SUBJECT: Follow Up of Audit Report 2007-04 – Expanded Works (CM09016) (City Wide)

RECOMMENDATION:

That Report CM09016 respecting the follow up of Audit Report 2007-04, Expanded Works, be received.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:

Audit Report 2007-04, Expanded Works, was originally issued in December, 2007 and management action plans with implementation timelines were included in the Report. In June, 2009, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of the six (6) recommendations made in the original Report and Addendum, four (4) have been completed, one (1) is in progress and one (1) is incomplete.

BACKGROUND:

Audit Report 2007-04, Expanded Works, was originally issued in December, 2007. The report indicated six (6) recommendations regarding improvement to financial and administrative controls.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following the issuance of the original report in order to determine whether action plans committed to by department management have been implemented. In June 2009, Internal Audit followed up the report to confirm appropriate and timely actions had been taken.
ANALYSIS/RATIONALE:

The report attached as Appendix “A” to Report CM09016 contains the first three columns as originally reported in Audit Report 2007-04 along with an added fourth column indicating Internal Audit’s follow up comments. Two (2) items in the Addendum have also been followed up with the appropriate detail provided.

Four (4) of the six (6) recommendations have been fully implemented. These include: retention of dated, signed copies of the Policy #11 Form, a method of dealing with individuals who contravene the Form #11 requirement regarding communication with Purchasing in advance of work being performed and a process to ensure the accuracy of the Quarterly Negotiation Reports for Council.

The implementation of equalized authorization limits for Policy #11 forms is in progress.

The one (1) outstanding recommendation concerns the consideration of using signatures of the Policy #11 form as approval rather than generating another form for signing. Subsequent to the follow up, staff indicated that signatures on the requisition form will be discontinued to avoid processing delays.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

None.

POLICIES AFFECTING PROPOSAL:

Purchasing Policy – Request to Use Negotiation Policy #11

RELEVANT CONSULTATION:

The results of the follow up were provided to management and staff responsible for expanded works in the Corporate Services (Purchasing) and Public Works Departments.
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
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<tr>
<td>1.</td>
<td>Signing authority limits for Requests to Use the Negotiation Policy #11 (the Form) and the related Purchasing Requisitions are not in agreement. Most Directors have a limit of $100,000 for the Form but $60,000 for requisitions. This situation is confusing and results in inefficient use of the Form. Time delays are being experienced by department requests in the $60,000 to $100,000 range as requisitions are sent to General Managers (GM's) after both the GM and Director have already signed and approved the Form. If the limits were the same, the department might use the approved Form as an alternative to proceed with the electronic requisition for additions to a Purchase Order (PO) for an expanded work rather than generate another hard copy form (the requisition) for signature. This process for electronic requisitions would still yield approvals for the requisition by way of the PeopleSoft workflow set up.</td>
<td>That approval limits for Directors for the Request to Use the Negotiation Form and the requisition form be made consistent.</td>
<td>Public Works (PW) – Agreed. The authorization limits for the Policy #11 form and purchase requisitions have been equalized.</td>
<td>In progress. A review of Notifications of Signing Authority for Directors in Public Works indicated that three of the Directors have been granted a signing limit of up to $100,000 for the requisition form to match the signing limit on the Request to Use Negotiation Policy #11 Form. The remaining five (5) Directors still have inequitable signing limits as per the original observation.</td>
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<td>2.</td>
<td>During the audit, it was noted that not all requesting departments retain a signed copy of the Form. In its place is a signed purchasing requisition on file for the amount of Expanded Work. There is no specific requirement in the procedures to retain a signed hard copy document. The lack of an authenticated paper trail which provides proof of department approval prior to submission to Purchasing diminishes accountability and evidence of a functioning control. Retention of a signed hard copy of the Form becomes even more important if it is decided that the Form can replace the requisition as noted in recommendation #1.</td>
<td>That the procedures governing the Policy for Negotiations #11 ensure the inclusion of the need to retain a signed copy of the Form in all departments.</td>
<td>PW – Agreed. This recommendation was implemented in the department effective September 30, 2007.</td>
<td>Incomplete. At the time of audit follow up, when a Policy #11 Form was processed, a paper requisition was still being used to add to the existing Purchase Order for expanded works. F&amp;A staff has indicated that obtaining signatures on the requisition form will be discontinued immediately to avoid any delays. However, the F&amp;A group still will require the other sections of the form to be completed as it contains important details which are needed for processing by the F&amp;A staff.</td>
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### EXPANDED WORKS
**FOLLOW UP – June 2009**

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<td>3.</td>
<td>A review of expanded works requests classified as noncompliant by Purchasing was performed. In all cases, noncompliance was attributable to the timing of the receipt of the paperwork by Purchasing and failure to adequately communicate with the Purchasing section in advance of work being performed. Commitments could be made without the proper authorizations as per the use of Form #11. There could be negative public perception as noncompliant requests may be viewed as a way to bypass approved policy and benefit select groups.</td>
<td>That management consider a method of dealing with individuals who bypass policy by not submitting proper paperwork for Purchasing approval prior to commencing any expanded work.</td>
<td>PW – Agreed. A process has been implemented in the Public Works Department as of May 2007. A letter will be issued from the General Manager to the Director on issues of non-compliance.</td>
<td>Completed. Subsequent to the audit, a discipline memo was created which will be issued from the Public Works General Manager to the Directors for any contravention of the Purchasing Policies including the Policy #11.</td>
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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 errors/issues and can address them.

1. For departments that retain a signed copy of the Request to Use Negotiation Policy Form, there were several instances of no date next to the signature. Inclusion of dates may prove useful in determining delays in forwarding the form for Purchasing approval to proceed.

   **It is recommended:**
   That procedures require that all signatures on the Request to Use Negotiation Form #11 be dated.

   **Management Response:**
   PW - Agreed. The form will always be dated. Implementation is scheduled for the week of August 6, 2007.
   Purchasing - This is an individual departmental recordkeeping issue. The date utilized by Purchasing is that of the email submission giving approval.

   **Follow Up Comment:**
   Completed. Per review of the samples of Policy #11 Forms, all signatures on these documents were dated.

2. Three (3) of the thirty-four (34) sampled Requests to Use Negotiation Policy #11 were reported at incorrect amounts on the quarterly status reports for 2006 presented to Council. While the net effect is immaterial, it does highlight the need for greater scrutiny of amounts reported. Under and over reporting of the request amounts were due to a variety of factors but predominantly to a lack of detailed secondary review prior to completion of the report.

   Inaccurate information could result in ineffective scrutiny or misguided decision making.

   **It is recommended:**
   That the procedures for the preparation of the Quarterly Negotiation Report for Policy 10 and 11 ensure a thorough secondary review prior to the report being submitted to Committee and Council.

   **Management Response:**
   Purchasing - Agreed. The Purchasing Clerk matches Policy #10/11 forms to purchase orders and then the report is put together and reviewed in detail by the Purchasing Analyst and the Manager of Purchasing.

   **Follow Up Comment:**
   Completed. A sample of Policy #11 Forms were agreed to the 2008 Quarterly Negotiation Reports for Policy 10/11 and all amounts were reported correctly.