SUBJECT: Follow Up of Audit Report 2007-05 – Procurement – Fleet Management (CM09015) (City Wide)

RECOMMENDATION:

That Report CM09015 respecting the follow up of Audit Report 2007-05, Procurement – Fleet Management, be received.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:

Audit Report 2007-05, Procurement – Fleet Management, was originally issued in January, 2008 and management action plans with implementation timelines were included in the Report. In May, 2009, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of the twenty-six (26) recommendations made in the original Report and Addendum, eighteen (18) have been completed, four (4) are in progress, one (1) has been initiated, an alternative has been implemented for one (1) and two (2) are incomplete.

BACKGROUND:

Audit Report 2007-05, Procurement – Fleet Management, was originally issued in January, 2008. The report indicated twenty-six (26) recommendations regarding compliance with corporate policies, asset safeguarding, vehicle replacement funding policies and improvement to financial and administrative controls for effective and efficient operations in the fleet management procurement areas of the City.
BACKGROUND: (Continued)

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 May, 2009, Internal Audit followed up the report to confirm appropriate and timely actions had been taken.

ANALYSIS/RATIONALE:

The reports attached as Appendices “A”-“D” to Report CM09015 contain the first three columns as originally reported in Audit Report 2007-05 for each of the four (4) areas audited along with an added fourth column indicating Internal Audit’s follow up comments. Addendum items have also been followed up at the end of each individualized section. Four (4) separate formal audit reports were prepared for the distinct areas audited as follows:

Central Fleet – Appendix “A”
Two (2) of the four (4) recommendations have been fully implemented. These include: a filing system to improve access to documentation and written procedures relating to the accounting process for vehicle acquisition and disposal. The recommendation regarding co-ordination and arrangement of long-term rentals has been initiated but with little further progress as such long term rentals still exist. The Addendum item respecting the importance of restrictively endorsed cheques is in progress.

Transit – Appendix “B”
Three (3) of the recommendations made in the original report dealt with the need for written procedures. Two (2) of these recommendations dealing with documented procedures for the disposal process of buses and vehicles and the regular review of the written procedures are in progress with expected completion by 2009 year end. The Finance & Administration procedures pertaining to vehicle or equipment acquisition and disposal have been completed. The Addendum item regarding compliance with City Purchasing Policy #16 and the disposal of surplus goods has been completed.

Hamilton Emergency Services (HES) – Appendix “C”
The three (3) recommendations in the main body of the report for Finance & Administration procedures for vehicle acquisition and disposal, a documented vehicle replacement process and the annual review and revision of these procedures have been completed. The Addendum item pertaining to vehicle disposal by third party auction has also been completed.

Hamilton Police Service (HPS) – Appendix “D”
Ten (10) of the fourteen (14) recommendations have been completed. Among them are included: improved functionality of the PM Xpert system, written procedures for the accounting and disposal of vehicle processes, proper usage of the Vehicle Replacement Reserve, assurance of the accuracy and adequate distribution of Police Service Board reports concerning fleet activities, compliance with the City’s Purchasing Policy #16 and improved recordkeeping in regard to vehicles sent to auction for disposal. The recommended quarterly reconciliation of proceeds is in progress with the necessary documentation available in the Fleet and Finance sections.
At the time of the follow up work, two (2) recommendations were incomplete – the restrictive endorsement of cheques for vehicle disposal proceeds at the time of receipt in the Fleet section and the proper recording of all applicable taxes in the General Ledger for remittance to the government or for recovery by the City. Subsequent to the follow up discussions, these two (2) concerns were remedied.

**ALTERNATIVES FOR CONSIDERATION:**
Not applicable.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**
None.

**POLICIES AFFECTING PROPOSAL:**
City’s Purchasing Policy #16 – Disposal of Surplus Goods

**RELEVANT CONSULTATION:**
The results of the follow up were provided to management and staff responsible for the fleet procurement and disposal processes in the Public Works Department (Central Fleet & Transit), Hamilton Emergency Services and Hamilton Police Service.

**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

ap:dt
Attachment – Appendices “A”, “B”, “C” & “D”
<table>
<thead>
<tr>
<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
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<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.&lt;br&gt;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>
<td>Completed. A review of sample vehicles purchased and disposed of in 2008 and 2009 indicated that documents pertaining to the acquisition and disposal of a vehicle are now kept in a single individual unit file.</td>
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<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.&lt;br&gt;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.&lt;br&gt;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>
<td>Initiated. A discussion pertaining to long term rental was held at the Central Fleet Advisory Committee (CFAC) meeting on January 17, 2008 according to the meeting minutes. The CFAC members listed in the meeting minutes included staff from various departments, except from Community Services. A review of 2008 vehicle rental expenses has indicated that the two long term truck rentals by Culture &amp; Recreation (C&amp;R) noted at the time of the original audit still exist at an annual cost of $13,000 each. An additional all year round truck rental was noted in Parks during the audit follow up. This truck rental started in May 2007 and so far has incurred over $24,000 in rental expenses. According to the Manager of Parks and Cemeteries, the lack of capital funding to cover the cost up front for a new truck up front is the reason for this long term rental.</td>
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### 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.

**FOLLOW UP (MAY 2009)**

Completed. F&A procedures with respect to vehicle or equipment acquisition and disposal were documented in November 2007. However, at the time of audit follow up, there was no evidence indicating any regular review or update of the above procedures.
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 can address it 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.

   Follow Up Comment:
   In Progress. Purchasing has acquired a “Deposit to City of Hamilton” endorsement stamp and noted on the Listing of Corporate Contracts that cheques received from the scrap metal vendor should be stamped by the Buyer before being forwarded to F&A for deposit and accounting distribution. Due to the vendor’s delay in sending the proceeds, there was no evidence at the time of audit follow up proving that such cheques had been endorsed properly by Purchasing. This contract has been recently awarded to a new vendor and the Buyer in charge is currently pursuing outstanding payments totalling over $15,000 as at June 2009 (for the period from July 2008 to present) from the old vendor.
## OBSERVATIONS OF EXISTING SYSTEM

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<td>1.</td>
<td>Procedures</td>
<td>That the procedures with respect to the disposal process of buses and vehicles be formally documented.</td>
<td>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 &quot;Request for Disposal of Surplus Goods&quot; will be filled out and forwarded to Purchasing and F&amp;A.</td>
<td>In progress. A review of buses and non-revenue vehicles disposed of in 2008 noted that a Purchasing Policy #16 form, (i.e Request for Disposal of Surplus Goods form), was filled out for each disposal. However, the pertinent procedures for the disposal process have not been formally documented as of May 2009. According to the Manager of Transit Fleet Maintenance, Transit will hire an outside consultant in the 2nd half of 2009 to review and update existing ISO manuals with respect to Transit fleet management. Procedures for the fleet disposal process will then be documented and incorporated into the ISO manuals as appropriate.</td>
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<td>Currently there are no written 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.</td>
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<td>In addition, there are no written Finance &amp; Administration (F&amp;A) procedures covering the accounting process for vehicle acquisition and disposal at Transit.</td>
<td>That F&amp;A procedures pertaining to vehicle or equipment acquisition and disposal be documented and retained in the F&amp;A area.</td>
<td>Agreed. F&amp;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.</td>
<td>Complete. F&amp;A procedures with regard to Transit fleet acquisition and disposal were established in December 2008.</td>
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<td>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.</td>
<td>That the above procedures, once written, be reviewed regularly to ensure that they remain current and are appropriately and consistently applied.</td>
<td>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.</td>
<td>In progress. As procedures regarding the disposal process had not been formally written at the time of audit follow up, the regular review recommended (now scheduled for quarter 4, 2009) had not been carried out.</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 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:
   Agreed. 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.

   Follow Up Comment:
   Completed. As discussed under the audit point #1, a review of buses and non-revenue vehicles disposed of in 2008 noted that a Purchasing Policy #16 form, (i.e. Request for Disposal of Surplus Goods form), had been filled out for each disposal.
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<td>1.</td>
<td>Procedures</td>
<td>That F&amp;A procedures pertaining to vehicle acquisition and disposal be documented and retained in the F&amp;A area.</td>
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<pre><code>                                 | Likewise, the 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. |
                                 | That these procedures, once written, be reviewed regularly to ensure that they remain current and are appropriately and consistently applied. |
                                 | 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. |
                                 | Completed. F&amp;A procedures with respect to vehicle acquisition and disposal have been documented. |
                                 | Completed. Written HES standard procedures pertinent to the HES vehicle replacement process were provided to Internal Audit on May 13, 2009. |
                                 | Completed. The above F&amp;A procedures were last revised on June 19, 2008 and the HES standard procedures were last updated on May 12, 2009. |
</code></pre>
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 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:*

*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.*

*Follow Up Comment:*

*Completed. Old HES administrative type vehicles are now sold through a third party auction, as specified in the HES standard procedures noted earlier in the report.*
### 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.

### Recommendations 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 Xpert system went live February, 2007. At the time of the audit, staff were still transitioning from the old to the new system. The PM Xpert 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.

### Follow Up (May 2009)

- Completed. At the time of audit follow up, those PM Xpert reports that were not available during the audit (such as a list of vehicles added or deleted during a certain timeframe) were provided to Internal Audit upon request. Both the Manager of Fleet and the Fleet Inventory Clerk (FIC) had received training and have the ability to work with the PM Xpert effectively.
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<td>2</td>
<td>PSB Reports</td>
<td>That both the initiator and approver of the requisition ensure the accuracy of the PSB report number quoted on the requisition.</td>
<td>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.</td>
<td>Completed. Per review of all 17 requisitions in 2008 and 8 requisitions so far in 2009, there was one requisition that indicated an incorrect PSB report number. The PSB report numbers quoted on the remaining 24 requisitions were accurate.</td>
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<td>That PSB reports concerning fleet matters be adequately disseminated to all appropriate personnel.</td>
<td>Agreed. This is currently being implemented.</td>
<td>Completed. A review of 2008 and 2009 PSB reports pertinent to fleet matters indicated that all these reports were drafted by the Manager of Fleet with a copy sent to the Deputy Chief and Superintendent in charge as well as the Chief Accountant.</td>
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<td>That funding sources approved by the PSB be properly reflected in the detail of the General Ledger.</td>
<td>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.</td>
<td>Completed. As approved by the 2008 PSB reports, the HPS Vehicle Reserve was the main source of funding for 2008 HPS vehicle purchases. A review of General Ledger transactions in 2008 indicated that transfers from the HPS Vehicle Reserve were made according to the PSB approval and were recorded properly in either the HPS Fleet Replacement operating account or the HPS Vehicle Acquisition capital account that was created subsequent to the original audit.</td>
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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.
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<td>3.</td>
<td>Procedures</td>
<td>That the procedures for the disposal of HPS vehicles be documented.</td>
<td>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).</td>
<td>Completed. A Disposal Policy Procedure describing the vehicle disposal process was established by the Manager of Fleet in November 2007.</td>
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<td>That procedures covering the accounting process for vehicle acquisition and disposal be documented.</td>
<td>Agreed. Written procedures for the accounting process covering vehicle acquisition and disposal will be developed with an implementation date of April 30, 2008.</td>
<td>Completed. Written procedures for the accounting process covering HPS vehicle acquisition and disposal are now in place.</td>
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<td>That these procedures, once written, be reviewed regularly to ensure that they remain current and are appropriately and consistently applied.</td>
<td>Agreed. An annual review of the procedures will become the responsibility of the Fleet Manager.</td>
<td>Completed. The Disposal Policy Procedure was last modified in March 2008 and will be revisited when it is incorporated into the updated Guidelines for Used Vehicle Purchases. The written accounting procedures were recently updated in early 2009.</td>
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<td>4.</td>
<td>Reserve Policy &amp; Transfer</td>
<td>That all proceeds from the disposal of vehicles be credited to the appropriate reserve as directed by the Reserve Policy.</td>
<td>Agreed. In the past, anticipated revenue from vehicle disposal formed part of the budget process. This recommendation has been implemented.</td>
<td>Completed. A review of the proceeds received in 2008 from the HPS vehicle disposal indicated that the amounts were appropriately credited to the HPS Vehicle Reserve.</td>
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<td>That funds transferred from the Vehicle Replacement Reserve be used only for vehicle acquisition by recording the transfers into the “Fleet Replacement” account.</td>
<td>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.</td>
<td>Alternative implemented. A HPS Vehicle Acquisition capital account was created subsequent to the audit. Transfers from the HPS Vehicle Reserve in 2008 were recorded into either this new capital account or the “Fleet Replacement” operating account.</td>
</tr>
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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) a quarterly reconciliation of the proceeds as noted in the General Ledger and in the records kept by the FIC be performed and B) 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.

Follow Up Comment:
A) In progress. The Fleet Inventory Clerk (FIC) from the Fleet Section sends a revenue tracking spreadsheet to the Finance Section on a quarterly basis. Even though the total 2008 revenue recorded in General Ledger matched the FIC’s records and a separate revenue tracking sheet was provided by the Chief Accountant’s assistant at the time of audit follow up, there was no evidence of a prior formal reconciliation between the General Ledger and the FIC’s records.

B) Incomplete. At the time of audit follow up, cheques were not endorsed upon initial receipt in the Fleet section. Subsequent to discussions with Internal Audit, the Manager of Fleet acquired an endorsement stamp for the Fleet section and confirmed that future incoming cheques would be restrictively endorsed upon initial receipt, effective immediately.
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.

**Follow Up Comment:**
Incomplete. Per review of the proceeds details of vehicles sold in 2008, the auction house in question still included in the cheque amount the GST charged to the buyer (which is payable to CRA) and the GST charged to HPS on services provided (which is 100% refundable), resulting in a net GST payable of $966. The GST amounts were not properly recorded in General Ledger in 2008. A correcting journal was made subsequent to the discussions held during the audit follow up.

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. 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.

**Follow Up Comment:**
Completed. A review of sample HPS vehicles disposed of in 2008 indicated that a Purchasing Policy #16 form (i.e. the Request for Disposal of Surplus Goods form) had been completed for each vehicle and a copy of such form was retained in each vehicle’s file.
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.

Follow Up Comment:
Completed. A record of disposal including the value obtained at auction has been created in PM Xpert for each vehicle sent to the auction house. In addition, the FIC’s revenue tracking spreadsheet mentioned under item #1 of this Addendum also tracks the movement of vehicles sent to auction including the dates on which the auction house is contacted, the vehicle is picked up, the vehicle is sold and the cheque is received.