SUBJECT: Audit Report 2008-06 – Fleet Management – Fuel, Maintenance & Inventory Control (CM09003) (City Wide)

RECOMMENDATION:

(a) That Report CM09003 respecting Audit Report 2008-06, Fleet Management – Fuel, Maintenance and Inventory Control, be received;

(b) That the management action plans for Central Fleet as detailed in Appendix “A” of Report CM09003 be approved and the Acting General Manager of Public Works direct the appropriate staff to have the plans implemented;

(c) That the management action plans for Transit as detailed in Appendix “B” of Report CM09003 be approved and the Acting General Manager of Public Works direct the appropriate staff to have the plans implemented;

(d) That the management action plans for Hamilton Emergency Services (HES) as detailed in Appendix “C” of Report CM09003 be approved and the General Manager/Chief of HES direct the appropriate staff to have the plans implemented; and

(e) That the management action plans for Hamilton Police Service (HPS) as detailed in Appendix “D” of Report CM09003 be approved and the Chief of Police be requested to direct the appropriate staff to have the plans implemented.
EXECUTIVE SUMMARY:

As the second part of a comprehensive review of fleet management practices across the City, the audit of fuel, maintenance and inventory control for the various City fleets (Central, Transit, Hamilton Emergency Services and Hamilton Police Service) was included in the 2008 Internal Audit work plan and approved by Council.

The audit involved a review of controls in place to provide reliable information for decision making with respect to inventory quantities and usage, fuel consumption and maintenance and repair scheduling.

The results of the audit are presented in formal audit reports containing observations, recommendations and management responses, each attached as separate Appendices “A” to “D” to report CM09003.

BACKGROUND:

The following table summarizes the various details regarding fuel purchases, costs of inside and outsourced maintenance and repair costs and inventory values for parts, tires, oil and lubricants as at December 31, 2007, where appropriate.

<table>
<thead>
<tr>
<th></th>
<th>Fuel Purchases</th>
<th>Outsourced Maintenance (d)</th>
<th>Inside Maintenance (Parts, Tires, Oils, etc.)</th>
<th>Inventory Dec.31, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Fleet</td>
<td>10.8m litres diesel - 2.8m litres gasoline / $11.5 m</td>
<td>$2.5 m</td>
<td>$1.3 m</td>
<td>$1.025 m</td>
</tr>
<tr>
<td>Transit</td>
<td>(c)</td>
<td>$0.33 m</td>
<td>&gt; $5 m</td>
<td>$2 m</td>
</tr>
<tr>
<td>HES</td>
<td>(c)</td>
<td>$0.19 m</td>
<td>$0.35 m</td>
<td>(b)</td>
</tr>
<tr>
<td>HPS</td>
<td>1.2m gasoline / $1.1 m</td>
<td>$0.92 m</td>
<td>(a)</td>
<td>(b)</td>
</tr>
</tbody>
</table>

(a) $0.92 m represents both inside and outside maintenance costs.
(b) Inventory purchase and inventory consumption charged to same expense.
(c) Fuel purchases (gasoline and diesel) are the responsibility of Central Fleet.
(d) Includes parts and labour.

Considerable dollars and effort are put into maintaining the various fleets and ensuring vehicles are readily available for service when needed. The management of the fleet involves fuel purchases and the management of consumption records, scheduling and carrying out regular maintenance and repairs to protect the value of the City’s fleet and the security and control of inventory on hand.

Areas for improvement in regard to financial and administrative controls as well as effective, efficient and accountable operations in the fleet management area were identified.

The audit was completed in August, 2008. The results are attached as Appendices “A” to “D” of Report CM09003.

The Audit and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.
ANALYSIS/RATIONALE:

The audit of fleet management – fuel, maintenance and inventory control was carried out in four distinct areas: Central Fleet, Transit, Hamilton Emergency Services and Hamilton Police Service. Due to separate responsibilities, systems and procedures, there are four separate audit reports each containing observations, recommendations and management responses as well as Addendum items, attached as Appendices “A” to “D” of Report CM09003.

Central Fleet – Appendix “A”
The main areas for improvement as noted in the report are:

- Compliance with the City’s Purchasing Policy in regard to outside maintenance, inventory supply and fuel purchases (quotations, tendering, Policy 10 and 11 exceptions) and enforcement of signing authorities.
- Compliance with the Technical Standards and Safety Authority’s (TSSA) Liquid Fuel Handling Code 2007 requirement of daily fuel reading and reconciliation.
- Establishment of a fuel consumption review process to ensure accountability for usage and identify areas for savings
- Performance of preventative maintenance as scheduled to reduce the interruption to operations and the City’s exposure to higher repair costs.
- A cost benefit analysis to evaluate the necessity of maintaining all the City’s current fuel sites, garages and inventory stockrooms.
- A work order administration process which includes proper closure in the Avantis system, review by the foreman and systematic filing of the paper trail.

Management and staff have already taken action or provided implementation plans for the eight (8) formal recommendations and five (5) Addendum items.

Transit – Appendix “B”
The main recommendations in the report deal with:

- Adherence to the City’s Purchasing Policy for the selection and approval of vendors for inventory supply and outside maintenance.
- A formal inventory obsolescence procedure including a property tracking of items for disposal.
- Compliance with established invoice approval signing authority limits.
- Controls over warranty utilization including follow up of outstanding claims and updating of the City’s labour rates recovered on the claims.

Management and staff agreed with the five (5) recommendations and four (4) Addendum items and provided actions plans to implement them.
ANALYSIS/RATIONALE: (Continued)

Hamilton Emergency Services (HES) – Appendix “C”
The recommendations made in the area to strengthen controls and ensure completeness of the records concentrated on:

- Electronic systems to track parts inventory (purchase, re-order quantities, usage, on hand items) and scheduling and recording of repairs and maintenance.
- Compliance with the City’s Purchasing Policy for selection of vendors for inventory supply and outside maintenance and repair.

Management and staff have taken action or have agreed to implement all eleven (11) recommendations made in the report and the Addendum.

Hamilton Police Service (HPS) – Appendix “D”
Among the twelve (12) recommendations for improvement are included:

- Compliance with the Liquid Fuel Handling Code of the TSSA for reconciliations of fuel usage.
- Vehicle fuel consumption on reviews and appropriate follow up.
- Improvement in the functionality and efficiency of PM Xpert (fuel, maintenance and parts inventory tracking system) to achieve better information retrieval and dissemination for cost overview. In particular, control of inventory on hand (including physical counts, negative balances investigation and obsolescence review) needs to be addressed.

Management and staff have agreed to implement the recommendations in 2008 or throughout 2009.

In all of the four (4) areas audited, the lack of current documented procedures was noted.

ALTERNATIVES FOR CONSIDERATION:
None.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
The cost benefit analysis to evaluate the necessity of maintaining all current fuel sites, garages and stockrooms may identify areas for savings.

A tendering process for outside maintenance and inventory supply may result in cost reductions.

Potential cost savings may also be realized through a more thorough fuel consumption review, tighter enforcement of preventative maintenance scheduling and stricter tracking of parts inventory.

Staffing
None.

Legal
None.
POLICIES AFFECTING PROPOSAL:

- City's Purchasing Policy
- Technical Standards and Safety Authority’s Liquid Fuel Handling code

RELEVANT CONSULTATION:

The attached reports include management action plans which reflect the responses of staff in each of the areas that are responsible for fleet management as it relates to fuel, vehicle maintenance and inventory (parts, oils and lubricants, tires) control.

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☑ Yes ☐ No
Community well-being is maintained by ensuring appropriate vehicles are available and ready for use in the provision of City services.

Environmental Well-Being is enhanced. ☑ Yes ☐ No
Environmental well-being is addressed with control and oversight of fuel consumption and properly maintained vehicles.

Economic Well-Being is enhanced. ☑ Yes ☐ No
City Council’s strategic commitment to “Best Practices – Best Value” under “A City That Spends Wisely and Invests Strategically” is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

Does the option you are recommending create value across all three bottom lines? ☑ Yes ☐ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☐ Yes ☑ No

ap:dt
Attachments – Appendices “A” to “D”
### OBSERVATIONS OF EXISTING SYSTEM

**Written Procedures**

Currently, there are a number of written procedures with respect to fuel handling and inventory (e.g. parts) tracking. However, these processes and procedures are not complete and several have not been updated since 2004. Audit observations also noted inconsistent application of some of the procedures. At the time of audit, there were no written polices and procedures pertaining to maintenance scheduling and work order processing.

When there are no complete or updated written procedures to refer to, the employee currently carrying out the process relies on personal understanding and experience, which could result in incorrect, incomplete or inconsistent application. It would also be problematic and inefficient for the successor to commence his/her duties within a short period of time.

**Vendor Approval**

According to the City's Purchasing Policy, annual estimated purchases from a vendor over $5,000 up to $50,000 require informal quotations (i.e. minimum three bids), purchases over $50,000 to $100,000 require Request for Quotations or Request for Proposals, and purchases over $100,000 require Request for Tender. Policy 10 (for emergency purchasing) or Policy 11 (for negotiations) may be alternatively used when approved by Purchasing.

At the time of audit, a number of vendors used by Central Fleet for vehicle maintenance, inventory supply and fuel did not have a contract with the City, a Policy 10 or 11 exemption approved by Purchasing or evidence of three quotations.

When vendors are not selected and approved according to the above-noted Purchasing Policy, there is a risk that the products purchased and services received by the City might not be of the best quality at the best price. Without evidence of a competitive process, the perception of favouritism or unfair practices could result.

### RECOMMENDATION FOR STRENGTHENING SYSTEM

1. **Written Procedures**

   That a complete set of policies and procedures with respect to fuel handling, inventory tracking, maintenance scheduling and work order processing be formally documented.

   That the above procedures, once written, be reviewed regularly to ensure that they remain current and are appropriately and consistently applied.

2. **Vendor Approval**

   That the vendors used for outside maintenance, inventory supply and fuel be selected and approved according to the City’s Purchasing Policy. Clarification and direction should be sought from Purchasing, as appropriate.

### MANAGEMENT ACTION PLAN

Agreed. Fuel handling is a significant aspect of the operations identified in the Central Garage Environmental Management System, which is registered to the ISO 14001:2004 standard. This system is audited every year by an external resource. We consider the operational controls now in place to be adequate for the continuity of our operations.

Agreed. The procedures are available to employees on the division’s K drive and will be reviewed regularly.

Agreed. Policy 11 forms for all vendors estimated to exceed $5,000, with whom no contract is in place, have been completed and sent to Purchasing. These have been reviewed and marked non-compliant. Report PW08115/FCS08095 regarding this issue was received and approved by the Audit and Administration Committee at the October 22, 2008 meeting.

Vendor spending is being tracked and reviewed as needed to ensure compliance with the Purchasing Policy. Policy 11 requests are being submitted before spending exceeds $5,000 with any single vendor.

Specifications for contracts for vehicle maintenance will be completed and sent to Purchasing by the end of 2008, so that tenders may be issued. This will reduce the need for Policy 11 requests.
FLEET MANAGEMENT – FUEL, MAINTENANCE & INVENTORY CONTROL
AUGUST 2008

PUBLIC WORKS – CENTRAL FLEET (Continued)

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| 3  | Fuel Reconciliation  
Central Fleet is responsible for operating 24 fuel sites mostly using underground fuel tanks owned by the City. Operations at fuel sites are governed by the Liquid Fuel Handling Code 2007 (the “Handling Code”) from the Technical Standards and Safety Authority (TSSA), which requires a daily reconciliation between the fuel usage calculated by fuel dispensers and the gauged fuel inventory balance for underground fuel tanks. It was noted during the audit that reconciliations at a few sites were not completed on a daily basis as required.  
As a consequence, fuel loss or fuel leakage might not be identified in a timely manner, which would expose the City to potential financial loss and environmental hazard. The contravention of the Handling Code is also detrimental to the City’s public image. | That the requested reconciliation be performed on a daily basis as appropriate. Some form of supervisory review should also be considered to ensure that this requirement of the Handling Code is consistently met. | Agreed. In 2006, a capital project was started to install an automated fuel monitoring system (“Veeder Root”) at 15 sites, eliminating the need for completing the daily reconciliation through manual measurement of the fuel in the tanks. The system was operational at the end of 2007. For the remaining nine (9) sites, the manual process required an employee to be at the site every day. As Fleet does not have staff at every site, it relies on employees of other divisions, usually Operations & Maintenance, to do the daily measurements.  
Fleet monitors the completion of daily reconciliation reports from those sites that do not have an automated system, which are faxed to the Central Garage. Fleet contacts the local employee responsible in the event a report is not sent in on time, with escalation to the employee’s supervisor if not resolved in time.  
Fleet is investigating the possibility of either closing or automating the remaining sites where manual daily dips are required. |
### Vehicle Fuel Consumption Review

4. WinFuel is a computer system used by Central Fleet to control access to City’s fuel pumps and to track fuel consumption. Information by vehicle for any given period is readily available from WinFuel.

A regular review of such information could detect inconsistent patterns of fuel usage (resulting from improper operation of vehicles or misuse of the City’s fuel system) on a timely basis and identify potential areas for fuel savings.

At the time of audit, there was no evidence indicating that fuel consumption by vehicle was reviewed by Central Fleet or the respective user groups.

That communications to user groups regarding the availability of fuel consumption data by vehicle be enhanced and accountability of reviewing such information be clarified.

Agreed. WinFuel is a component in the overall strategy to manage fuel consumption in City vehicles. Because the environment is a high priority public issue and fuel cost is a significant budget item, the Green Fleet Implementation Plan that was approved by Council in 2005 and many subsequent activities have focused on measuring and reporting fuel consumption.

Energy management is a significant function of the Energy, Fleet & Facilities Division. It has created fuel reports for the Public Works Department and its divisions, who are the largest fuel users. These reports were distributed in June, August and October, 2008 and were discussed at many Central Fleet Advisory Committee and Public Works Department Management Team meetings.

The current financial accounting system does not create any incentive for fuel users to monitor or account for their fuel consumption. The budget for fuel is placed in the Fleet section and the Fleet section is held accountable for variances. Users receive a cost allocation for fuel, but it has never been made clear that users must be accountable for explaining cost allocations. The Fleet section does not actually use the fuel and, therefore, should not be held accountable for costs over which it has no control.

Fleet has recommended to Finance that fuel is a direct cost and should be budgeted as a separate line in the Vehicle Expenses category in user budgets to bring more visibility to this expense.

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### Observations of Existing System

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<tr>
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<th>Recommendation for Strengthening System</th>
<th>Management Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td>Central Fleet uses a computer application (Avantis) to schedule and track vehicle repairs and maintenance. A work order detailing the work to be completed for each repair/maintenance job is created in Avantis. Once the work is completed, the printout of the work order is meant to be reviewed and signed by the foreman, forwarded to the Vehicle Operations Clerk (VOC) for filing and closed in Avantis. During 2007, 12,500 work orders were issued by Central Fleet, of which over 200 have not been formally closed in Avantis as of July 2008. No printouts were available for the randomly selected samples from these work orders. Discussions with the Fleet Superintendent indicated that these work orders most likely had been completed but not closed in Avantis and forwarded to the VOC for filing. Without completion of the standard cycle, work orders could be completed improperly or even be overlooked. The effectiveness of Avantis’ tracking mechanism would also be compromised by incomplete information or costing.</td>
<td>That the work order administration process (from issuance to filing) be reviewed and formalized. The process of closing work orders in Avantis upon completion, review and signing by a foreman and systematic filing should be emphasized to all appropriate staff. That open work orders issued in 2007 be reviewed and followed up properly. In addition, such reviews should be conducted periodically with long outstanding work orders examined and addressed.</td>
<td>Agreed. A Fleet Services Project Team was initiated in 2nd quarter 2008 to examine and reform the whole task of service provision to customers by the fleet maintenance operation. The procedure for work order administration is being addressed with an expected outcome of each work order being closed when the user picks up the vehicle on completion of service work. Agreed. All open work orders for 2007 have been closed and there are no long outstanding work orders in 2008. We have no outstanding work orders completed improperly or overlooked.</td>
</tr>
</tbody>
</table>
6. Preventative Maintenance

The City's vehicles receive periodical preventative maintenance (PM) ranging from an annual inspection required by Ministry of Transportation to a regular oil change. Work orders for PM are generated monthly from Avantis as scheduled and user groups are contacted to bring vehicles in for service.

It was noted during the audit that more than 160 PM work orders that were scheduled for January to April 2008 had not been completed as of July 2008.

When PM is not carried out as planned, the risk of vehicle breakdowns could increase, which would lead to interruption to operations and expose the City to higher repair costs.

That the significance of performing PM as scheduled be communicated and stressed to user groups and additional controls and/or penalties be considered to ensure that vehicles are brought in on time for PM.

Agreed. Central Fleet sends a daily status report on vehicles out-of-service to our largest fleet user, the Operations & Maintenance (O&M) Division so they are aware of what breakdowns may have potential to interrupt their operations. There are regular periodic meetings with O&M, Water and Wastewater Division and Waste Management Division who operate 90% of the Central Fleet. At these meetings, cost reports are made available for identification of problems with maintenance or breakdowns.

An O&M employee attends bi-weekly meetings of the Central Fleet garage foremen and superintendent so there is regular communication of service issues. The agenda includes the monthly notification of scheduled PM's that is sent to all O&M supervisors responsible for fleet vehicles. This notification process creates more accountability for the user groups to bring in vehicles on-time for PM inspections.
ADDENDUM

The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the issues and risks and can address them appropriately.

PUBLIC WORKS - CENTRAL FLEET

1. As mentioned under audit observation #4, WinFuel is used to control access to the City's fuel pumps and to track fuel consumption. Vehicle operators need to enter vehicle information and their employee IDs before fuel pumps can be activated. In case of an emergency or a system failure, selected supervisors have access to bypassing the system so no vehicle information or employee ID is required. All bypass transactions are captured by WinFuel and are to be reviewed online weekly. At the time of audit, there was no evidence indicating such review or subsequent follow up. Without evidence of review, there is a risk that bypass transactions may not be monitored properly and inappropriate transactions could take place without being investigated.

   It is recommended:
   That the Bypass Transaction Report be printed out and reviewed by the Fuel Clerk on a weekly basis. Evidence of review and follow up should be noted on the report.

   Management Response:
   Agreed. We are confident that the operational controls now in place, such as our 3-way match procedure for identifying and allocating fuel charges, are sufficient to minimize this risk. Additional time or resources would not make any material difference.

2. Currently, Central Fleet is operating the City's 24 fuel sites, 9 garages and 9 inventory stockrooms. A few of them are located within close proximity to each other. There has been no cost benefit analysis to determine whether it is optimal to maintain all these locations based on the size and operation of the City's fleet since 2000. There is a possibility that fewer fuel sites, garages and inventory stockrooms could provide similar quality services to the City's fleet at a lower cost. Efficiency could also be improved by consolidating locations.

   It is recommended:
   That a cost benefit analysis be performed to evaluate the necessity of maintaining all the City's fuel sites, garages and inventory stockrooms currently in operation.

   Management Response:
   Agreed. The Central Fleet Operational Review in 2003 and the management response articulated in the 2004 Central Fleet Strategic Plan both stress that the operating groups are responsible for providing and applying control to optimize their operational expenses. Consolidating locations is one form of control; however, this cannot be done by Central Fleet in isolation. Public Works is working on a yard rationalization that will address this issue in the context of the study results.
3. For efficiency purposes, only those parts that are frequently used are stocked at Central Fleet's inventory. For parts that are specifically required for certain work orders but are not in stock, mechanics fill out an Inventory Requisition Form (the “Form”) and forward it to Parts Clerks for purchases. The Form is intended to provide details about the parts needed, work order number, vehicle number, date of request, who requests the parts, etc. Completion of the Form could be an effective control to ensure all purchases are properly accounted for. It was noted during the audit that a number of these forms were not filled out completely and were not initialed or signed by mechanics requesting the parts.

It is recommended:
That the Inventory Requisition Form be completed and signed appropriately before being forwarded to Parts Clerk. Missing information or signatures should result in the return of the form to the mechanic.

Management Response:
Agreed. The Fleet Services Project Team is addressing the work procedures and responsibilities of individual positions in the Central Garage and will include this observation in the scope of its work.

4. At the time of audit, there were no complete written Finance & Administration (F&A) procedures with respect to accounting processes of fuel, inventory and maintenance. F&A was in the midst of establishing written procedures for these areas. Without written procedures as training tools, it could be problematic for new staff to assume their duties in these areas within a short period of time.

It is recommended:
That the process of documenting the procedures pertaining to all the processes for fuel, inventory and maintenance be completed in a timely manner. These procedures should be reviewed annually to ensure that they remain current and are appropriately and consistently followed.

Management Response:
Agreed. Finance and Administration is preparing written procedures for all processes for fuel, inventory and maintenance and will have them reviewed and in place for the end of 2008. They will be reviewed annually to ensure that they remain current.

5. According to the Notification of Signing Authority, the Supervisor of Parts & Fuel (SPF) has a signing limit up to $30,000 for both direct purchases and purchase order related expenses. It was noted during the audit that the above signing limit had not been enforced consistently. For example, fuel invoices over $40,000 were signed by only the SPF. While it is acknowledged that the risk of illegitimate invoices being approved is low as most of these invoices are from the suppliers that have a contract with the City, operations need to be in compliance with the City’s policies.

It is recommended:
That the signing authority be enforced and consistently followed.

Management Response:
Agreed. Finance and Administration will enforce limits to signing authority and is investigating the best practice to maintain compliance and enable the continued operational efficiency for the approval and receipt of fuel invoices.

The Transit and Wentworth Street yards each receive tanker deliveries of fuel in 50,000 litre loads and the price of fuel has risen considerably. The rationale for giving the Supervisor of Parts & Fuel a signing limit of $30,000 is no longer adequate for approving payment of these deliveries. An increase in signing authority for the Supervisor of Fuel & Materials Management has been approved.
### # | OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN
---|----------------------------------|----------------------------------------|-------------------------------------
1 | **Written Procedures**<br>ISO manuals of written procedures respecting inventory handling, maintenance scheduling and work order processing were created in 1996. They have not been updated since. It was also noted that the availability of such documentation was not widely known as most staff were unaware that these written procedures were in existence and the manuals were not initially provided when asked for during the audit.<br><br>When written procedures are not up to date or their existence is not widely known by operational staff, the employees currently carrying out the processes rely on personal understanding and experience, which could result in incorrect, incomplete or inconsistent application. It would also be problematic and inefficient for a successor to commence his/her duties within a short period of time. | That the procedures manuals be updated. Once this has been completed, such documentation should be made available to staff, as appropriate.<br><br>That the above procedures be reviewed regularly to ensure that they remain current and are appropriately and consistently applied. | Agreed. All written procedures will be updated as a priority within the 2009 Fleet Section Work Plan. Once the manuals are updated, they will be reviewed with staff annually. As updates occur and changes are made to documents, they will be reviewed with staff. |
2 | **Vendor Approval**<br>According to the City’s Purchasing Policy, annual estimated purchases from a vendor over $5,000 up to $50,000 require informal quotations (i.e. minimum three bids), purchases over $50,000 to $100,000 require Request for Quotations or Request for Proposals, and purchases over $100,000 require Request for Tender. Policy 10 (for emergency purchasing) or Policy 11 (for negotiations) may alternatively be used when approved by Purchasing.<br><br>At the time of audit, a number of vendors used by Transit for inventory (e.g. parts) supply and vehicle maintenance did not have a contract with the City, a Policy 10 or 11 exemption approved by Purchasing or evidence of three quotations.<br><br>When vendors are not selected and approved according to the above-noted Purchasing Policy, there is a risk that the parts purchased and services received by the City might not be of the best quality at the best price. Without evidence of a competitive process, the perception of favouritism or unfair practices could result. | That the vendors used for inventory supply and outside maintenance be selected and approved according to the City’s Purchasing Policy. Clarification and direction should be sought from Purchasing, as appropriate. | Agreed. The Division will comply with all City Purchasing Policies. This item has been addressed through Report PW08116/FCS08096, Item 8.6 to the Audit and Administration Committee on October 22, 2008 and approved by Council on October 29, 2008. Currently, the Fleet Section utilizes 41 vendors (2007) that exceed the $5,000 purchasing limit. Of this list of 41 vendors, all individual purchases over $5,000 have had a Policy 10 or 11 completed. Currently, price quotes are obtained by Fleet staff prior to purchase.<br>Achieving compliance will require issuing RFQ’s or RFP’s to some 41 vendors and will require additional resources. Some reallocation of resources on a permanent basis will be required to achieve this task. The Purchasing Division is currently undertaking a review of its policies. Transit staff will work with Purchasing staff to recommend policy amendments that will minimize the impact on resources while assuring the best quality at the lowest cost procurement. |
### # OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN
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3. **Obsolete Inventory**

Most parts in Transit’s inventory can only be used for certain series of buses. Thus, a number of parts become obsolete when a series of buses is replaced. During 2007, approximately $300,000 worth of parts were written off due to the change of Transit’s fleet. At the time of audit, there was no evidence indicating that the disposal of these parts was being tracked properly. There were no formal procedures outlining the entire process pertaining to obsolete inventory. Consequently, some of these items could go missing without being noticed.

That the entire process with regard to obsolete inventory (from identifying obsolete inventory to disposal tracking) be reviewed and documented. Once established, these procedures should be reviewed regularly to ensure that they remain current and are being followed consistently.

Agreed. Procedures will be reviewed and updated in co-ordination with Corporate Purchasing as a priority in the 2009 Fleet Section Work Plan in conjunction with Item #1. The Division operational plan will require an annual review of the procedures on an ongoing basis.

Attempts will be made to return the parts to the supplier for credit.

If that is not possible, parts can be advertised on the CUTA website and the Municipal web site through the submission of Disposal of Surplus Goods Forms to Purchasing.

If no bids are received for parts, they will be disposed of via auction with the last option of scraping out to the contracted vendor(s).

4. **Signing Authority**

According to the Notification of Signing Authority, Transit foremen have a signing limit up to $5,000, supervisors $15,000 and managers $30,000. It was noted during the audit that the above signing limits had not been adhered to consistently. For example, invoices over $20,000 were signed by foremen only.

When the signing authority limits are not properly enforced, illegitimate invoices could be approved and paid without being so identified.

That the signing authority limits for different levels of staff be enforced and consistently followed.

Agreed. Finance & Administration will verify the signing authority of all invoices before processing for payment. Any invoices that are not approved by the appropriate signing authority designate will be forwarded to the Manager, Transit Fleet Maintenance.
ADDENDUM

The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the issues and risks and can address them appropriately.

PUBLIC WORKS - TRANSIT

1. A work order is created for each bus/vehicle repair/maintenance job at Transit for tracking purposes. Once completed, work orders are meant to be reviewed and signed by foremen and filed in the Scheduling Foreman's office. At the time of audit, some work orders were not signed by the foremen and were found filed at separate locations other than the Scheduling Foreman's office. Without evidence of foremen’s review, there is a risk that those work orders might not have been completed as required. If filed improperly, it would be time consuming and inefficient to locate the documents when needed. It would also be difficult to ensure that all the work orders have been accounted for.

It is recommended:
That all work orders be signed by the appropriate foremen upon completion and be filed in the Scheduling Foreman's office.

Management Response:
Agreed. It is a Transit Fleet Section policy that all completed work orders are signed off by a Foreman or Acting Foreman. All completed work orders will be reviewed by a Fleet Supervisor to ensure compliance of policy prior to work orders being filed. On an annual basis, Transit Fleet processes in excess of 18,000 work orders. At the time of the audit, 10 were found unsigned. The above action will address the remaining concern.

2. Warranty work on buses is performed internally and the costs associated with labour and parts are claimed from bus manufacturers. Currently, the Vehicle Maintenance Supervisor (VMS) depends solely on information provided by the foremen and mechanics to determine when to file a warranty claim because work orders are not specially marked to identify warranty work performed.

According to the VMS' tracking sheet, approximately $25,000 worth of warranty claims were outstanding as of July 2008 yet there was no evidence of follow up. Further, the labour rate used for above claims is $50 per hour, a rate which has not been updated for the past few years. At the time of audit, there was no evidence of warranty utilization tracking for non revenue vehicles.

It is recommended:
That controls over warranty utilization for both buses and non revenue vehicles be reviewed and enhanced. Such controls should also include proper and timely follow up of outstanding claims.

Management Response:
Agreed. Our fleet maintenance program will be revised to flag all vehicles that are covered on warranty at work order creation to ensure that both mechanics and foremen are aware that the unit being repaired is still covered by warranty. The Manager will work with the Supervisor who handles warranty tracking to resolve all outstanding claims. This action will ensure 100% cost recovery. All non-revenue vehicles are returned to the OEM dealership for warranty repairs.
It is recommended:
That the labour rate used for warranty claims be reviewed and updated.

Management Response:
Agreed. Labour rates for warranty claims have been reviewed & updated. The hourly charge rate has been charged to mirror the Provincial procurement contracted rate of $70 per hour.

3. At the time of audit, there were no complete written Finance & Administration (F&A) procedures with respect to accounting processes of inventory and maintenance. F&A was in the midst of establishing written procedures for all areas.

It is recommended:
That the process of documenting the procedures pertaining to all the processes for inventory and maintenance be completed in a timely manner. These procedures should be reviewed annually to ensure that they remain current and are appropriately and consistently followed.

Management Response:
Agreed. Transit Finance & Administration will complete all required procedures by the 2nd quarter 2009. Procedures will be reviewed annually and updated as required.
## CITY OF HAMILTON
### INTERNAL AUDIT REPORT 2008-06
#### FLEET MANAGEMENT – FUEL, MAINTENANCE & INVENTORY CONTROL

### HAMILTON EMERGENCY SERVICES (HES)

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<tr>
<th>#</th>
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| 1 | **Written Procedures**
There are no written procedures documenting the steps and controls necessary to ensure the integrity of the parts inventory system: from ordering the parts to their storage upon delivery to parts tracking while in storage and to the accounting for the parts used in vehicle repairs and maintenance.

Similarly, there are no written procedures with respect to vehicle maintenance scheduling and tracking.

When there are no complete or updated written procedures to refer to, the employee currently carrying out the process relies on personal understanding and experience, which could result in incorrect, incomplete or inconsistent application. It would also be problematic and inefficient for the successor to commence his/her duties within a short period of time. | That procedures dealing with the ordering, storage and use of HES vehicle parts be formally documented.

That procedures pertaining to vehicle maintenance scheduling and tracking be formally documented.

That the above procedures, once written, be reviewed regularly to ensure that they remain current and are appropriately and consistently applied. | Agreed. Procedures for the ordering, storage and use of HES vehicle parts will be developed. All parts used will be marked on all service orders. Implementation - December 2008.

Agreed. Written procedures will be developed to show the vehicle maintenance schedule including when the preventative maintenance has been completed. Implementation - June 2009.

Agreed. All Mechanical Division procedures will be reviewed semi-annually by the Assistant Deputy in charge of the Mechanical Division and the Chief Mechanical Officer, starting in 2009. Any changes will be reflected by a change in Policy and Procedures. |
| 2 | **Parts Inventory Tracking**
Currently there is no system in place tracking the purchase, receipt, usage and quantity on hand of parts in stock at HES. For parts directly purchased for repairs or maintenance of specific vehicles, it is not possible to track the use of the parts ordered unless vehicle numbers are identified on the invoice. In several cases, the packing slips indicating that the parts were received were missing. At the time of audit, a listing of parts inventory was not available and an inventory count had not been performed for the past few years.

The lack of an adequate inventory tracking system could result in parts going missing without being noticed, frequently used parts not being ordered in time and obsolete parts not being identified. Without a fully costed inventory listing, it is difficult to know the value of parts on hand. | That an electronic system be used to track all HES parts in inventory, all new parts purchased and all parts used.

That an inventory count be conducted regularly using information from the above referenced system. Count variances should be noted and investigated.

That a formal re-order point be set in the above-referenced system for frequently used parts in inventory.

That parts inventory be reviewed regularly for obsolescence. | Agreed. An electronic system used to track all HES parts in inventory, new parts purchased and all parts used in repair will be investigated in 2008 with a system being purchased in the 2009 budget year.

Agreed. An annual inventory count will be scheduled and completed each February starting in 2009. Any count variances encountered will be investigated. The inventory count results will be reviewed by the Assistant Deputy and the Chief Mechanical Officer.

Agreed. A formal re-order point will be established for frequently ordered parts. This will be included in the start up of the electronic tracking system in 2009.

Agreed. At the semi-annual meetings of the Assistant Deputy and the Chief Mechanical Officer, the parts inventory will be reviewed for obsolescence starting in September 2009. |
### Observations of Existing System

3. Repairs and maintenance tracking

   Repairs and maintenance of HES vehicles are scheduled and tracked through a manual system mainly utilizing a magnetic whiteboard (for preventative maintenance) and a few manual forms and reports for repairs. Although there is a spreadsheet meant to be used as a backup for the whiteboard, it was not updated at the time of audit. Therefore, it is difficult to quantify the amount spent on repairs or maintenance associated with the fleet as a whole or for a particular vehicle. Decisions regarding disposition of vehicles in the fleet that are costing too much to maintain do not have detailed data to support such decisions and rely largely on management recollection.

   During the course of the audit, instances were noted in which outside repair work could not be related to a specific work order produced by HES. The completeness of the work order population could not be accounted for as these forms are not numbered.

### Recommendation for Strengthening System

3. That repairs and maintenance be scheduled and tracked by electronic means including generating the forms, reports and work orders electronically.

   That all invoices from outside garages be referenced to HES vehicle numbers so as to better track expenditures associated with repairs and maintenance. Once the automated system of work orders is established, as noted in the recommendation above, tracking by way of consecutively numbered sequences should be considered.

### Management Action Plan

3. Agreed. All scheduled preventative maintenance will be recorded and tracked by electronic means. This electronic system of tracking reports and work orders will have the ability to print the work orders so they can be filed. These files are required for audits that are conducted by outside agencies, i.e. Ministry of Transportation, Ministry of Labour, Ministry of Health and the Insurance Underwriters. Implementation - January 2009.

   Agreed. The vehicle numbers will be listed on all invoices from outside repair facilities for tracking purposes. When a vehicle returns from an outside repair facility, the Mechanical Division will check to see that the contracted services have been completed as indicated on the invoice. Implementation – January 2009.

4. Vendor Approval

   According to the City’s Purchasing Policy, annual estimated purchases from a vendor over $5,000 up to $50,000 require informal quotations (i.e. minimum three bids), purchases over $50,000 to $100,000 require Request for Quotations or Request for Proposals, and purchases over $100,000 require Request for Tender. Policy 10 (for emergency purchasing) or Policy 11 (for negotiations) may be alternatively used when approved by Purchasing.

   Over the course of 2007, some parts purchases and some vehicle repairs made through outside agencies exceeded $5,000 over the course of the year. Contrary to the above Purchasing Policy, several of the sampled purchases were made without the benefit of comparator quotes, contracts or an approved Policy 10 or Policy 11 exemption. Consequently, there is a potential that the parts purchased and/or the services received by the City might not have been at the best available price.

   That the vendors used for inventory supply and outside maintenance be selected and approved according to the City’s Purchasing Policy. Clarification and direction should be sought from Purchasing, as appropriate.

   Agreed. Hamilton Emergency Services will ensure that all corporate purchasing policies will be followed. Implementation by the end of 2008.
ADDENDUM

The following item was noted during the course of the audit. Although it does not present an internal control deficiency, it is indicated in this Addendum so management is aware of the issue and risk and can address it appropriately.

HAMILTON EMERGENCY SERVICES (HES)

1. At the time of audit, there were no complete written Finance & Administration (F&A) procedures with respect to accounting processes of inventory and maintenance. F&A was in the midst of establishing written procedures for all areas.

   It is recommended:
   That the process of documenting the procedures pertaining to all the processes for inventory and maintenance be completed in a timely manner. These procedures should be reviewed annually to ensure that they remain current and are appropriately and consistently followed.

   Management Response:
   Agreed. F&A procedures pertaining to processes for inventory and maintenance (i.e. purchase order processing, receipting and processing of invoices) have been drafted and will be reviewed annually.
## HAMILTON POLICE SERVICE (HPS)

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<td>1.</td>
<td><strong>Fuel Reconciliation</strong>&lt;br&gt;The operations at the two HPS fuel sites are governed by the Liquid Fuel Handling Code 2007 (the “Handling Code”) from the Technical Standards and Safety Authority (TSSA), which requires a daily reconciliation between the fuel usage calculated by fuel dispensers and the gauged fuel inventory balance for underground fuel tanks and a weekly reconciliation for above ground tanks.&lt;br&gt;At the time of audit, there was no evidence indicating that such reconciliation was performed regularly. This could result in delays in discovering fuel loss or leakage and in taking subsequent remediation accordingly.</td>
<td><strong>That a formal reconciliation of fuel dispenser volume to dip readings be performed regularly according to the Handling Code. Some form of supervisory review should also be considered to ensure consistent compliance with the Handling Code.</strong></td>
<td><strong>Agreed. The log sheets have been revised to include the required information for reconciliation and signatures.</strong>&lt;br&gt;The proper dip/tank charts are in place for Stations 10 and 20. Dip readings will be obtained daily even in the event of staff illness. The Fleet Supervisor will reconcile dip and readings with actual usage on a weekly basis and sign off. The cost of automatic fuel level indicators will be investigated.**&lt;br&gt;<strong>The Fleet Manager will sign off on weekly readings on a monthly basis.</strong>&lt;br&gt;<strong>Expected implementation date of October 2008.</strong></td>
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<td>2.</td>
<td><strong>Vehicle Fuel Consumption Review</strong>&lt;br&gt;HPS uses WinFuel, a computer system, to track vehicle dispensing transactions at fuel pumps. Information about fuel consumed by vehicle for any given period is readily available. A regular review of such information could detect inconsistent patterns of fuel usage (resulting from improper operation of vehicles or misuse of HPS’ fuel system) on a timely basis and identify potential areas for fuel savings. At the time of audit, there was no evidence of such review being performed. &lt;br&gt;Instances were noted during the review of vehicle dispensing records that volume of fuel dispensed had exceeded the vehicle’s tank capacity. For example, some vehicles have a tank of 71 litres but there were 43 occasions of these vehicles’ dispensing transactions being in the range of 90 to 100 litres over the last year. Discussions with management indicated that this was likely caused by fuel nozzles being passed off to next HPS vehicle in line in order to save time as all HPS vehicles are required to be filled at each shift change. As a result, per vehicle fuel consumption data is misleading and any fuel analysis would not be worthwhile or meaningful.</td>
<td><strong>That vehicle fuel consumption data be reviewed on a regular basis for exceptions.</strong>&lt;br&gt;<strong>That approved HPS Fleet policies governing fuel usage be communicated to all vehicle operators.</strong>&lt;br&gt;<strong>That per transaction limits in WinFuel be adjusted to match individual vehicles’ tank sizes.</strong></td>
<td><strong>Agreed. Weekly reports are currently being reviewed by the Fleet Manager and a revised report (Exception or Red Flag) report is being developed. Daily anomalies (i.e. odometer is out of range, fuel consumption exceeds tank capacity or fuel consumption is out of normal range) will be investigated daily by the Fleet Supervisor. The Supervisor will note the anomaly and report the action taken. The Supervisor will sign the report and forward it to the Fleet Manager. Retention period will be two years.</strong>&lt;br&gt;<strong>Expected implementation date of October 2008.</strong>&lt;br&gt;<strong>Agreed. The Fleet Manager will e-mail staff as to the importance of properly fueling vehicles and not passing the hose to another vehicle.</strong>&lt;br&gt;<strong>Expected implementation date of October 2008.</strong>&lt;br&gt;<strong>Agreed. Tank size limits will be corrected to match the actual tank size by November 15, 2008.</strong></td>
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### Parts Inventory

3. Inventory on hand is tracked via an asset management system called PM Xpert. The following deficiencies were noted during the audit:

- The last physical inventory count was completed in February 2007 with the conversion to PM Xpert. Without a periodic count, there is risk that inventory loss would not be detected on a timely basis.

- A review of the PM Xpert inventory listing indicated that there were a number of negative inventory balances in system as opposed to the actual quantities in stock, resulting in inaccurate and misleading information.

- Through observation and discussions with HPS Fleet management, some parts currently on hand were obsolete and would never be used. Limited stock room space is being utilized by retaining these items.

- Bulk items (such as oils and lubricants) are re-ordered as quantities are diminished. These items are delivered in large drums. There is no metered dispenser to accurately track the consumption or to gauge the amount of product remaining in the drum. As such, these items could be used inappropriately (as consumption is not measured accurately) and there is also the risk of items not being ordered before they run out.

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|    | That a complete physical inventory count be performed at least annually. Cycle counts of inventory may also be considered during the course of the year. |
|    | That the PM Xpert inventory listing be reviewed periodically with any negative balances investigated and corrected. |
|    | That inventory be reviewed for obsolescence annually and items be written off and disposed of under proper tracking, as appropriate. |
|    | That controls be implemented to better track bulk items and highlight anticipated re-order quantities. |

Agreed. A complete inventory count will be completed by staff by November 15, 2008. An annual inventory count will be completed by October 30 each year thereafter. Cycle counts are already in place.

Agreed. Any anomalies (including those found throughout the year at re-order times) in the PM Xpert inventory listing will be tracked and recorded. Effective October 2008.

Agreed. Staff will be trained in the importance of proper inventory handling by November 15, 2008. Obsolete items will be identified during the yearly count and disposed of in accordance with Disposal Policy (16).

Agreed. Metered dispensing devices will be purchased for all liquid bulk containers (drums). Reconciliation will be done at time of re-order. Any anomalies will be tracked and recorded. All non inventory items will be physically separated from the inventory in the stock room to better increase inventory control by December 2008.
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<td>4.</td>
<td>Written Procedures</td>
<td>That procedures for the accounting process for HPS fuel, maintenance and inventory control be developed and formally documented. Once completed, these policies and procedures should be reviewed on a regular basis to ensure they remain current and are followed consistently.</td>
<td>Agreed. These items will be incorporated into the existing policy and procedures (Fleet). The policies and procedures are scheduled for review in 2009.</td>
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<td>There are no written procedures detailing the steps and controls necessary to ensure the integrity of the accounting process pertaining to HPS fuel, maintenance and parts. Lack of written procedures would make it difficult for an uninterrupted flow of activity in the absence of the Chief Accountant, who is the primary accounting personnel. Further, there are some policies for HPS Fleet operations but they were last updated in 1998 and do not cover many of the current day-to-day operations. Consequently, there is a risk that the current employee carrying out the process relies on personal understanding and experience which could be incorrect, incomplete or inconsistent. It would also be problematic and inefficient for the successor to commence his/her duties within a short period of time.</td>
<td>That procedures with respect to the entire HPS Fleet operations (including fuel, maintenance and inventory control) be documented and updated periodically to ensure consistent applications.</td>
<td>Agreed. Some procedures have already been completed (in the form of staff training (clerical) for holiday relief) and the remainder will be completed in 2009. All procedures will be updated annually.</td>
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<td>5.</td>
<td>Functionality of Asset Management System</td>
<td>That HPS Fleet work with HPS Computer Services to explore ways of improving the efficiency of PM Xpert (such as speed and access to customized queries) and maximizing its functionality (such as filter criteria and custom reports) to achieve better information retrieval and dissemination.</td>
<td>Agreed. The HPS Fleet Clerk will be trained on advanced functions of the PM Xpert and given report writing privileges for the system. All system updates will be installed by December 2008.</td>
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<td>PM Xpert is the asset management system used by HPS to track fuel, maintenance and parts inventory. The speed and functionality of the system appear below standard. Filter criteria to reduce reports to more meaningful extracts rarely work as intended. It was also noted during the audit that a number of meaningful reports that could be used by management for review of current HPS Fleet operations are not being produced. The HPS Fleet employee who most often uses this system does not have the access to generate customized queries from PM Xpert. HPS Computer Services have only one individual assigned as support for PM Xpert. This has sometimes resulted in delays in service delivery when this individual is absent or otherwise unavailable. The system is the main database of HPS fleet activities and it is referred to on a daily basis for costing, maintenance and inventory requirements. Failure of the system to perform at its full functionality impacts the efficiency and effectiveness of the operations of the HPS Fleet.</td>
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ADDENDUM

The following item was noted during the course of the audit. Although it does not present an internal control deficiency, it is indicated in this Addendum so management is aware of the issue and risk and can address it appropriately.

HAMILTON POLICE SERVICE (HPS)

1. Currently, HPS does not record inventory on the Balance Sheet. Instead, all parts inventory purchased are expensed at the time of acquisition. According to Public Sector Accounting Standards (PSAB) 3150 (Reporting of Tangible Capital Assets) of the Canadian Institute of Chartered Accountants (CICA) to be implemented in 2009, spare parts may qualify as tangible capital assets when their use is expected for more than one period. Also, if the parts can only be used with a tangible capital asset and their use is expected to be irregular, the parts can be amortized over the useful life of the related asset.

It is recommended:
That HPS Fleet and Accounting branches discuss the requirements of PSAB 3150 with the City’s Accounting Services division to determine the most appropriate financial recording and tracking methods for the parts inventory.

Management Response:
Agreed. Staff will meet during the week of October 6, 2008 to discuss the possibility or requirement to report fleet inventory under the PSAB regulations.