TO: Chair and Members Audit, Finance and Administration Committee  
WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: January 19, 2011

SUBJECT/REPORT NO:
Follow Up of Audit Report 2008-06 - Fleet Management - Fuel, Maintenance & Inventory Control (AUD11004) (City Wide)

SUBMITTED BY: Ann Pekaruk  
Director, Audit Services  
City Manager's Office

PREPARED BY: Ann Pekaruk 905-546-2424 x4469

RECOMMENDATION

That Report AUD11004 respecting the follow up of Audit Report 2008-06, Fleet Management – Fuel, Maintenance & Inventory Control, be received.

EXECUTIVE SUMMARY

Audit Report 2008-06, Fleet Management – Fuel, Maintenance and Inventory Control, was originally issued in January 2009 and management action plans with implementation timelines were included in the Report. In September, 2010, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of forty-five (45) recommendations made in the original Report and Addendum over four (4) primary operational areas – Central Fleet, Transit, Hamilton Emergency Services and Hamilton Police Service - eighteen (18) have been completed, fourteen (14) are in progress, two (2) have been initiated, an alternative has been implemented for one (1) and ten (10) remain incomplete.

Alternatives for Consideration – Not Applicable
FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Audit Report 2008-06, Fleet Management – Fuel, Maintenance & Inventory Control, was originally issued in January, 2009. The Report indicated forty-five (45) recommendations identifying areas for improvement regarding adherence and compliance with the City’s Purchasing Policy and the Technical Standards and Safety Authority’s Liquid Fuel Handling Code as well as stronger controls to provide reliable information for decision making with respect to inventory quantities and usage, fuel consumption and maintenance and repair scheduling.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether action plans committed to by department management have been implemented.

POLICY IMPLICATIONS

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

RELEVANT CONSULTATION

The results of the follow up were provided to management and staff responsible for the fleet management as it relates to fuel, vehicle maintenance and inventory (parts, oil and lubricants, tires) control in the following areas: Central Fleet and Transit, Public Works; Hamilton Emergency Services; and Hamilton Police Service.
ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The reports attached as Appendices “A” to “D” to Report AUD11004 contain the first three columns as originally reported in Report 2008-06 for each of the four (4) areas audited along with an added fourth column indicating Internal Audit’s comments as a result of the follow up work. Addendum items have also been followed up at the end of each individual section. Four (4) separate formal audit reports were prepared for the distinct areas audited as follows.

Central Fleet – Appendix “A”
Seven (7) of the thirteen (13) recommendations have been fully implemented. They include: written procedures respecting fuel handing, inventory tracking, maintenance scheduling and work order processing have been formally documented, reviewed and are current; issue of compliance with the City’s Purchasing Policy regarding outside maintenance, inventory supply and fuel purchases dealt with by a report to Council; fuel reading and usage reconciliation are completed on a regular basis; a fuel consumption review process has been created to monitor fuel usage and allocate appropriate fuel costs; and signing authorities have been updated for fuel invoice payments.

Three (3) recommendations are in progress as follows: Phase II investigations and business case findings regarding yard rationalization and the necessity of maintaining all of the City’s current fuel sites, garages and inventory stockrooms is expected to be presented to the Public Works Committee in 2011; Inventory Requisition forms continue to be poorly completed; and the Finance and Administration (F&A) procedures pertaining to the processes for fuel, inventory and maintenance have been drafted but were missing an effective date and evidence of manager review.

Two (2) recommendations have been initiated but with little progress – new reports designed to monitor the work order administration process and the tracking of preventative maintenance are in the development stage and have not been implemented. Exceptions have not been followed up.

One (1) recommendation remains not completed – the regular review, follow up and closure of long outstanding work orders in the Avantis system.

Transit – Appendix “B”
A total of nine (9) recommendations were made in the original report.

Three (3) recommendations have been completed as follows: adherence to the City’s Purchasing Policy for the selection and approval of vendors for inventory supply and outside maintenance; compliance with established invoice approval signing authority limits; and an updated labour rate for warranty claims.
The implementation of three (3) recommendations is in progress. They are: the drafting and updating of written procedures that are currently in the process of being reviewed for approval; formal written procedures for inventory obsolescence expected to be in place for the 2010 year end; and drafted F&A procedures which do not indicate recent review, evidence of manager review and are missing information in certain fields.

An alternative has been implemented for the recommendation regarding warranty recovery that includes a well-defined manual process and a web-based interface.

Two (2) recommendations have not been implemented. ISO manuals of written procedures do not bear evidence of regular review; and no significant changes have occurred in the management sign off process for work orders.

**Hamilton Emergency Services (HES) – Appendix “C”**

One (1) recommendation regarding the completion of written F&A procedures with respect to accounting processes of inventory and maintenance has been completed.

The implementation of four (4) recommendations is in progress. They include: the development of an asset management module in the FDM database (to include parts inventory); electronic systems store scanned documents and track the preventative maintenance schedule for EMS only but no automation of work orders or other reports; and compliance with the City’s Purchasing Policy for inventory supply and outside maintenance vendors selection.

The remaining six (6) recommendations out of the original eleven (11) have not been implemented and are: written procedures for ordering, storage and use of HES vehicle parts and vehicle maintenance scheduling and tracking have not been developed and therefore, no regular review has occurred; an inventory count has not been completed; a formal re-order point for parts has not been established; and a review for obsolete inventory has not been carried out.

**Hamilton Police Service (HPS) – Appendix “D”**

Twelve (12) recommendations were made for the HPS.

Seven (7) recommendations have been implemented as follows: compliance with the Liquid Fuel Handling Code of the TSSA for reconciliations for fuel usage; the communication of policies governing fuel usage to all vehicle operators; the adjustment of per transaction limits in the WinFuel fuel dispensing tracking system to match individual vehicles’ tank sizes; the physical inventory count and review for obsolescence; the implementation of controls for tracking bulk items; and the capitalization of larger, more expensive parts inventory items as per current financial reporting standards.
Four (4) recommendations are in progress. They are: the review of fuel consumption data on a regular basis; the periodic review of the PM Xpert inventory listing for the investigation and correction of any negative balances; the development of written procedures for the accounting process for fuel, maintenance and inventory control; and the documenting and regular updating of procedures respecting all fleet operations.

The implementation of one (1) recommendation regarding exploring ways of improving the functionality and efficiency of PM Xpert (asset management system) remains incomplete.

**ALTERNATIVES FOR CONSIDERATION**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

**CORPORATE STRATEGIC PLAN** (Linkage to Desired End Results)


**Financial Sustainability**

- Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner.

**Environmental Stewardship**

- Environmental well-being is addressed with control and oversight of fuel consumption and properly maintained vehicles.

**APPENDICES / SCHEDULES**

Appendices “A”, “B”, “C” and “D” to Report AUD11004.

ap:dt
Appendix “A” to Report AUD11004
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CITY OF HAMILTON
INTERNAL AUDIT REPORT 2008-06
FLEET MANAGEMENT – FUEL, MAINTENANCE & INVENTORY CONTROL
PUBLIC WORKS – CENTRAL FLEET
FOLLOW UP

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<tr>
<td>1</td>
<td>Written Procedures</td>
<td>That a complete set of policies and procedures with respect to fuel handling, inventory tracking, maintenance scheduling and work order processing be formally documented.</td>
<td>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.</td>
<td>Completed. Internal Audit obtained a copy of a draft report from the most recently completed ISO 14001:2004 audit. There were no major nonconformities noted.</td>
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<td>2</td>
<td>Vendor Approval</td>
<td>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.</td>
<td>Completed. 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.</td>
<td>Completed. Report PW08115/FCS08095 to Council addressed the issue of compliance with the Corporate Purchasing Policy. A sample of vendors with year to date purchases greater than $5,000 (as of September 2010) was selected for testing. All vendors reviewed were in compliance with the Purchasing Policy.</td>
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<td>3.</td>
<td>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.</td>
<td>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.</td>
<td>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 &amp; 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.</td>
<td>Completed. Based on testing performed, daily reconciliation reports appear to be completed on a regular basis for both manual and automated sites. Central Fleet is tracking the completion of dips and reconciliations using a “Dip Frequency Chart”. As of the date of the follow up, all nine manual sites were still in operation.</td>
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### Observations of Existing System

**4. Vehicle Fuel Consumption Review.**

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.

#### Recommendation for Strengthening System

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

#### Management Action Plan

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.

#### Follow Up (September 2010)

Completed. Fuel is being charged as a direct departmental cost for the fiscal 2010 year. Users are held accountable for fuel consumption as part of their budget.

Central Fleet has also created a reporting mechanism to monitor fuel consumption. On a monthly basis, an exception report is sent out to groups that utilize fleet vehicles. The exception report lists vehicles that have a significant variation when compared to fuel usage from either the previous month or the average for the previous 12 months.
| # | OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (SEPTEMBER 2010) |
|---|--------------------------------|--|-----------------------------|--|-----------------------------|
| 5. | Work Order Administration | 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. | 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. | Initiated. Two new reports have been designed to monitor the work order administration process (including preventative maintenance). However, the reports are still in the development stage and have not been finalized. Action has not been taken to resolve items that are identified in this report. When Internal Audit reviewed these reports, it was noted that there are a large number of work orders that have not been closed or that did not have a completion date recorded in Avantis. | Not Completed. As noted above, a large number of outstanding work orders were noted to have not been closed or did not have a completion date in Avantis (some 4-6 months old). It appears that regular review and resolution of such items are not occurring. |
|   | 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. | 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. | | |
| 6. | Preventative Maintenance | 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. | Initiated. As noted above, two new reports are being developed to address tracking of preventative maintenance but have not been finalized. Action has not been taken to address outstanding items identified in the reports. Even if meetings are being held as indicated in the Management Action Plan, the report reviewed by Internal Audit indicates that the process for administering preventative maintenance is not functioning optimally as several overdue PM items continue to appear in the report. | |
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.

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.

   Follow Up Comment:
   Completed. The 3-way match process is part of the reconciliation process for fuel sites. Per review of reconciliations, no exceptions were noted. This indicates that fuel charges are being allocated appropriately.

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.

   Follow Up Comment:
   In Progress. The Public Works Yards Study is an on-going project with regular updates that are being provided to the Public Works Committee. Internal Audit reviewed the most recent update provided to the Public Works Committee on May 31, 2010. Phase II investigations and business case findings for this project to the Public Works Committee are expected in 2011.
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.

*Follow Up Comment:*  
In Progress. Internal Audit reviewed a sample of five Inventory Requisition forms. The forms were generally poorly completed. One form tested did not have the mechanic listed on the form.

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.

*Follow Up Comment:*  
In Progress. Written procedures have been drafted. However, all procedures reviewed were missing an effective date and evidence of manager review.

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.

Follow Up Comment:
Completed. Internal Audit reviewed documentation that approved a signing authority increase up to $80,000 (for fuel only) for the Supervisor of Fuel & Materials Management.
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<td>1.</td>
<td>Written Procedures: 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. 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.</td>
<td>That the procedures manuals be updated. Once this has been completed, such documentation should be made available to staff, as appropriate.</td>
<td>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.</td>
<td>In Progress. A consultant was hired to assist in drafting and updating manuals (completed December 2009). Written procedures were drafted and are currently in the process of being reviewed by key staff members in the Transit Division for final approval.</td>
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<td>2.</td>
<td>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 alternatively be used when approved by Purchasing. 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. 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.</td>
<td>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.</td>
<td>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. 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.</td>
<td>Not Completed. As procedures have only been drafted, no subsequent annual review has taken place.</td>
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<td>3.</td>
<td>Obsolete Inventory</td>
<td>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.</td>
<td>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). A formal written procedure is expected to be in place by the 2010 year end.</td>
<td>In Progress. Formal procedures have not been drafted but there have been significant changes to the process of tracking the disposal of obsolete inventory. All documentation for the disposal of obsolete inventory is stored in one central folder. Internal Audit examined the paperwork for disposed items and all items reviewed appeared to be in compliance with the Corporate Purchasing Policy (Policy 16 – Disposal of Surplus Goods) and the approved corporate contractor was utilized.</td>
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<td>4.</td>
<td>Signing Authority</td>
<td>That the signing authority limits for different levels of staff be enforced and consistently followed.</td>
<td>Agreed. Finance &amp; 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.</td>
<td>Completed. Internal Audit reviewed a sample of invoices to determine if they were signed by individuals with the appropriate signing authority. No exceptions were noted during testing.</td>
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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.

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.
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.

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.

Follow Up Comment:
Not Completed. Internal Audit reviewed a sample of work orders to ensure that they had been signed off prior to being filed. Of five items reviewed, two were not signed by the Foreman/Acting Foreman and one was not filed properly. It appears that no significant changes have occurred in the Work Order process.

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.

Follow Up Comment:  
Alternative Implemented. A well-defined manual process has been implemented for warranty recovery. Transit is now utilizing a web-based interface provided by one of their major suppliers to make claims and to track their status. Approximately 160 claims have been made in 2010 and the vast majority of claims appear to being paid.

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.

Follow Up Comment:  
Completed. The labour rate used in a warranty claim to a major supplier examined by Internal Audit was $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.

Follow Up Comment:  
In Progress. Written procedures have been drafted. However the procedures do not contain indication of recent review, do not have evidence of manager review and are missing information in various other fields.
### Observations of Existing System

1. **Written Procedures**
   - **Observation**: 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.
   - **Recommendation**: That procedures dealing with the ordering, storage and use of HES vehicle parts be formally documented.
   - **Management Action Plan**: 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.

2. **Parts Inventory Tracking**
   - **Observation**: 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.
   - **Recommendation**: That an electronic system be used to track all HES parts in inventory, all new parts purchased and all parts used.
   - **Management Action Plan**: 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.

### Follow Up

1. **Written Procedures**
   - **Follow Up (September 2010)**: Not Completed. Written procedures have not been developed for this area.

2. **Parts Inventory Tracking**
   - **Follow Up (September 2010)**: Not Completed. To date, an inventory count has not been completed at HES.
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<td>3</td>
<td>Repairs and Maintenance Tracking</td>
<td>That repairs and maintenance be scheduled and tracked by electronic means including generating the forms, reports and work orders electronically.</td>
<td>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.</td>
<td>In Progress. Internal Audit reviewed an electronic spreadsheet version of the preventative maintenance schedule. It was up to date as of the date of the follow up for EMS only. Additionally, an electronic storage system for scanned work orders, invoices, etc. was implemented for files required for audits by outside agencies. Once again, this relates to EMS only. However, there is still no system or application which generates (and thus sequentially tracks) work orders or produces forms or reports electronically.</td>
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<td>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.</td>
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<td>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.</td>
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<td>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.</td>
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<td>In Progress. Internal Audit reviewed a sample of five invoices. Of these five invoices, one of them did not identify which vehicle the repair work related to.</td>
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<td>4</td>
<td>Vendor Approval</td>
<td>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.</td>
<td>Agreed. Hamilton Emergency Services will ensure that all corporate purchasing policies will be followed. Implementation by the end of 2008.</td>
<td>In Progress. Internal Audit reviewed a sample of vendors with City purchases accumulated to more than $5,000 to date in 2010. For the selected vendors, Internal Audit reviewed the supporting documentation that was provided. One of the three vendors tested was not in compliance with the Corporate Purchasing Policy. The Corporate Purchasing Policy does not appear to be well understood by key staff members of HES, in particular the requirement to obtain quotations.</td>
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<td>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.</td>
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<td>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.</td>
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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 appropriately.

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.

   Follow Up Comment:
   Completed. Procedures have been written and are up to date.
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<td>1.</td>
<td>Fuel Reconciliation</td>
<td>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.</td>
<td>Agreed. The log sheets have been revised to include the required information for reconciliation and signatures. 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. The Fleet Manager will sign off on weekly readings on a monthly basis. Expected implementation date of October 2008.</td>
<td>Completed. Log sheets are in place and have been utilized since February 2010. Monthly log sheets are signed off by the Fleet Manager. Per review of the electronic fuel log sheets, dip readings and reconciliations appear to be occurring and the log sheets are signed off by the Fleet Manager on a monthly basis. The cost of automatic fuel level indicators was investigated. The cost of an automated monitoring system at Station 10 is approximately $37,000 and for Station 20 is approximately $20,000. An automated monitoring system has not been implemented.</td>
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<td>16.</td>
<td>Vehicle Fuel Consumption Review</td>
<td>That vehicle fuel consumption data be reviewed on a regular basis for exceptions.</td>
<td>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. Expected implementation date of October 2008.</td>
<td>In Progress. Vehicle consumption reports are generated by the Fleet Manager. It was determined that weekly reports did provide useful information to HPS so monthly reports are run instead. However, these monthly reports are not used to investigate anomalies for individual vehicles if inconsistent levels of fuel efficiency are noted.</td>
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<td>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.</td>
<td>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>That approved HPS Fleet policies governing fuel usage be communicated to all vehicle operators. That per transaction limits in WinFuel be adjusted to match individual vehicles' tank sizes.</td>
<td>Completed. Per discussion with the Fleet Manager, this email was sent out. Due to the length of time (almost 2 years) that has passed since it was sent out, it could not be reviewed by Internal Audit. Strict rules in force restrict the passing of fueling hoses to other vehicles. Completed. Tank size limits have been set at 75L for sedans and 110L for SUVs and vans. Internal Audit reviewed these settings in WinFuel. These limits appear to be reasonable based on available vehicle specifications.</td>
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# OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (SEPTEMBER 2010)
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17. Parts Inventory | 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. | 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. | Completed. Internal Audit reviewed documentation for the 2009 inventory. The 2010 inventory is scheduled to be completed in January 2011. |
| Inventory on hand is tracked via an asset management system called PM Xpert. The following deficiencies were noted during the audit: | That the PM Xpert inventory listing be reviewed periodically with any negative balances investigated and corrected. | 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. | In Progress. Internal Audit reviewed a sample of cycle count documentation that included adjusting the inventory amount in PM Xpert. Several items were noted to have negative inventory balances prior to inventory count adjustments being made. |
| • 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. | That inventory be reviewed for obsolescence annually and items be written off and disposed of under proper tracking, as appropriate. | 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). | Completed. Per discussion with the Fleet Manager, no obsolete items were identified during the 2008 inventory count. |
| • 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. | That controls be implemented to better track bulk items and highlight anticipated re-order quantities. | 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. | Completed. Internal Audit physically observed the metered dispensing devices that are now being used on liquid bulk containers. |

Completed. Internal Audit reviewed documentation for the 2009 inventory. The 2010 inventory is scheduled to be completed in January 2011.

In Progress. Internal Audit reviewed a sample of cycle count documentation that included adjusting the inventory amount in PM Xpert. Several items were noted to have negative inventory balances prior to inventory count adjustments being made.
18. Written Procedures

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.

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.

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.

Agreed. These items will be incorporated into the existing policy and procedures (Fleet). The policies and procedures are scheduled for review in 2009.

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.

In Progress. Although a formalized set of accounting processes does not exist, these topics, including the handling and submitting of invoices for processing and approval, are addressed in the "Fleet Clerk – Daily Duties" document.

In Progress. The "Fleet Clerk - Job Notes" binder, reviewed by Internal Audit, addresses the topics of fuel, maintenance and inventory control. However, there is no current formalized set of department wide Fleet Policies. The Policy Development group was unable to complete this due to other operational priorities. It is expected to be completed in late 2010 or early 2011.

19. Functionality of Asset Management System

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.

That PM Xpert 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.

That HPS Fleet work with HPS Computer Services to explore ways of improving the efficiency of PM Xpert and given report writing privileges for the system. All system updates will be installed by December 2008.

Agreed. The HPS Fleet Clerk will be trained on advanced functions of the PM Xpert and given report writing privileges for the system.

Agreed. The PM Expert system has not been upgraded since the original audit. Since the upgrade has not been installed, no training on advanced functions of the system has occurred due to the low levels of speed and functionality of the current system. The ability to create detailed reports has not been given to the Fleet Clerk.

Not Completed. The PM Expert system has not been upgraded since the original audit. Since the upgrade has not been installed, no training on advanced functions of the system has occurred due to the low levels of speed and functionality of the current system. The ability to create detailed reports has not been given to the Fleet Clerk.
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.

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.

Follow Up Comment:
Completed. Larger, more expensive items (such as vehicle roof lights and other electrical lighting equipment, along with vehicle decals) are now being capitalized. Smaller, less expensive inventory items are being expensed due to the shorter life span and faster moving nature of the items.