SUBJECT: Audit Report 2007-05 – Fleet Management – Procurement (CM08002) (City Wide)

RECOMMENDATION:

(a) That Report CM08002 respecting Audit Report 2007-05, Fleet Management – Procurement, be received;

(b) That the management action plans for Central Fleet as detailed in Appendix “A” of Report CM08002 be approved and the 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 CM08002 be approved and the 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 CM08002 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 CM08002 be approved and the Chief of Police be requested to direct the appropriate staff to have the plans implemented.

EXECUTIVE SUMMARY:

The 2007 Internal Audit work plan approved by Council included the audit of Fleet Management – Procurement (Central Fleet, Transit, Hamilton Emergency Services and Hamilton Police Service). The results of the audit are included in formal audit reports containing observations, recommendations and management responses, each attached as separate Appendices “A” to “D” to Report CM08002.
BACKGROUND:
The following table details the number of units bought and sold in 2006 along with corresponding replacement budget.

<table>
<thead>
<tr>
<th>2006</th>
<th># of Units Bought</th>
<th># of Units Sold</th>
<th>Budget ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Fleet</td>
<td>152</td>
<td>130</td>
<td>$8,175,000</td>
</tr>
<tr>
<td>HES</td>
<td>6</td>
<td>5</td>
<td>2,423,100</td>
</tr>
<tr>
<td>HPS</td>
<td>58</td>
<td>57</td>
<td>1,263,500</td>
</tr>
<tr>
<td>Transit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buses</td>
<td>34</td>
<td>34</td>
<td>11,126,000</td>
</tr>
<tr>
<td>DARTS</td>
<td></td>
<td>16</td>
<td>1,017,000</td>
</tr>
<tr>
<td>Non Revenue</td>
<td>1</td>
<td>3</td>
<td>31,000</td>
</tr>
<tr>
<td>Totals</td>
<td>251</td>
<td>245</td>
<td>24,035,600</td>
</tr>
</tbody>
</table>

Considerable dollars and effort are put into maintaining fleets in the areas noted above. This review concentrated on the vehicle purchase and disposal activities. Compliance with corporate policies, means of asset safeguarding and controls resulting in the reliable information for decision making were included in the scope of the audit. As well, vehicle replacement funding policies were reviewed. Any potential synergies which could be realized through the adoption of a common practice were considered. Areas for improvement in regard to financial and administrative controls as well as effective and efficient operations in the fleet management procurement area were identified.

The Audit and Administration Committee receives and approves final audit reports and reviews as part of its responsibilities for the oversight of governance and control.

ANALYSIS/RATIONALE:
The audit of fleet management – procurement 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 (4) separate formal audit reports, each containing observations, recommendations and management responses, attached as Appendices “A” to “D” of Report CM08002.

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

- A filing system consisting of all inclusive individual unit files to improve access to documentation;
- Co-ordination and arrangement of long-term rentals through Central Fleet in order to avoid high rental costs when procurement of a vehicle would make more sense economically; and
- Written Finance and Administration (F&A) procedures relating to the accounting process for vehicle acquisitions and disposals.

An additional Addendum item noted the importance of restrictively endorsing cheques from scrap dealers (for disposal of vehicles) upon receipt.

Management and staff have already taken action to implement all of these recommendations.
Transit – Appendix “B”
The three (3) recommendations for the Transit division all relate to the need for written policies and procedures to ensure complete and consistent application. The Addendum item deals with compliance to City Purchasing Policy #16 dealing with the disposal of surplus goods.

Management and staff have indicated in their responses that they have taken corrective actions for all of the items noted.

Hamilton Emergency Services (HES) – Appendix “C”
The recommendation for improvement made for HES concerned written policies and procedures. An Addendum item identified a more efficient method of disposal by going directly to third party auction.

Management responses indicate that recommendations will all be implemented no later than June 30, 2008.

Hamilton Police Service (HPS) – Appendix “D”
Several recommendations were made to improve controls and provide a better documentation trail. These include:

- Improved functionality of the PM Xpert system to generate useful data and reports;
- Written policies and procedures;
- Assurance that vehicle purchases have been properly approved by the Police Services Board and the direction given regarding funding of purchases has been properly reflected in the General Ledger; and
- Vehicle Replacement Reserve is used only for vehicle acquisitions and proceeds from vehicle disposal are credited to the Reserve, as per Reserve Policy.

The four (4) Addendum items all deal with disposal of vehicles and concern reconciliation of proceeds to other internal records, compliance with the City’s Purchasing Policy #16 for disposal of surplus goods, maintenance of a record of vehicles sent to auction and the recording and remittance of applicable GST.

Management and staff agreed to implement all of the recommendations.

Each of the areas audited use different electronic/manual systems to determine and track purchases and disposals. Central Fleet uses Avantis, Transit uses a spreadsheet application (Replacement Plan), HES uses Fire Department Management Software (FDMS) and HPS uses the PM Xpert system. Due to variances in these separate systems and the costs and time that have already been expended to implement the systems, there are little synergies that could be realized.

**ALTERNATIVES FOR CONSIDERATION:**
Not applicable.
FINANCIAL/STAFFING/LEGAL IMPLICATIONS:
Financial
None.
Staffing
None.
Legal
None.

POLICIES AFFECTING PROPOSAL:
City’s Purchasing Policy #16 – Disposal of Surplus goods
City’s Reserve Policy

RELEVANT CONSULTATION:
The attached reports include management action plans which reflect the responses of staff
in each of the areas that are responsible for the fleet procurement and disposal processes.

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
Environmental Well-Being is enhanced. □ Yes ☑ No
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

:dt
Attachment
### Appendix "A" to Report CM08002

# CITY OF HAMILTON
INTERNAL AUDIT REPORT 2007-05
PROCUREMENT AUDIT – FLEET MANAGEMENT
PUBLIC WORKS – CENTRAL FLEET

<table>
<thead>
<tr>
<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Filing System</strong>&lt;br&gt; An individual file is maintained at Central Fleet for every vehicle and piece of equipment included in its fleet. This file is meant to keep together all documents related to the acquisition and disposal of each unit. At the time of the audit, some pertinent documents were filed and retained separately by the staff, such as Spec Sign-Off Forms and Equipment Requisition Forms. Without a systematic filing system, documents could be misplaced, go missing or even be overlooked. As a result, transaction errors and mistakes would not be identified easily. When needed, it would be time consuming and inefficient to locate the documents.</td>
<td>That all documents pertinent to the acquisition and disposal of a vehicle or piece of equipment be kept in a single individual unit file.</td>
<td>Agreed. The filing system is currently being updated. Each unit file will contain all documentation pertaining to each vehicle. To be completed by year end 2007.</td>
</tr>
<tr>
<td>2.</td>
<td><strong>Trucks Rented by Culture &amp; Recreation (C&amp;R)</strong>&lt;br&gt; Central Fleet manages the City’s fleet but the authority to rent vehicles or equipment as needed resides with the user departments. During the review of vehicle rental costs incurred during 2006, it was noted that C&amp;R had rented two pick-up trucks all year for two full-time employees to perform their job duties. The annual rental cost for each truck was approximately $13,000. Discussions with one District Manager from C&amp;R indicated that the lack of funding in their operating budget to cover the cost for the trucks up front is the reason why they rented the vehicles rather than purchasing. The estimated cost for acquiring one pick-up truck of this kind is approximately $35,000 with a life expectancy of 8 years per Central Fleet’s guidelines. Based on the usage of the trucks and the costs associated, purchasing the trucks instead of renting would lead to long-term cost savings. The Senior Project Manager at Central Fleet indicated that they were not notified by C&amp;R of the situation.</td>
<td>That all long-term vehicle/equipment rentals be discussed with Central Fleet staff and approval to proceed be given only after consideration of the alternative suggestions. Documentation should be retained by the department to support the decision to rent on a long term basis.</td>
<td>Agreed. Direction has been circulated to the Central Fleet Advisory Committee. The purchasing section has an active member on this Committee and they are responsible for short-term rental contracts. Long-term contracts defined as 12 months or more will be arranged through Central Fleet. It will be the responsibility of the user department to retain the supporting documentation.</td>
</tr>
</tbody>
</table>
## OBSERVATIONS OF EXISTING SYSTEM

### Finance & Administration (F&A) Procedures

There are no written F&A procedures relating to the accounting process for vehicle or equipment acquisition and disposal at Central Fleet.

When there are no written procedures to refer to, the employee currently carrying on 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.

## RECOMMENDATION FOR STRENGTHENING SYSTEM

That F&A procedures pertaining to vehicle or equipment acquisition and disposal be documented and retained in the F&A area. These procedures should be reviewed regularly to ensure that they remain current and are appropriately and consistently applied.

## MANAGEMENT ACTION PLAN

Agreed. The F&A section has documented and will maintain the procedures pertaining to Vehicle or Equipment acquisitions and disposals.
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 as necessary.

1. Scrap metals from the City’s departments are picked up by the City’s approved vendor who issues cheques periodically and sends them to Purchasing. The cheques are then forwarded to Finance & Administration (F&A) at Central Fleet, where the amounts are allocated to various department accounts in PeopleSoft and the cheques are prepared for deposit. It was noted during the audit that the cheques were not restrictively endorsed until they are ready for deposit at Central Fleet. As a consequence, there is a risk that the cheques could go missing and be misappropriated.

It is recommended:
That Purchasing restrictively endorse the scrap metal cheques upon initial receipt.

Management Response:
Agreed. Purchasing has acquired a stamp and the back of each cheque will be restrictively endorsed upon initial receipt.
## Appendix “B” to Report CM08002

### CITY OF HAMILTON

**INTERNAL AUDIT REPORT 2007-05**

**PROCUREMENT – FLEET MANAGEMENT**

**PUBLIC WORKS – TRANSIT**

<table>
<thead>
<tr>
<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
</tr>
</thead>
</table>
| 1. | **Policies & Procedures**

Currently there are no written policies and procedures at Transit documenting the steps and controls necessary to ensure the integrity of the disposal process for HSR buses, DARTS vehicles and non-revenue vehicles. As a result, there was no adequate tracking of the buses replaced. The number of buses sent to scrap in 2005/06 per Transit’s record cannot be reconciled with the information provided by the scrap yard. Part of the problem may lie in the long delays experienced by the City in receiving proceeds of disposal from the contracted scrap dealer. For example, proceeds for City scrap of the second to fourth quarters of 2005 and the first quarter of 2006 were not received until mid 2006.

Further, there is no designated staff that checks the reasonableness of the amounts received from the scrap yard or ensures the proceeds from the sale have been correctly posted in the General Ledger.

In addition, there are no written Finance & Administration (F&A) procedures covering the accounting process for vehicle acquisition and disposal at Transit.

When there are no written procedures to refer to, the employee currently carrying on 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 the policies and procedures with respect to the disposal process of buses and vehicles be formally documented. |
| | That F&A procedures pertaining to vehicle or equipment acquisition and disposal be documented and retained in the F&A area. |
| | That the above procedures, once written, be reviewed regularly to ensure that they remain current and are appropriately and consistently applied. |
| | Agreed. Effective immediately, all Transit fleet, both revenue and non-revenue and DARTS vehicles, when disposed of either to auction or the scrap yard, will have a Purchasing Policy #16 form filled out. This form called a “Request for Disposal of Surplus Goods” will be filled out and forwarded to Purchasing and F&A. |
| | Agreed. F&A will develop an in-house procedure by year end that itemizes the steps to be taken to accommodate the acquisition or disposal of Transit vehicles or equipment. |
| | Agreed. Transit Fleet will review the above procedures on an annual basis in the 4th quarter of each year to ensure all documentation regarding Purchasing Policy #16 has been completed for all vehicles that have been disposed of. |
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 as necessary.

1. As directed by the City’s Purchasing Policy #16 – Policy for Disposal of Surplus Goods, a form called “Request for Disposal of Surplus Goods” (RDSG) is required to be completed and forwarded to Purchasing at the time of disposal. This Form is applicable to all surplus and obsolete vehicles or equipment including those sent to the scrap yard or auction. Currently, the RDSG form is only filled out for the disposal of non-revenue vehicles at Transit but not for HSR buses or DARTS vehicles.

It is recommended:
That Transit comply with City Purchasing Policy #16 by completing the RDSG form for all fleet disposals.

Management Response:
All Transit Fleet vehicles, regardless of classification when being disposed of either to auction or the scrap yard, will have a Purchasing Policy #16 form filled out. This form called a “Request for Disposal of Surplus Goods” will be filled out and forwarded to Purchasing and F&A.
# CITY OF HAMILTON
INTERNAL AUDIT REPORT 2007-05
PROCUREMENT – FLEET MANAGEMENT
HAMILTON EMERGENCY SERVICES (HES)

## OBSERVATIONS OF EXISTING SYSTEM

<table>
<thead>
<tr>
<th>#</th>
<th>Policies &amp; Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>There are no written Finance &amp; Administration (F&amp;A) procedures regarding the accounting process for vehicle acquisition and disposal at HES. Likewise, the policies and procedures describing the steps and controls that should be performed when disposing of Fire Services vehicles have not been documented. When there are no written procedures to refer to, the employee currently carrying on the process relies on personal understanding and experience, which could result in incorrect or inconsistent application. It would also be problematic and inefficient for the successor to commence his/her duties within a short period of time.</td>
</tr>
</tbody>
</table>

## RECOMMENDATION FOR STRENGTHENING SYSTEM

<table>
<thead>
<tr>
<th>#</th>
<th>Policies &amp; Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>That F&amp;A procedures pertaining to vehicle acquisition and disposal be documented and retained in the F&amp;A area. That the policies and procedures with respect to the disposal process of vehicles be formally documented. That these procedures, once written, be reviewed regularly to ensure that they remain current and are appropriately and consistently applied.</td>
</tr>
</tbody>
</table>

## MANAGEMENT ACTION PLAN

<table>
<thead>
<tr>
<th>#</th>
<th>Policies &amp; Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agreed. F&amp;A procedures are to be documented by June 30, 2008. Agreed. HES-EMS and Fire will have a formalized policy and procedure in place by December 31, 2007 for the proper disposition of these assets. Agreed. F&amp;A procedures will be reviewed annually and revised as appropriate.</td>
</tr>
</tbody>
</table>
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 as necessary.

1. At the time of the audit, old HES administrative type vehicles were disposed of through Purchasing. The process involved the time of several staff as well as the cost of advertising the sale. As the funds generated from the sale of such vehicles are small to begin with, the added costs noted above further detract from the limited financial benefit derived from the vehicles’ sale. Disposal directly through a third party auction (which is currently utilized if the sales through Purchasing do not materialize) would save these costs.

   It is recommended:
   That the old HES administrative type vehicles be disposed of directly through a third party auction rather than through Purchasing.

Management Response:
   Management Response:
   Agreed. This will form part of our formalized Policy and Procedure for the disposition of these types of assets which will be in place by December 31, 2007.
### OBSERVATIONS OF EXISTING SYSTEM

1. **PM Xpert**

   HPS has recently upgraded their Fleet Management system to PM Xpert. It was noted during the audit that the reports that the system was able to generate were limited. For example, there is no current report available to list all vehicles added in 2006.

   Consequently, information that could assist management in making decisions is not readily available. Duplication of efforts in compiling information that is already available in the system but not retrievable would result in extra work and inefficiency.

### RECOMMENDATION FOR STRENGTHENING SYSTEM

That the functionality of PM Xpert be reviewed for potential improvements. Queries should be developed to generate reports providing more meaningful and concise data.

### MANAGEMENT ACTION PLAN

Agreed. The PM Expert system went live February, 2007. At the time of the audit, staff were still transitioning from the old to the new system. The PM Expert system has many valuable tools and reports that have not yet been investigated due to the newness of the system. Some of the reports, such as the “list of vehicles added in 2006” do not access the old database. This required a manual search. This type of reporting is readily available with the new database for any time period from January 2007 onwards.

Additional reports were developed during the budget preparation over the summer months. The system allows for easy manipulation of data.

The Fleet Systems Clerk and the Manager of Fleet will be fully trained and given administrative privileges for report creation.
<table>
<thead>
<tr>
<th></th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
</tr>
</thead>
</table>
| 2. | PSB Reports  
All purchases of vehicles require approval by the Police Services Board (PSB). Approval of some purchases in 2006 tested during the audit could not be readily traced to a PSB report. For one sample, the PSB report noted on the requisition was found to be incorrect. Currently, there is no secondary review to ensure the accuracy of the quoted PSB report number on the requisitions. As a result, unapproved purchases could potentially occur without being noticed.  
During the audit, PSB reports were not always readily available when requested from the Manager of Fleet (MOF) and the Chief Accountant (CA), who have indicated that they did not always receive a copy of PSB reports relevant to fleet activities. The lack of information flow makes effective budget tracking and transaction approval by the MOF and CA more difficult.  
PSB reports reference the approved source of funding for purchases (e.g. operating or reserve). During the review of the accounting records, some instances were noted whereby entries for the transfers from the reserve were not made as approved by PSB. To provide an adequate paper trail, all transfers from the reserve should be recorded in the vehicle replacement operating account in amounts as approved by the PSB. | That both the initiator and approver of the requisition ensure the accuracy of the PSB report number quoted on the requisition.  
That PSB reports concerning fleet matters be adequately disseminated to all appropriate personnel.  
That funding sources approved by the PSB be properly reflected in the detail of the General Ledger. | Agreed. The initiator will check the .pdf version of the board report(s) prior to submitting to the Accountant for processing. This is currently being implemented.  
Agreed. This is currently being implemented.  
Agreed. Where vehicle purchases are recommended above budget, the source of funding in the PSB report will be identified as operating savings, as available, or the Vehicle Reserve. Therefore, if operating savings exist, the funding will come from operating first before using funding from the reserve. In the situations observed during the audit, although the PSB Report identified funding only from the reserve, since overall operating savings were available, the funding for the purchases came from the operating savings and not the reserve. |
### OBSERVATIONS OF EXISTING SYSTEM

3. **Policies & Procedures**

   There are no formal policies and procedures documenting the steps and controls that should be performed when disposing of vehicles at HPS.

   Similarly, there are no written policies and procedures regarding the accounting process for vehicle acquisition and disposal.

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

4. **Reserve Policy & Transfer**

   HPS has a Vehicle Replacement Reserve (the Reserve) to equalize the cost of future additions to the fleet owned by the Service. According to the City's Reserve Policy, proceeds from the sale of vehicles should be credited back to the applicable reserve. At the time of audit, the disposal proceeds for HPS vehicles were credited to an operating account to offset the expenses incurred.

   HPS uses an operating account to record all vehicle purchases. It was noted during the audit that $300,000 budgeted for vehicle acquisition was transferred from the Reserve to an account - "Non Taxable Fees" - instead of the "Fleet Replacement" account. Funds from reserves should be used for the specific purposes for which they were created.

### RECOMMENDATION FOR STRENGTHENING SYSTEM

3. "Policies & Procedures"

   That the policies and procedures for the disposal of HPS vehicles be documented.

   That policies and procedures covering the accounting process for vehicle acquisition and disposal be documented.

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

4. "Reserve Policy & Transfer"

   That all proceeds from the disposal of vehicles be credited to the appropriate reserve as directed by the Reserve Policy.

   That funds transferred from the Vehicle Replacement Reserve be used only for vehicle acquisition by recording the transfers into the "Fleet Replacement" account.

### MANAGEMENT ACTION PLAN

3. "Policies & Procedures"

   Agreed. PSB 02-052 “Guidelines for Used Vehicle Purchases” will be revised. The participation in the co-operative purchasing group is approved annually. The process of tracking vehicle disposal has been developed and is now in place. A detailed note of the reason for vehicle disposal is now placed in the vehicle history file (within the PM Xpert fleet management system).

   Agreed. Written procedures for the accounting process covering vehicle acquisition and disposal will be developed with an implementation date of April 30, 2008.

   Agreed. An annual review of the procedures will become the responsibility of the Fleet Manager.

4. "Reserve Policy & Transfer"

   Agreed. In the past, anticipated revenue from vehicle disposal formed part of the budget process. This recommendation has been implemented.

   Agreed. Funding from the Vehicle Reserve is to be used for vehicle purchases. Any funding from the Vehicle Reserve will be transferred to the Fleet Administration operating accounts.
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 as necessary.

1. Cheques for proceeds of disposed vehicles from auction are mailed directly to HPS Fleet Department, where the Fleet Inventory Clerk (FIC) takes a photocopy and records the details in a tracking spreadsheet. The original cheques are then forwarded to the HPS Accounting Department for deposit. It was noted during the audit that one of the 2006 disposal proceeds cheques was never deposited or recorded in the General Ledger. Corrections were made subsequent to the audit observation. There is currently no reconciliation performed to ensure all the cheques received are properly posted in the General Ledger.

It was also noted that the cheques were not restrictively endorsed until they were ready for deposit at the HPS Accounting Department. Cheques that are not restrictively endorsed could be misappropriated resulting in a potential financial loss to the organization if they were to go missing.

**It is recommended:**

*That a quarterly reconciliation of the proceeds as noted in the General Ledger and in the records kept by the FIC be performed and the disposal proceeds cheques be restrictively endorsed upon initial receipt in the HPS Fleet Department.*

**Management Response:**

*Agreed. On a quarterly basis, the Fleet Section and Finance Section will reconcile their respective records of proceeds from the sale of vehicles to ensure all revenue has been received, deposited and recorded.*

*A spreadsheet has been developed and is currently in use to assist with the quarterly reconciliation. The Fleet Inventory Clerk will order a stamp whereby all incoming cheques received will be restrictively endorsed upon receipt.*

2. One of the auction houses used by HPS for vehicle disposal includes in the cheque amount the GST charged to the buyer (which is payable to Canada Revenue Agency (CRA)) and the GST charged to HPS on services provided (which is 100% refundable). At the time of audit, the amounts of the cheques received were coded directly to the Equipment expense account with no segregation of the GST owing or paid. While the net GST payable is not material, estimated to be approximately $1,200 for 2006, funds that should be remitted to CRA are being retained by the HPS and GST amounts paid are not being recovered.

**It is recommended:**

*That HPS ensure all applicable taxes are recorded properly in General Ledger for remittance to CRA or for recovery.*

**Management Response:**

*Agreed. Where an auction house includes GST charged to the buyer in a cheque for the proceeds from the sale of vehicles, the GST will be remitted to the Canada Revenue Agency.*
3. As directed by the City’s Purchasing Policy #16 – Policy for Disposal of Surplus Goods, a form titled “Request for Disposal of Surplus Goods” (RDSG) is required to be completed and forwarded to Purchasing at the time of disposal. This Form is applicable to all surplus and obsolete vehicles or equipment including those sent to auction. Currently, no such form is being completed at HPS for any vehicle disposals.

It is recommended:
That HPS comply with City Policy #16 by completing the RDSG form for all disposals.

Management Response:
Agreed. Fleet will begin using the Disposal Policy #16 when disposing of vehicles. This will be incorporated into the disposal policy and a copy retained on the history file with the reason for disposal.

4. Currently, the Fleet Inventory Clerk (FIC) at HPS notifies the auction house to pick up the vehicles for disposal after they are decommissioned. However, no detailed record of those vehicles taken by the auction house is maintained. The lack of an adequate paper trail could result in the loss of anticipated revenue as vehicles to be disposed of are not tracked.

It is recommended:
That a record be maintained of vehicles sent to the auction house. In improving the functionality of the PM Xpert system as noted in recommendation #6 of the report, such tracking could be considered as a function of the system.

Management Response:
Agreed. Management will use the PM Xpert system to create a record of disposal that includes the value obtained at the time of disposal.