehicle count at a singular point in time. This is due to the fact that these large fleets are constantly in motion, 24 hours a day, 7 days a week. It is, therefore, 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. Fleet reviews these reports and takes action as appropriate. Management considers implementation of this item to be complete.

**Management: % complete (a)** **100%**

**Management: % complete (b)** **100%**

**2007 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.

**2007 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 cited 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%.

**Management Representation of the Status of Implementation of Recommendation 18 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

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**OAG's Follow-up Audit Findings regarding Recommendation 18**

The City currently has a procedure for 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. Vehicles slated for disposal have a status assigned and if the maintenance shop attempts to raise a work order for service to that vehicle a pop-up appears on the screen stating "Warning - this unit has been flagged for disposal." It then provides the estimated disposal date.

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

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**2007 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.

**2007 Management Response**

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

**Management Representation of the Status of Implementation of Recommendation 19 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

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**OAG's Follow-up Audit Findings regarding Recommendation 19**

The Policy on Personal Use of City Vehicles was updated effective April 2008. To date, there has only been one reminder issued to staff, in September 2008, after the new policy came into effect in April 2008. The Policy and procedures along with FAQ are readily available in the Ozone for managers and directors. Enforcement lies with the user departments since their management has to evaluate and approve personal use if they feel this to be in the interest of the City. As per the Manager of Payroll, 29 individuals submitted the necessary documentation to Payroll for the necessary adjustments to Taxable Benefits.

*OAG: % complete*

*100%*

**2007 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.

**2007 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.

### **Management Representation of the Status of Implementation of Recommendation 20 at December 31, 2008**

Implementation of recommendation 20a) has not yet begun. Management initially agreed to install new alarms and cameras and requested funding in the 2009 budget; however, funding was denied. This item will be carried forward to 2010.

Implementation of recommendation 20b) is 100% complete.

Implementation of recommendation 20c) has not yet begun. As per the initial management response, an FTE was requested in the 2009 budget to staff the receiving and stocking function. Funding was denied. Given the lack of funding, it is not possible at this time to segregate the receiving, stocking, and issuing functions. Staff will consider the implementation of preventative mitigating controls, with a revised timeline of Q4 2009.

Implementation of recommendation 20d) is 100% complete.

Implementation of recommendation 20e) has not yet begun. Funding for an independent person to confirm artwork damage was not approved in the 2009 budget and will be carried over to 2010. Works that are damaged beyond repair are now discussed with an independent conservator before de-accessioning.

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| <i>Management: % complete (a)</i> | <i>0%</i>   |
| <i>Management: % complete (b)</i> | <i>100%</i> |
| <i>Management: % complete (c)</i> | <i>0%</i>   |
| <i>Management: % complete (d)</i> | <i>100%</i> |
| <i>Management: % complete (e)</i> | <i>0%</i>   |

### **OAG's Follow-up Audit Findings regarding Recommendation 20**

- a) The storage room located at 172 Guigues is under lock and key and is complemented by a functional alarm system. Due to the current renovations following the move to this location, the camera has not yet been installed.
- b) The controls surrounding the removal of the artwork (via the inward / outward document and their internal database) are acceptable.
- c) The current staffing levels do not enable an acceptable segregation of duties in the incompatible functions.
- d) The methodology utilized is such that a consecutive numbering system is applied for each fiscal year. A gap in the numbering system exists between fiscal years as no indicators are utilized to close the year. Moreover, two accession numbers were identified as blank (i.e., gaps were identified).

e) The City utilized an independent appraiser to assess damaged artwork before they are de-accessioned.

OAG: % complete (a) 75%

OAG: % complete (b) 100%

OAG: % complete (c) 0%

OAG: % complete (d) 90%

OAG: % complete (e) 90%

**Management Representation of Status of Implementation of Recommendation 20 as of Winter 2010**

a) Management agrees with the OAG’s follow-up audit finding. The camera will be re-installed after the renovations. This is expected to be complete by Q3 2010.

c) Management disagrees with the OAG’s follow-up audit finding that there has been little or no action taken to implement this recommendation. Council has approved funding for an FTE for a Registrar position to enable an acceptable segregation of duties in the incompatible functions. A job description has been written and is in the process of being reviewed and approved. A temporary position will be filled until the permanent position is processed. This is expected to be complete by Q3 2010. Management considers implementation of this item to be substantially complete.

d) Management disagrees with the OAG’s follow-up finding that implementation of this recommendation is only substantially complete. As per standard museological controls, numbers are not added to years that have no accessions. All accession numbers are identified with no gaps.

The audit review in 2009 identified two accession numbers as having gaps in the numbering sequence. These included 1998-0063 and 2001-0326. An automated report was created to identify any gaps in the numbering of accessions as opposed to manual identification. The two accession numbers were changed to remove the gaps. Any accession number that is changed requires an official request for the file for the artwork to be changed; as well, the artwork itself requires the accession identifying it on the back to be changed. In conclusion, management believes implementation of this item is complete.

The auditor commented that there is no mechanism in the database to identify years without accessions. That is a technical limitation beyond management’s control as there is nothing that can be added into the database if we do not purchase or receive any donations in a given year. However, the Collections Manager submits a report to the Program Manager to identify if any accessions were added into the collection each year and a list of all accessions are sent to the



insurance group each year to identify new works in the collection for insurance purposes. We believe this to be a suitable indicator.

- e) Management disagrees with the OAG's follow-up finding that implementation of this recommendation is only substantially complete. The City utilizes an independent appraiser to assess damaged artwork before it is de-accessioned. Management considers implementation of this item to be complete.

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| <i>Management: % complete (a)</i> | <i>75%</i> |
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| <i>Management: % complete (c)</i> | <i>75%</i> |
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| <i>Management: % complete (d)</i> | <i>100%</i> |
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| <i>Management: % complete (e)</i> | <i>100%</i> |
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### **2007 Recommendation 21**

**That the City instruct 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.

### **2007 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.

### **Management Representation of the Status of Implementation of Recommendation 21 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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| <i>Management: % complete</i> | <i>100%</i> |
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### **OAG's Follow-up Audit Findings regarding Recommendation 21**

We observed that the Cultural Services master list of art items contains no unknown or blank locations, and all unknown valuations are currently with the appraiser for review.

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| <i>OAG: % complete (a) (b) (c)</i> | <i>100%</i> |
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**2007 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 them.

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 22 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

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**OAG's Follow-up Audit Findings regarding Recommendation 22**

Controls have been improved through the means of an annual manual-tracking sheet which requires a signature as proof of pickup. However, the manual tracking sheets are not used diligently and numerous errors were found, such as no page sequence (difficult to tell if pages were missing), signatures not obtained and issued items could not be tracked back to issue sheet.

*OAG: % complete* **25%**

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**Management Representation of Status of Implementation of Recommendation 22 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 partially complete. Protocol staff implemented a required sign-off in 2008 for all staff picking up protocol gift items. An internal staff review in Q2-Q3 2009 determined that, in rare cases, the sign-off had not occurred as required. To strengthen inventory controls, further requirements were implemented in 2009 including having both the requestor and Protocol staff sign the tracking sheet, and designating one requestor from the client group. Since implementing these additional controls, no gift item has been provided until the requestor has signed for it.

In response to the OAG's additional remarks noted in the follow-up findings, these are new concerns and are not part of the original recommendation 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 them.*"

Protocol staff have introduced the use of a bound ledger book to track the signing out of protocol gifts. The use of a bound ledger book will address any concerns regarding page sequencing.

Management considers implementation of this recommendation to be complete.

*Management: % complete* *100%*

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### **2007 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.**

#### **2007 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.

#### **Management Representation of the Status of Implementation of Recommendation 23 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* *100%*

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#### **OAG's Follow-up Audit Findings regarding Recommendation 23**

SAP Business Team Lead provided documentation that illustrates the Data Migration Plan prepared by the SAP Project Manager. In order to manage the transfer of data from M5 to SAP, a diligent validation was carried out first in test environment and then live in production.

*OAG: % complete* *100%*

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**2007 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.

**2007 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 make 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.

**Management Representation of the Status of Implementation of Recommendation 24 at December 31, 2008**

Implementation of recommendation is 24a) is 25% complete. Segregation of duties was implemented where staffing levels permitted and the Inventory Control Specialist was temporarily staffed. Wireless bar codes are seen as an upcoming solution.

Implementation of recommendation is 24b) is 25% complete. Wireless bar coding has been implemented at the Pinecrest Garage (Transit Stores). Implementation to all of Transit will be complete by Q3 2009. Certain stores sites for Fleet Stores and General Stores will also be implemented in 2009. However, funding of the additional budget requirement of \$225K is uncertain based on deletion of the IT Service Excellence portion from the 2009 Operating budget.

Implementation of recommendation 24c) is 100% complete.

24d) None provided.

24e) None provided.

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| <i>Management: % complete (a)</i> | <u>25%</u> |
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| <i>Management: % complete (b)</i> | <u>25%</u> |
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| <i>Management: % complete (c)</i> | <u>100%</u> |
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| <i>Management: % complete (d)</i> | <u>None provided %</u> |
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| <i>Management: % complete (e)</i> | <u>None provided %</u> |
|-----------------------------------|------------------------|

**OAG's Follow-up Audit Findings regarding Recommendation 24**

ROPEC has only two storekeepers who are responsible for; receiving, stocking, issuing and shipping of materials.

- a) Shipping other than transfers and returns (both addressed elsewhere) is not a significant business activity for Supply Management. There were 20 returns across five plants for primarily specialty items in all of October 2009.
- b) Receiving and stocking; no formal turnover (paper or electronic record of items moved between receiving and stocking) is possible as staff are involved in both activities based on work requirements in this location. Presently there is no manual paper tracking of one individual receiving the goods with the second

staff putting them into storage. The mitigating controls in place on the shop floor at this time are normal supervision and the usual practice of coordinators periodically checking stock before processing the MRP orders first thing daily – this is a standard business practice but is not documented.

This matter will only be completely resolved at ROPEC once the bar code scanners are in use (November 2009), at which time there will be an electronic record to document the transfer of goods from the receiver to the storekeeper putting material in storage. When the bar coding process is implemented they will initiate the process wherein one storekeeper will receive the materials and hand off the electronic receipt to the second storekeeper who will then acknowledge the quantities and place them in the appropriate location. The bar coding process will be used for electronic tracking.

Process / system mitigating controls are: there is always an SAP audit trail in the system and SAP report MB51 provides a list of the material movements executed by user name, there is a paper trail of approvals to get any item out of the door and the annual inventory which over time has identified very minimal stock shrinkage. Additionally, Accounts Payable will also do the final three-way match before paying the invoice and discrepancies would be caught at this stage. Inventory analysts would also note unusual activity in MRP reports. Furthermore, most items of value are unique in nature or purpose specific and non-attractive to the household consumer.

Controls are adequate to identify all but low value errors or intentional petty theft.

- c) SAP reports demonstrate that there are minimal delays in the process and that transactions are processed throughout the day rather than being “batched”. This issue will be further improved with the introduction of the bar coding process across all stores operations as posting will be instantaneous.
- d) Mechanics / technicians addressing the storekeeper presented a work order (WO) and indicated which items were required. The items were drawn from inventory and provided to the mechanic / technician. The items / parts were immediately recorded in SAP. The mechanics’ / technicians’ individual unique number was confirmed and recorded as well.
- e) The items / parts were immediately recorded in SAP. SAP reports demonstrate that there are minimal delays in the process and that transactions are processed throughout the day rather than “batched”. This issue will be further improved with the introduction of the bar coding process across all stores operations as posting will be instantaneous.

***OAG: % complete (a)*** ***0%***

***OAG: % complete (b)*** ***0%***

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|----------------------------|-------------|
| <i>OAG: % complete (c)</i> | <i>80%</i>  |
| <i>OAG: % complete (d)</i> | <i>100%</i> |
| <i>OAG: % complete (e)</i> | <i>80%</i>  |

**Management Representation of Status of Implementation of Recommendation 24 as of Winter 2010**

- a) Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation. This recommendation has been fully implemented where staffing levels permit. Where it is not cost-effective to increase staffing levels, additional preventative mitigating controls have been implemented by the Inventory Control Specialist. The Senior Inventory Analyst also performs periodic checks to ensure the segregation of duties and monitors all inventory activity in the General Stores warehouses. Furthermore, wireless bar coding has been fully implemented in all locations except for Manotick which was delayed due to road construction. This is expected to be complete by end of Q3 2010. Management considers implementation of this item to be complete.
- b) Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation. This recommendation has been fully implemented where staffing levels permit. Where it is not cost-effective to increase staffing levels, additional preventative mitigating controls have been implemented by the Inventory Control Specialist. These controls include the review of cycle counts, inventory reconciliations, negative balance adjustments and high turnover rates. The Senior Inventory Analyst also performs monthly analysis of all transactions, inventory levels and turnover to identify anomalies. Furthermore, wireless bar coding has been fully implemented in all locations except for Manotick which was delayed due to road construction. This is expected to be complete by end of Q3 2010. Management considers implementation of this item to be complete.
- c) Management agrees with the OAG's follow-up audit finding that this recommendation is substantially complete. However, management believes the percentage complete is higher given that wireless bar coding has been fully implemented in all locations except for Manotick which was delayed due to road construction. This is expected to be complete by end of Q3 2010.
- e) Management agrees with the OAG's follow-up audit finding that this recommendation is substantially complete. However, management believes the percentage complete is higher given that wireless bar coding has been fully implemented in all locations except for Manotick which was delayed due to road construction. This is expected to be complete by end of Q3 2010.

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| <i>Management: % complete (a)</i> | <i>100%</i> |
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| <i>Management: % complete (b)</i> | <b>100%</b> |
| <i>Management: % complete (c)</i> | <b>95%</b>  |
| <i>Management: % complete (e)</i> | <b>95%</b>  |

**2007 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.

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 25 at December 31, 2008**

Implementation of recommendation 25a) is 100% complete.

Implementation of recommendation 25b) is 25% complete. A request was initiated through the SAP Support Centre in September 2008 (SM #778431) to allow the development of this type of reporting. Finance will be increasing its focus on this issue in Q1/Q2 2009.

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| <i>Management: % complete (a)</i> | <b>100%</b> |
| <i>Management: % complete (b)</i> | <b>25%</b>  |

**OAG’s Follow-up Audit Findings regarding Recommendation 25**

- a) Maintenance Supervisor reviews the summary page of the hard copy of the completed work order to determine if there are any reasons to review in more detail, such as cost overruns, more parts used than anticipated and possible comments in the dialogue box, which outlines activities taken. The Supervisor believes that time does not permit him to review all line items individually within work orders in detail, i.e., all parts and labour, before closing them. The Supervisor has approximately 30 years of experience and has the competence to determine what level of effort is required for tasks assigned to technicians. If deemed necessary, he will review the information in more detail to satisfy himself that the parts and labour are appropriate to the work undertaken. Only



then will he close the work order in the system. The controls in place are: staff can only draw inventory against a WO which they must show to the Stores officer, their staff identification number is then recorded on the Material Requisition Form; the signature of the Supervisor or Lead Hand is required if a part needs to be purchased as opposed to issued from stock and there are thresholds of \$2,000 and \$5,000 that require the next level of management authorization.

- b) The Maintenance Supervisor can only recall one or two occasions when a WO was reopened to charge parts to it due to emergency requirements. In these cases, the work was completed and the WO closed before the purchases parts had been processed through Stores, i.e., they were immediately installed then the packing slip processed. However, he advised that there are occasions when a new WO is created rather than reopen the existing one. The Supervisor believed that he could have the MMS support group run a report of any reopened WO and parts charged against them, but he does not receive such reports routinely based on a low level of activity. The Maintenance Planner is not aware of any report that would offer that data per se.

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| <b><i>OAG: % complete (a)</i></b> | <b><i>65%</i></b> |
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| <b><i>OAG: % complete (b)</i></b> | <b><i>10%</i></b> |
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#### **Management Representation of Status of Implementation of Recommendation 25 as of Winter 2010**

- a) Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete. The process as itemized above is complete. It is not clear what additional steps are required to meet 100% completion by the OAG. Management considers implementation of this recommendation to be complete.
- b) Management agrees with the OAG's follow-up audit finding. The specifications have been submitted to the SAP Support Centre for development of a report that will identify work orders where the status has been changed from closed to open. Also, in conjunction with the report being created, a review of the SAP roles will be undertaken to restrict the ability to reopen a work order to appropriate supervisory staff. A process document will also be developed for supervisory staff who will be responsible for running the report. Management expects this recommendation to be complete by the end of Q3 2010.

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| <b><i>Management: % complete (a)</i></b> | <b><i>100%</i></b> |
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| <b><i>Management: % complete (b)</i></b> | <b><i>10%</i></b> |
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#### **2007 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.**

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 26 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* 100%

**OAG's Follow-up Audit Findings regarding Recommendation 26**

- a) Loretta has only two storekeepers who are responsible for receiving, stocking, issuing and shipping of materials.

Receiving and stocking: No electronic or paper record to transfer goods from the receiver to the storekeeper is possible as staff are involved in both activities based on work requirements. The mitigating controls in place on the shop floor at this time are normal supervision and the usual practice of coordinators periodically checking stock before processing the MRP orders first thing daily – this is a standard business practice but is not documented. Additional mitigating controls are: There is always an SAP audit trail in the system and SAP report MB51 provides a list of the material movements executed by user name, the annual inventory which over time has identified very minimal stock shrinkage, Accounts Payable also does the final three-way match before paying the invoice and discrepancies would be caught at this stage and inventory analysts would

note unusual activity in MRP reports. Furthermore, most items of value are unique in nature or purpose specific and non-attractive to the household consumer. Management indicated the controls will be 100% in place with the full introduction of hand held bar code readers in November 2009.

- b) Per discussion with the Electronic Technologist, staff cannot recall a returned defective item in the past year or more. They often send items out for repair and these are tracked on an Excel spreadsheet. Substantially all of these items are hand delivered to the local supplier and picked up when ready. Some items are sent to the United States for repair and these are tracked as well. However, none are returns of defective items and there are no credits attached to the process. Supply Management staff are not aware of any returns of defective parts either. However, when overstock items are returned, as happens from time to time, parts are returned to manufacturers with appropriate documentation and after having obtained a Goods Return Authorization number from the firm (a relatively new process) and copies of associated letters of credit are retained on file. It was indicated that in the event of a return of defective items, the above process would be instituted for the return of defective items.
- c) The Obsolete and Surplus Materials Policy has been updated and states, "The net cost associated with disposal of surplus and obsolete inventory will be charged to the originating department and reported annually to the City Treasurer." Furthermore, "when identified as obsolete, material must be disposed of in accordance with the Purchasing By-law and not sold to the client". [Refer to 9 (d): Evidence gathered to demonstrate that non-moving stock identified to program areas who must authorize its retention and whom is charged for the disposal.]

|                            |             |
|----------------------------|-------------|
| <i>OAG: % complete (a)</i> | <i>50%</i>  |
| <i>OAG: % complete (b)</i> | <i>50%</i>  |
| <i>OAG: % complete (c)</i> | <i>100%</i> |

**Management Representation of Status of Implementation of Recommendation 26 as of Winter 2010**

- a) Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete. In addition to the mitigating controls described above by the OAG, wireless bar coding has now been fully implemented. Management considers implementation of this item to be complete.
- b) Management agrees with the OAG's follow-up audit finding. Should staff become aware of a defective item under warranty, it will be returned to the manufacturer under the terms of the Goods Return Authorization process.

Management will be immediately reviewing the Goods Return Authorization process with staff, therefore, this recommendation will be complete in Q1 2010.

*Management: % complete (a)* **100%**

*Management: % complete (b)* **50%**

**2007 Recommendation 27**

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

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 27 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

**OAG’s Follow-up Audit Findings regarding Recommendation 27**

The initial audit specifically mentions control boxes, “that can have a value in the order of \$10,000 to \$30,000”. Traffic has changed their methods and supplier for signal boxes. They now purchase virtually ready to install boxes so no longer require partial builds in inventory to meet short turnaround times. Boxes drawn from Supply Management inventory go to a work order and are immediately built for installation purposes.

The signal shop maintains a relatively small number of traffic lights for immediate replacement of damaged units. They range in price from \$300 to \$6,600, with roughly 75% being at about \$700.

Rebuilt traffic lights are kept in inventory at a fixed cost based on the average cost of all the traffic lights, new and rebuilt. (We obtained and reviewed an ad hoc report indicating that various traffic light formats are kept in inventory at average cost per unit.) Management believes that to do otherwise would be impractical from a costing and inventory management perspective.

Given that the signal boxes have been addressed, the materiality of the issue has been significantly addressed and the practices for traffic lights are deemed reasonable and appropriate. The situation is also improved by the fact that the City no longer sells traffic related items to other jurisdictions and they are now virtually

/ solely their own customer (with the rare exception of sales to developers for which costs are fully recoverable).

The audit recommendation has been met in that items are brought into inventory at an average price. The inventory of these parts is tracked in SAP using standard costs which are reviewed annually.

We believe the controls implemented at the City are acceptable and the intent of the recommendation 100% met.

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

### **2007 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.**

### **2007 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.

### **Management Representation of the Status of Implementation of Recommendation 28 at December 31, 2008**

Implementation of these recommendations is 100% complete.

|  |                    |
|--|--------------------|
| <b><i>Management: % complete (a)</i></b> | <b><i>100%</i></b> |
| <b><i>Management: % complete (b)</i></b> | <b><i>100%</i></b> |
| <b><i>Management: % complete (c)</i></b> | <b><i>100%</i></b> |

**OAG’s Follow-up Audit Findings regarding Recommendation 28**

Through a site visit it was documented that:

- a) Doors to the Store are kept locked;
- b) Easily moveable, outdoor stock has been relocated away from the fence, storage facilities have been constructed to make access, handling and safety improvements; and,
- c) Two of the ten parts storage bins in one of the two signal trucks in the yard were not locked. We were advised by the Manager that the vehicle in question had just been returned after a major overhaul at the Clyde maintenance shop. Based on this, we returned at a later date and several of the storage boxes on a signal “boom” truck were unlocked. The other signal vehicle had all of its storage bins locked.

*OAG: % complete (a)* **100%**

*OAG: % complete (b)* **100%**

*OAG: % complete (c)* **50%**

**Management Representation of Status of Implementation of Recommendation 28 as of Winter 2010**

- c) Management agrees with the OAG’s follow-up audit finding. The Supervisor will be requested to check the vehicle bins periodically to ensure they are locked. If they are found to be unlocked, the Supervisor will follow-up with respective employees. Management expects this recommendation to be complete by end of Q1 2010.

*Management: % complete (c)* **50%**

**2007 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.**

**2007 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.

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**Management Representation of the Status of Implementation of Recommendation 29 at December 31, 2008**

Implementation of this recommendation is 60% complete. M5 was successfully migrated to SAP in Fleet Stores in Q4 2008. This recommendation is on target for completion in Q1 2009.

*Management: % complete* *60%*

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**OAG's Follow-up Audit Findings regarding Recommendation 29**

SAP access has not yet been segregated for staff involved in different functions.

We were advised by management that with current staffing levels they will not be able to implement a process whereby receiving staff have the time to seek Supervisory authorization before adjusting non-stock POs and therefore will remain unable to fully meet this recommendation.

Stores staff, in the course of a day, may carry out the functions of purchasing, receiving and issuing. For example, when the shift starts for mechanics, due to peak activity, staff from all functions are diverted to the "counter" to issue parts to mechanics.

Mitigating controls are: there is always an SAP audit trail in the system and SAP report MB51 provides a list of the material movements executed by user name. Additionally, staff have a primary responsibility or "work assignment" and stock buying is centralized.

Additional controls in place are that staff still need the physical paper or SAP requisition to proceed with a purchase if not an inventory transaction and there are dollar thresholds established and to exceed them they must contact the Inventory Analyst or Program Manager for authorization. Furthermore, the mechanics and their supervisors review work orders and would note if they were charged for parts they did not requisition and / or receive.

There is still a weakness with having staff involved in receiving alter a PO (see audit recommendation #30), thereby changing the financial commitment of the City without supervisory approval.

*OAG: % complete* *60%*

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**Management Representation of Status of Implementation of Recommendation 29 as of Winter 2010**

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

Management has implemented this recommendation to the extent possible given current staffing levels. There is no business case to support increasing the staffing

levels at these locations. Management considers implementation of this recommendation to be complete.

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*Management: % complete* *100%*

### **2007 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.**

### **2007 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.

### **Management Representation of the Status of Implementation of Recommendation 30 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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*Management: % complete* *100%*

### **OAG's Follow-up Audit Findings regarding Recommendation 30**

In the course of a day staff may carry out the functions of purchasing, receiving and issuing. In their receiving capacity, they may be required to alter the quantity and / or unit price on existing POs, without the approval of supervisors. We were advised by management that with current staffing levels they will not be able to implement a process whereby receiving staff have the time to seek supervisory authorization before adjusting non-stock POs and therefore will remain unable to fully meet this recommendation. Mitigating controls are: there is always an SAP audit trail in the system and SAP report MB51 provides a list of the material movements executed by user name.

When staffing levels permit, the purchasing/stores clerk (PSC) function is now segregated through individual work assignments as follows: "Buy stock material" "Do not receive any material".

Work assignments are currently a verbal instruction given on a daily basis when needed or on an "until further notice" assignment / arrangement.

SAP access has not yet been limited so that staff receiving material can no longer adjust POs for quantity or price. This means that staff involved in receiving can still alter a PO, thereby changing the financial commitment of the City without supervisory approval. However, there was an email reminder to staff that stock POs should not be altered without consulting the Automotive Stores' Inventory Analyst. No such documentation for non-stock POs was available.



There is still a weakness with having staff involved in receiving after a PO, thereby changing the financial commitment of the City without supervisory approval.

*OAG: % complete* *30%*

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**Management Representation of Status of Implementation of Recommendation 30 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 partially complete.

Management has implemented this recommendation to the extent possible given current staffing levels. There is no business case to support increasing the staffing levels at these locations. Management considers implementation of this recommendation to be complete.

*Management: % complete* *100%*

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**2007 Recommendation 31**

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

**2007 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.

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

Implementation of these recommendations is 100% complete.

*Management: % complete* *100%*

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**OAG's Follow-up Audit Findings regarding Recommendation 31**

Due to a system change to SAP, M5 is no longer used to track credit notes. The data gathering methodology for pending credit notes is a diligent manual process and the credit notes are processed in SAP once received from the vendor on a timely basis. It is recommended that the current process be enhanced by adding a new control element: A summary listing should be maintained which lists all return forms in the Purchasing Stores Clerk's rolling bin. This up-to-date summary listing would ensure the completeness of the pending credit notes, would provide a more efficient methodology to assess which Returns Form required attention, and would provide a reconciliation tool to ensure all credit notes have been entered into the SAP.

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*OAG: % complete* *75%*

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**Management Representation of Status of Implementation of Recommendation 31 as of Winter 2010**

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

The summary listing is in place and the process is fully implemented. As the OAG notes above, credit notes are being processed on a timely basis. Management considers implementation of this recommendation to be complete.

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*Management: % complete* *100%*

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**2007 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.

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 32 at December 31, 2008**

Implementation of these recommendations is 100% complete.

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*Management: % complete (a)* *100%*

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*Management: % complete (b)* *100%*

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*Management: % complete (c)* *100%*

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**OAG’s Follow-up Audit Findings regarding Recommendation 32**

For General Stores, items being transferred between stores are transacted via a clearing account and pulled into inventory by the receiving store using a two-step process. The issuing store completes a 303 Transfer posting plant to plant - removal from storage. Items are picked and packed for shipment. SAP records the transaction as items leaving the shipping store and debits an “on-order stock”

account (a clearing account). The items are shipped with supporting documentation. The receiving store will complete a 305 Transfer posting plant to plant - placement in storage; the quantity is posted from "stock-in" transfer to unrestricted-use stock. The movement is not valued. A record of the receipt is made and SAP will record the credit to the "on-order stock" account and a debit to their stores account. All signatures for receipt are electronic via SAP.

Municipal Fleet Stores uses a one-step process, where the issuing plant prepares a 301 Transfer posting which removes the material from inventory and simultaneously pushes the material into the receiving plants inventory. The rationale of not implementing the two-step process was not to overload staff with procedural changes (SAP having been recently introduced). Upon the introduction of the hand held scanners in November 2009, the two-step process will be introduced. Goods are shipped with documentation and signatures obtained from the individual picking up the material. Furthermore, the number of transfers out of Swansea, the main Municipal Fleet Stores, for the 2<sup>nd</sup> quarter of 2009 was fewer than 30. There were no incoming transfers.

|                            |            |
|----------------------------|------------|
| <i>OAG: % complete (a)</i> | <i>50%</i> |
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|----------------------------|-------------|
| <i>OAG: % complete (b)</i> | <i>100%</i> |
|----------------------------|-------------|

|                            |             |
|----------------------------|-------------|
| <i>OAG: % complete (c)</i> | <i>100%</i> |
|----------------------------|-------------|

### **Management Representation of Status of Implementation of Recommendation 32a as of Winter 2010**

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

Wireless bar coding has been fully implemented in all locations except for Manotick which was delayed due to road construction. This is expected to be complete by the end of Q3 2010. Management considers implementation of this recommendation to be substantially complete.

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|-----------------------------------|------------|
| <i>Management: % complete (a)</i> | <i>95%</i> |
|-----------------------------------|------------|

### **2007 Recommendation 33**

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

### **2007 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.

**Management Representation of the Status of Implementation of Recommendation 33 at December 31, 2008**

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

*Management: % complete* *0%*

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**OAG's Follow-up Audit Findings regarding Recommendation 33**

Management disagrees with this recommendation.

*OAG: % complete* *0%*

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**Management Representation of Status of Implementation of Recommendation 33 as of Winter 2010**

*Management: % complete* *0%*

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**2007 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.

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 34 at December 31, 2008**

Implementation of recommendations 34a) and b) are 100% complete. Implementation of recommendation 34c) is 25% complete. IT security issues have been resolved and a business case for this IT project will be developed in 2009. Funding will be requested in 2010.

*Management: % complete (a)* *100%*

*Management: % complete (b)* *100%*

*Management: % complete (c)* *25%*

**OAG's Follow-up Audit Findings regarding Recommendation 34**

Mechanics addressing the storekeeper presented the WO and indicated which parts were required. The items were drawn from inventory and provided to the mechanic. The parts were immediately recorded in SAP via an electronic scanner (the following were scanned: the WO, the required part(s)). The mechanics badge was not scanned but the individual's unique number was confirmed and recorded as well. The storekeeper's badge was not scanned but is recorded via the scanner (i.e., Must log on to the scanner using user id and password. The storekeeper's scanner logs off automatically after a short period of not being used and/or the user can log off at will.). Data in SAP was subsequently reviewed under the specific WO and the information was recorded in accordance with the transaction witnessed.

Note: Once the new hand held scanner process is introduced at all stores locations it will be a requirement that mechanics and storekeeper ID cards are scanned.

*OAG: % complete (a)* *100%*

*OAG: % complete (b)* *100%*

*OAG: % complete (c)* *100%*

**2007 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.**

**2007 Management Response**

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

**Management Representation of the Status of Implementation of Recommendation 35 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* *100%*

**OAG's Follow-up Audit Findings regarding Recommendation 35**

The City has considered and informally documented the pros and cons of having the mechanics return the removed parts to the storekeeper immediately after completing the assigned job. It is recommended however that the evaluation of the pros and cons be formally documented.

*OAG: % complete* *25%*

**Management Representation of Status of Implementation of Recommendation 35 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 partially complete.

The pros and cons of having the mechanics return the removed parts to the storekeeper immediately after completing the assigned job have been documented, however the resulting recommended course of action has not been formally approved. Management believes that 70% completion is more reflective of the progress made to date and expects this recommendation to be complete by the end of Q2 2010.

*Management: % complete* *70%*

**2007 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.**

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 36 at December 31, 2008**

Implementation of this recommendation is 75% complete. The SAP migration has been completed and the warranty return process will be finalized in Q1 2009.

*Management: % complete* *75%*

**OAG's Follow-up Audit Findings regarding Recommendation 36**

M5 is currently being used to track the individual pending warranty claims. SAP, however, is utilized to process and track the settlement of the warranty invoices sent to vendors. It was noted that the interface between M5 and SAP for warranty

claims with vendor is a manual process whereby an email is used to communicate the necessity for the creation of an invoice to the vendor. A control should be implemented to ensure the warranty claims (i.e., to be invoiced) reconciles to the warranty invoices created in SAP. This additional control would ensure all warranty claims have been actioned in the agreed upon terms with the vendor.

*OAG: % complete* *75%*

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**Management Representation of Status of Implementation of Recommendation 36 as of Winter 2010**

Management agrees with the OAG's follow-up audit finding. The Fleet warranty lead will meet with Finance to build the reconciliation process. Management expects implementation of this recommendation to be complete by the end of Q3 2010.

*Management: % complete* *75%*

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**2007 Recommendation 37**

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

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 37 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* *100%*

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**OAG's Follow-up Audit Findings regarding Recommendation 37**

Supervisors review the soft copy of the completed work order to determine if there are reasons to review it in more detail, such as greater than estimated or standard time, high parts cost and any written comments on the completed hard copy of the Work Order Job Worksheet turned in by the mechanics.

There can be numerous "job lines" to process a given WO and staff may need to draw parts several times. Time does not permit supervisors to review all work orders in detail, i.e., all parts and labour, before closing them, so it is done on an exception basis.

Supervisors tend to have more than 25 years of experience and can determine what level of effort is required for tasks assigned to mechanics / technicians. If they deem it necessary, they will review the information in more detail on the Parts or Labour screens and discuss it with the mechanic / technician to satisfy themselves that the parts and labour are appropriate to the work undertaken. Only then will they close the work order in the system.

Controls in place to prevent any abuse are: staff can only draw inventory against a WO which they must present to the Stores officer, their staff identification number is then recorded on the Material Requisition Form and the material is charged to the work order. Additionally, if parts and or labour are not appropriate, the clients, who are generally knowledgeable, may raise a concern about the cost of the work.

*OAG: % complete* *65%*

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**Management Representation of Status of Implementation of Recommendation 37 as of Winter 2010**

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete. As indicated by the OAG in the follow-up findings, compensating controls are in place to prevent abuse and/or errors. Management considers implementation of this recommendation to be complete.

*Management: % complete* *100%*

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**2007 Recommendation 38**

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

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 38 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* *100%*

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**OAG's Follow-up Audit Findings regarding Recommendation 38**

The list of reasons for reviewing a closed work order is contained in the menu options within M5 as "Visit Reason List for Closed Work Orders". Monthly, management is provided with a report – Charges added to a Closed Work Order – which identifies all such transactions meeting the intent of the recommendation.

*OAG: % complete*

*100%*

**2007 Recommendation 39**

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

**2007 Management Response**

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

**Management Representation of the Status of Implementation of Recommendation 39 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete*

*100%*

**OAG's Follow-up Audit Findings regarding Recommendation 39**

The doors to the Manotick Stores are kept locked and access is gained by ringing an external bell.

*OAG: % complete*

*100%*

**2007 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.**

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 40 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

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**OAG's Follow-up Audit Findings regarding Recommendation 40**

One of the recommendations indicated that sweeper and plow parts should be stored in a more secure fashion. As there was no internal storage available, the onsite facilities staff instituted a temporary solution utilizing storage sheds to house this equipment.

Supply Management requested ISB Design and Construction to prepare a feasibility study to meet this requirement permanently and that of the overall stores requirement to have a General Stores location in the West/South-West part of the City. A feasibility report recommended the following:

- Automotive Stores requires an approximate 1,200 square foot addition/increase to the size of the existing area at Moodie Drive.
- Due to service delivery requirements, General Stores has determined that they require an approximate 3,000 square foot facility located in the geographic area noted above.

Stores have ensured that the parts at Moodie Drive that are not within their custody have been moved into locked storage "huts". The construction project for a new/redeveloped facility has not yet been scheduled.

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

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**2007 Recommendation 41**

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

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 41 at December 31, 2008**

Implementation of this recommendation is 75% complete. Municipal Fleet stores has now migrated to SAP and a cycle count process has been developed. The branch is currently waiting for report ZCYCLECNT to be moved to Production. The solution is on target for completion in Q1 2009.

*Management: % complete* **75%**

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**OAG's Follow-up Audit Findings regarding Recommendation 41**

Cycle counts were implemented in October 2008 and are performed in accordance with documented cycle count procedures, and a calendar of counts populated by SAP data. The ZCYCLECNT report is currently being used.

*OAG: % complete* *100%*

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**2007 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.

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 42 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* *100%*

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**OAG's Follow-up Audit Findings regarding Recommendation 42**

As part of the Request for Tender process the City ensures that a list of spare parts required for specialized vehicles be provided by the supplier. However, the lead-times for each part are not requested.

*OAG: % complete* *50%*

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**Management Representation of Status of Implementation of Recommendation 42 as of Winter 2010**

Management agrees with the OAG's follow-up audit finding. The spare parts list and associated lead times are now requested in all of our bid solicitations for buses. The inclusion of a similar requirement in all specialty vehicle bid solicitations is presently being discussed with the Fleet Services Branch. Management expects this recommendation to be complete by the end of Q3 2010.

*Management: % complete* *50%*

---

**2007 Recommendation 43**

That the City ensure that:

- a) The fuel suppliers load sheet not be accepted as proof of delivery; and,

- b) Manual fueling stations be kept locked and staff taking fuel should be required to record their employee number and sign for the key and fuel.**

**2007 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™ 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.

**Management Representation of the Status of Implementation of Recommendation 43 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

**OAG's Follow-up Audit Findings regarding Recommendation 43**

- a) By code, fuel delivery drivers are required to “dip” before dropping fuel. Fuel is then dropped and a pumping slip produced as evidence of delivery. Additionally, tanks have sensors that read “before and after” levels in the tanks. Also, tanks have “totalizers”, which track all pump activity. Based on the available information from electronic sources and delivery slips, Supply performs periodic reconciliations. Therefore the suppliers load sheet(s) is/are not accepted as sole proof of delivery. With the planned conversion of the tanks at the John Shaw location, there will be less than 1% of tanks which remain manual: these have totalizers and once a month staff on site perform and submit dip readings to an analyst to complete reconciliations.

b) This recommendation applied directly to the Metcalfe yard, however, the process is similar in all automated pumps. The key is no longer required as pumps have been automated with adequate security features. In order to pump fuel, employees must enter their employee number and a code specific to the vehicle. After hours access to the actual yard can only be gained by employees "swiping" their cards. There are cameras in the yard as well. With the planned conversion of the tanks at the John Shaw location, there will be less than 1% of tanks – seven sites with tanks of approximately 1,200- 1,300 litres - which retain a manual tracking requirement - primarily suburban fire halls and recreation facilities. However, staff are still required to use a log book to identify vehicle and km or hours and submit this information to Fleet for monitoring.

|                            |             |
|----------------------------|-------------|
| <i>OAG: % complete (a)</i> | <i>100%</i> |
|----------------------------|-------------|

|                            |             |
|----------------------------|-------------|
| <i>OAG: % complete (b)</i> | <i>100%</i> |
|----------------------------|-------------|

#### **2007 Recommendation 44**

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

#### **2007 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.

#### **Management Representation of the Status of Implementation of Recommendation 44 at December 31, 2008**

Implementation of this recommendation is 25% complete. Wireless bar coding has been implemented at the Pinecrest Garage (Transit Stores). Implementation to all of Transit will be complete by Q3 2009. Certain stores sites for Fleet Stores and General Stores will also be implemented in 2009. However, funding of the additional budget requirement of \$225K is uncertain based on deletion of the IT Service Excellence portion from the 2009 Operating budget.

|                               |            |
|-------------------------------|------------|
| <i>Management: % complete</i> | <i>25%</i> |
|-------------------------------|------------|

#### **OAG's Follow-up Audit Findings regarding Recommendation 44**

As of the end of the follow-up audit fieldwork, the audit recommendation had not been resolved. Effective November 23, 2009, a wireless bar coding process will be implemented whereby items are scanned into receiving and SAP will assign a virtual location based on the status of the item (i.e., item may be in a quality inspection status, a clearing account, or in a bin location).

---

*OAG: % complete*

*25%*

**Management Representation of Status of Implementation of Recommendation 44 as of Winter 2010**

Management disagrees with the OAG's follow-up audit finding with respect to the percentage complete. Wireless bar coding has now been fully implemented at all Transit Stores locations. Management considers implementation of this recommendation to be complete.

*Management: % complete*

*100%*

**2007 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.

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 45 at December 31, 2008**

Implementation of these recommendations is 100% complete.

*Management: % complete*

*100%*

**OAG's Follow-up Audit Findings regarding Recommendation 45**

Items being transferred between stores are transacted via a clearing account and pulled into inventory by the receiving store. The items are shipped with the corresponding supporting documentation. All signatures are electronic via SAP.

*OAG: % complete (a) (b) (c)* **100%**

---

**2007 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.**

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 46 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

---

**OAG's Follow-up Audit Findings regarding Recommendation 46**

Card access reader and/or keys restrict access to the Boyd building. Grounds are also monitored by cameras and are fenced in and are kept closed after hours. The storekeeper is present during core business hours only. After-hours access is limited to two Transit employees which are identified as designated storekeepers.

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

---

**2007 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.**

**2007 Management Response**

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

**Management Representation of the Status of Implementation of Recommendation 47 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* 100%

**OAG's Follow-up Audit Findings regarding Recommendation 47**

The review process was identified by management as not adequately explained to the maintenance supervisors. As such, this aspect of the business process will be revisited as part of the M5 re-implementation, which is schedule for spring 2010. Furthermore, all workflows surrounding the WO are being revisited to ensure they reflect all necessary controls. It is recommended that the workflow review include directives/desk procedures as to what should form part of the supervisory review; moreover, training should be provided.

*OAG: % complete* 10%

**Management Representation of Status of Implementation of Recommendation 47 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. Transit Services are in the process of re-writing procedures for work orders in the M5 Fleet Management Information System. This should be completed with the implementation of M5. Management believes 25% completion is more reflective of the progress made to date and expects this recommendation to be complete by the end of Q4 2010.

*Management: % complete* 25%

**2007 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.

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 48 at December 31, 2008**

Implementation of recommendations 48a) and b) are 100% complete. Implementation of recommendation 48c) is 25% complete. IT security issues have been resolved and a business case for this IT project will be developed in 2009. Funding will be requested in 2010.

|                                   |             |
|-----------------------------------|-------------|
| <i>Management: % complete (a)</i> | <b>100%</b> |
| <i>Management: % complete (b)</i> | <b>100%</b> |
| <i>Management: % complete (c)</i> | <b>25%</b>  |

**OAG's Follow-up Audit Findings regarding Recommendation 48**

The audit recommendations have been met for both the requirement to bring the work order to Stores and the immediate recording in SAP of the parts removed from Stores. It was noted that the storekeeper's badge was not scanned in the process due to the fact that the storekeeper's user ID information is automatically recorded in SAP via the log in procedure of the bar scanner. The process is deemed acceptable.

|                            |             |
|----------------------------|-------------|
| <i>OAG: % complete (a)</i> | <b>100%</b> |
| <i>OAG: % complete (b)</i> | <b>100%</b> |
| <i>OAG: % complete (c)</i> | <b>50%</b>  |

**Management Representation of Status of Implementation of Recommendation 48 as of Winter 2010**

- c) Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete. As stated above, the OAG has deemed the current process acceptable. Management considers implementation of this recommendation to be complete.

|                                   |             |
|-----------------------------------|-------------|
| <i>Management: % complete (c)</i> | <b>100%</b> |
|-----------------------------------|-------------|

**2007 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.

**2007 Management Response**

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

**Management Representation of the Status of Implementation of Recommendation 49 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* 100%

**OAG's Follow-up Audit Findings regarding Recommendation 49**

The Transit group has considered the pros and cons of having the mechanics return the removed parts to the storekeeper immediately after completing the assigned job. It is recommended however that the evaluation of the pros and cons be formally documented.

*OAG: % complete* 25%

**Management Representation of Status of Implementation of Recommendation 49 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 partially complete.

The pros and cons of having the mechanics return the removed parts to the storekeeper immediately after completing the assigned job have been documented, but the resulting recommended course of action has not been formally approved. Management believes 70% completion is more reflective of the progress made to date and expects this recommendation to be complete by the end of Q2 2010.

*Management: % complete* 70%

**2007 Recommendation 50**

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

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 50 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* *100%*

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**OAG's Follow-up Audit Findings regarding Recommendation 50**

The warranty returns are individually tracked using a manual process, an Excel spreadsheet. This information is provided on a monthly basis to the FSU for the purposes of setting up the receivable accrual in SAP. The accrual is continuously adjusted to reflect changes in the warranty returns (new additions, items determined to be not eligible, and items which were settled).

*OAG: % complete* *100%*

---

**2007 Recommendation 51**

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

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 51 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* *100%*

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**OAG's Follow-up Audit Findings regarding Recommendation 51**

Warranty returns are individually tracked using a manual process, an Excel spreadsheet. This information is provided on a monthly basis to the FSU for the purposes of setting up the receivable accrual in SAP. The accrual is continuously adjusted to reflect changes in the warranty returns (new additions, items determined to be not eligible, and items which were settled).

*OAG: % complete* *100%*

---

**2007 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.

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 52 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* 100%

**OAG's Follow-up Audit Findings regarding Recommendation 52**

The original audit recommendation was made at the time when SAP was utilized to track work orders. M5 has since been implemented and is currently being utilized for the majority of WO types at Transit. It was noted that the ability to charge items to a closed work order still exist, however, controls will be implemented to eliminate this feature once the M5 is re-implemented in spring 2010.

*OAG: % complete* 0%

**Management Representation of Status of Implementation of Recommendation 52 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. Transit Services are in the process of re-writing procedures for work orders in the M5 Fleet Management Information System. This should be completed with the implementation of M5.

Management believes 25% completion is more reflective of the progress made to date and expects this recommendation to be complete by the end of Q4 2010.

*Management: % complete* 25%

**2007 Recommendation 53**

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

**2007 Management Response**

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

**Management Representation of the Status of Implementation of Recommendation 53 at December 31, 2008**

Implementation of this recommendation is 50% complete. A project is underway. Finance will be increasing its focus on this issue in Q1/Q2 2009.

*Management: % complete* *50%*

**OAG's Follow-up Audit Findings regarding Recommendation 53**

As of the end of the fieldwork for the follow-up audit, all cores valuations have been completed for the St-Laurent South location. The St-Laurent North location, housing the remaining cores, is beginning its process to value cores and bring the value into SAP. The process, assuming space allocations will be provided, is anticipated to be complete by Q4 2010.

*OAG: % complete* *50%*

**Management Representation of Status of Implementation of Recommendation 53 as of Winter 2010**

Management agrees with the OAG's follow-up audit finding. The St-Laurent North location has begun its process to value cores and bring the value into SAP. Management expects this recommendation to be completed by the end of Q4 2010.

*Management: % complete* *50%*

**2007 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.

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 54 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

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**OAG's Follow-up Audit Findings regarding Recommendation 54**

Controls over the tires sent out for recapping now include the requirement to obtain a copy of the packing slip signed by the recapper's driver.

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

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**2007 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.

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 55 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

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**OAG's Follow-up Audit Findings regarding Recommendation 55**

As part of the Request for Tender process, the City ensures that a list of spare parts required for specialized vehicles be provided by the supplier. However, the lead-times for each part are not requested.

*OAG: % complete* **50%**

---

**Management Representation of Status of Implementation of Recommendation 55 as of Winter 2010**

Management agrees with the OAG's follow-up audit finding. The inclusion of the spare parts list and associated lead times in all specialty vehicle bid solicitations is presently being discussed with the Fleet Services Branch. Management expects this recommendation to be complete by the end of Q3 2010.

*Management: % complete* **50%**

---

**2007 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.

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 56 at December 31, 2008**

Implementation of this recommendation is 100% complete.

*Management: % complete* *100%*

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**OAG's Follow-up Audit Findings regarding Recommendation 56**

As part of conversion from M5 to SAP there was a Business Blueprint – an element of which was the identification of duplicate stock items. Supply Management worked with SAP consultants to address Gap 2: Fast Material; Cross-reference search. A search enhancement was developed to meet the requirement.

*OAG: % complete* *100%*

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**2007 Recommendation 57**

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

**2007 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.

**Management Representation of the Status of Implementation of Recommendation 57 at December 31, 2008**

Implementation of this recommendation is 100% complete.

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

**OAG’s Follow-up Audit Findings regarding Recommendation 57**

The Transit group does not accept the fuel supplier’s load sheet as the sole indicator of the proof of delivery. On a periodic (daily) basis, reconciliations are performed



utilizing internal information such as the fuel requirements, existing fuel volume, and fuel usage readings in order to ensure the product delivery information is accurate, within an established threshold of 0.5%. The driver's Bill of Lading (BOL) is being compared to the electronic readings (i.e., veederroot & totalizers) in the reconciliation. In the event that a large discrepancy is noted, it would be observed before the next day shipments. Good communication exists between Transit and their sole supplier (via RFP bid) and thus issues are quickly rectified.

*OAG: % complete*

*100%*

### **2007 Recommendation 58**

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

### **2007 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.

### **Management Representation of the Status of Implementation of Recommendation 58 at December 31, 2008**

Implementation of this recommendation is 75% complete. The Policy & Compliance Unit developed a draft Inventory Turnover policy in Q4 2008. It is currently under review in Supply Management.

*Management: % complete*

*75%*

### **OAG's Follow-up Audit Findings regarding Recommendation 58**

The Inventory Turnover - Corporate Policy is currently a draft document. It provides for a standard method of inventory turnover calculation which does not include transfers.

Supply Management Inventory Specialist are currently building reports that indicate activity at various plants including and excluding transfers for "productivity" purposes.

*OAG: % complete*

*75%*

### **Management Representation of Status of Implementation of Recommendation 58 as of Winter 2010**

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

Inventory Turnover - Corporate Policy was approved by the City Treasurer in February 2010. 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 |
|------------------------|------------|---|---------------------------|-------------------------------------|
| LITTLE OR NO ACTION    | 0 – 24     | 1, 5, 8a, 16b, 17b, 20c, 24a, 24b, 25b, 33, 47, 52  | 12                        | 13%                                 |
| ACTION INITIATED       | 25 – 49    | 3b, 3c, 14a, 14b, 16a, 22, 30, 35, 44, 49   | 10                        | 10%                                 |
| PARTIALLY COMPLETE     | 50 – 74    | 2, 3a, 4, 7, 8c, 25a, 26a, 26b, 28c, 29, 32a, 37, 42, 48c, 53, 55   | 16                        | 17%                                 |
| SUBSTANTIALLY COMPLETE | 75 – 99    | 6, 8b, 17a, 20a, 20d, 20e, 24c, 24e, 31, 36, 58   | 11                        | 11%                                 |
| COMPLETE               | 100        | 9a, 9b, 9c, 9d, 10, 11, 12, 13a, 13b, 13c, 13d, 13e, 15, 18, 19, 20b, 21a, 21b, 21c, 23, 24d, 26c, 27, 28a, 28b, 32b, 32c, 34a, 34b, 34c, 38, 39, 40, 41, 43a, 43b, 45a, 45b, 45c, 46, 48a, 48b, 50, 51, 54, 56, 57 | 47                        | 49%                                 |
| <b>TOTAL</b>           |            |   | <b>96</b>                 | <b>100%</b>                         |

## 5 CONCLUSION

Overall, there has been significant progress on the recommendations of the initial audit. Including those recommendations with multiple issues there are more than 96 unique items to assess. Of those, 58 are substantially met or better and 38 are partially met or less. The introduction of hand-held scanners, which is currently underway, will further address some recommendations which are currently not fully met.

Some inventory remains which is not under the control of Supply Management but additional controls have been introduced with the recent implementation of SAP and the intent of the initial recommendations has been achieved while meeting operational requirements.

There has been a significant change since the original audit was conducted. SAP has been introduced to manage all inventories and M5 is now used only for the maintenance aspect of vehicles.

There remain some issues related to segregation of duties which management believes are directly linked to staffing levels. Additionally, the tracking of IT related equipment remains deficient.

## **6 ACKNOWLEDGEMENT**

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